SEC Municipal Bond Panel

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The municipal bond market is fragmented, opaque and illiquid

Large market: about 4 Trillion in value

Many issuers and many issues: more issues than corporates or equity

Most bonds are small and trade infrequently:

- on average 3 trades per year for seasoned bonds
- 70% never trade after issue

Over 700 active dealers per month
Historically: little pre-trade or post-trade transparency

January 2005

Now prices are reported 15 minutes after the transaction

EMMA
Transactions costs and trading by size: Secondary trading

from: Li and Schürhoff, 2013
The secondary market

Wide mark-ups

- 1-2% for retail size trades (compare to coupon rates)
- smaller for institutional sized trades

Price dispersion

Similar evidence in BABs

‘Rise like a rocket and fall like a feather’ (Green, Li and Schürhoff)
The Primary Market

Reoffering yield: not all bonds are offered at that price

Prior to 2005: price dispersion for small trades, higher average prices

Opaqueness?
Median markups over time

from Green, Hollifield and Schürhoff
Price Dispersion

from Green, Hollifield and Schürhoff
Post 2005 Performance

Price dispersion drops dramatically

Average price does not drop

• small trades

• large trades

Take-away on post-trade transparency

BABs vs tax-exempts
Public Data

Pre MSRB data

Data availability

Information from changes in market structure

The phasing of changes?

Where do you draw the lines?
Bibliography

Green, Richard C. Green; Dario Cestau and Norman Schürhoff, Tax-Subsidized Underpricing: Issuers and Underwriters in the Market for Build America Bonds, working paper, Carnegie Mellon


