

# The Information Content of Municipal Financial Statements

Cuny, Li, Nakhmurina, and Watts (2022)

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<sup>1</sup>The views expressed herein are those of the authors and do not necessarily reflect the views of the Federal Reserve Board or the Federal Reserve System.

# Main Results/Conclusions

- Studies whether municipal financial statements are informative to investors.
  - First large-sample study of municipal annual reports.
  - Trading activity (turnover, dollar volume, # trades) increases significantly in disclosure months.
  - Results are virtually unchanged after the inclusion of key controls.
- Investor heterogeneity results:
  - Trading activity increases for both retail and institutional investors.
  - Results driven by “timely” filings.
- Results imply municipal annual reports useful to both retail and institutional investors.

# Contribution

- Great paper on an important topic!
- Important policy implications: benefits to increasing disclosure timeliness.
- Comments:
  - Empirical setting
  - Heterogeneity in disclosure informativeness.
  - Secondary market intermediation.

## Comment 1: Empirical Setting

- Annual reports releases may coincide with other issuer disclosure:
  - Major bond events such as calls/refundings lead to higher trading activity.
  - EMMA examples:
    - Tempe, AZ posted CAFR on 12/27/21 and a bond call notice on 12/29/21.
    - Dallas TX ISD posted CAFR on 12/06/21 and a bond call notice on 01/16/22.
    - Alexandria VA posted CAFR on 11/12/21 and advanced refunding on 12/14/21.
- Do governments time the release of new information after CAFRs?
- The authors can easily control for/exclude such confounding events using the MSRB data.

## Comment 1: Empirical Setting (continued)

- Additional analysis to understand pre-trends/delayed impact:
  - Weak evidence of pre-trends and reversals in months 2&3 (Figure 1).
  - Evidence consistent with intertemporal shift in trading activity.
  - Important implications for price efficiency.
  - Expand event window to -12/+12 months?
- Are annual reports releases predictable?
  - Tempe AZ CAFRs since 2017: 12/19/17, 12/27/18, 12/20/19, 12/21/20, 12/27/21.
- Examine differences between predictable and non-predictable CAFRs.

## Comment 2: Heterogeneity in disclosure informativeness

- In which subsets of the data are annual reports most informative?
- Issuer/bond characteristics:
  - Large, frequent, issuers may supply information to investors on a regular basis.
  - Lower credit quality/unrated bonds more sensitive to news.
  - Bond liquidity may determine investors' reaction.
- Disclosure characteristics:
  - Timely disclosure more useful to investors.
  - Audited disclosure potentially more useful to investors.
- Disclosure more valuable when aggregate uncertainty is high.
- Additional heterogeneity will increase the policy-relevance of the paper.

## Comment 3: Secondary market intermediation

- How much of the trading activity increase comes from dealer/customer trades?
  - Increases in trading activity may primarily come from dealer trades.
    - Example: CDDDDC vs. CDC (notation of Li and Schürhoff (JF 2019)).
  - Decomposing the effect helpful for gauging investor relevance of CAFRs.
- Has the relevance of CAFRs changed over time?
  - Information and trading costs have both declined since 2009.
- Price impact of annual reports releases:
  - Construct abnormal bond returns following Cornaggia, Hund, and Nguyen (JFM 2022).
  - Compare the distribution of abnormal returns around annual reports to that on the average month.