

FIMSAC Transparency Subcommittee

Consideration of Block Masking and Trade Dissemination Times in the Municipal Bond Market

Overview

The FIMSAC Transparency Subcommittee spoke to several municipal bond market professionals, from the buy-side and sell-side about the current state of liquidity in the municipal bond market and asked if any changes to rules could enhance market transparency. Specifically, market participants were asked if there are any changes that should be considered to trade dissemination time and/or masking rules that could enhance market liquidity and that could be tested with a pilot program.

Liquidity

Most participants the Subcommittee spoke to believed that the current liquidity in the municipal bond market was satisfactory. Participants thought that in most market environments the market provided more than enough liquidity to meet their needs.

Some buy-side representatives expressed concerns around liquidity during periods of market stress.

Most participants did not seem to believe that changes to masking or trade dissemination rules would motivate dealers to take on additional risk in periods of market stress.

The difficulty in shorting and effectively hedging municipal bonds were cited as reasons for why dealers would not be motivated to assume additional risk in periods of market stress.

Trade Dissemination Time

Market participants expressed concerns and, in some cases, significant concerns around changes to the dissemination time for trades from the current 15 minutes. Many participants the Subcommittee spoke to were opposed to any of the potential changes that would reduce or delay transparency in the municipal bond market.

Most participants the Subcommittee spoke to expressed concerns about delaying prints for transparency purposes and thought it could hurt, not help liquidity. They thought the current rules worked well.

One participant said that delayed transparency could help liquidity especially in times of stress, but the delay period would have to be for 3-5 days in order to potentially motivate dealers to take on more risk.

Masking Rules

Very few participants that the Subcommittee spoke with thought that changes to the masking rules would have a significant positive impact on liquidity.

One participant thought that reducing the quantity masked from \$5MM to \$1MM might be worth considering.

Many participants that the Subcommittee spoke with were opposed to any changes that would reduce transparency in the market

Some participants thought increasing the masking size in municipal bond trades from \$5MM - \$10MM should be considered and trades in new issues should not be masked at all.

Subcommittee Recommendation

Most market participants that the Subcommittee spoke with are satisfied with the level of liquidity in the municipal bond market. There were no consistent short-comings or needs expressed by multiple market participants. Many market participants were adamantly against any pilot out of concern that it could reduce or delay the current level of transparency. The Subcommittee recommends that FIMSAC not proceed with a recommendation for a block trade dissemination pilot in the municipal bond market at this time. We invite market participants and other commenters to provide additional feedback regarding a block trade dissemination pilot in the municipal bond market, and note that comments can be submitted to the Subcommittee through the comment link available on the Committee's webpage.

Other Considerations

Although the Subcommittee is not recommending a pilot in the municipal bond market at this time, if additional feedback causes the Subcommittee to reconsider a pilot, the Subcommittee would need to engage firms that provide evaluated pricing and yield curves in the municipal bond market to understand what affect any pilot could have on their methodologies. Because less than 1% of outstanding municipal bonds trade in one day, the industry is very reliant upon evaluated pricing methodologies and benchmark yield curves. The Subcommittee should consider any potential affects a pilot could have on these providers.