

[Abstract]

We investigate whether, and to what extent, information processing frictions contribute to the size of bond trading fees. We explore changes in fees around FINRA's 2018 amendment of the customer confirmation rule, requiring corporate bond market professionals to explicitly disclose the fee (markup) on some retail trades. Investors could have inferred the fee before the rule change using historical transaction prices. Nonetheless, we find that fees associated with trades subject to explicit fee disclosure decline after the rule change, relative to trades that are not subject to explicit fee disclosure. Our findings are pronounced among bonds for which fees were highest before the rule change. In sum, our evidence shows that information processing costs have real effects on corporate bond market professionals' ability to charge high fees for their services.