

# Faster disclosure under RTRS delivering transparency that helps muni market stakeholders

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The Municipal Securities Rulemaking Board launched the Real-time Transaction Reporting System in 2005 to tighten the gap in trade

reporting in municipal bond markets from a full day to fifteen minutes.

The system brought real-time price discovery to the \$4 trillion over-the-counter [market](#), transforming muni [trading](#), investing and potentially the financing of civic projects. In a new study, a team of researchers investigated the effects of improved disclosure of trading information for muni investors and bond dealers.

In a paper, "The Difference a Day Makes: Timely Disclosure and Trading Efficiency in the Muni Market," the researchers argue that faster and more accurate disclosure benefits all major market stakeholders, finding three-fold benefits.

The paper, published online ahead of print in the *Journal of Financial Economics*, was written by John Chalmers and Z. Jay Wang, professors of finance in the Lundquist College of Business at the University of Oregon, and Steve Yu Liu, who earned a doctorate at the UO and is now with the Department of Business and Information Technology at the Missouri University of Science and Technology.

"First, we find a significant reduction in transaction costs that varies with [investor](#) sophistication," they wrote in the paper. "Second, we find significant increases in municipal trading volume across the liquidity spectrum. Third, we find that dealers increased market-making activities after the introduction of the RTRS."

An alternative explanation for the findings, they noted, is that they could reflect overall improvement in access to information in the over-the-counter markets due to the increased use of online resources in the period surrounding the implementation of the real-time reporting system.

To address this concern, the authors selected a subset of corporate bonds

as a [control group](#). These corporate bonds were not subject to similar changes in disclosure requirement in the sample period and should have captured the impact of common improvements to the over-the-counter markets. By comparing the changes in trading costs between the muni bonds and the control group, the authors were able to isolate the effects of RTRS, apart from other factors.

More timely disclosure in the muni markets was a particular boon to investors, with the average trading costs declining by 30 basis points or 14 percent.

Interestingly, they noted, the impact of the RTRS varies significantly across investor sophistication. While retail investors benefited mainly from a reduction in dealer's costs of intermediating trades, sophisticated traders were able to take advantage of more timely trading information and negotiate better trading terms with dealers, reflecting improved bargaining positions.

The authors also studied the impact of the RTRS on bond dealers' market making activities. They find an increase in trading volume for all bond liquidity groups sorted by pre-RTRS trading volume. Consistent with this, the researchers found, dealers committed more capital and were more actively engaged in intermediating muni bond trading in the post-RTRS period. These findings alleviate concerns that bond dealers may decrease market-making efforts due to deteriorating bargaining positions.

While switching to real-time reporting incurs additional costs, the research suggests that the sacrifices are likely to be well worth it for both investors and bond dealers. Further, by taking costs out of the system and improving investor welfare, municipalities can, in principal, benefit from cheaper access to capital markets, creating benefits for society as municipal [bond](#) offerings fund infrastructure investments that often

improve quality of life, education and public safety.

**More information:** John Chalmers et al, The difference a day makes: Timely disclosure and trading efficiency in the muni market, *Journal of Financial Economics* (2020). [DOI: 10.1016/j.jfineco.2020.07.015](https://doi.org/10.1016/j.jfineco.2020.07.015)

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