Off-Market Block Trades, Transparency and Information Efficiency: Further Empirical Evidence

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Abstract

Off-market trades are transactions in securities markets which are executed away from the main market. Previous literature has examined on-market price behavior around off-market block trades in overseas markets at the time that they are executed. A key finding in this literature is that delaying the reporting of block trades (or not) makes no difference to price behavior around off-market trades at the time that they are executed. On this basis, this literature concludes that delaying the reporting of block trades has little impact on the market [Gemmill, 1996, *Journal of Finance*]. This paper extends previous literature by examining a sample of off-market trades both at the time that they are executed and at the time that they are later reported to the market. A statistically significant price reaction is documented both around the time that block trades are executed and then the time that the trades are later reported. Logit regressions confirm that the direction of the price reaction on announcement is related to the frequency and size of block trades, implying that the market finds both the reported price of the block trade informative as well as the reported volume. This evidence is consistent with the hypothesis that the market learns from trading around the time that off-market trades are executed and impounds some of the information conveyed by the trade at that time. Given that the reporting of the trades also conveys information to the market, including their price and size, in contrast to previous research, these findings imply that delaying the reporting of off-market trades has an adverse impact on the speed of adjustment to the information conveyed by block trades and therefore market price efficiency.