

**MEMO# 28236**

July 2, 2014

## **SEC Chair White Outlines Fixed Income Markets Initiatives**

[28236]

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TO: EQUITY MARKETS ADVISORY COMMITTEE No. 11-14  
FIXED-INCOME ADVISORY COMMITTEE No. 9-14  
MUNICIPAL SECURITIES ADVISORY COMMITTEE No. 10-14  
SEC RULES COMMITTEE No. 29-14  
SMALL FUNDS COMMITTEE No. 18-14  
SEC RULES MEMBERS No. 26-14  
SMALL FUNDS MEMBERS No. 15-14 RE: SEC CHAIR WHITE OUTLINES FIXED INCOME MARKETS INITIATIVES

On June 20, SEC Chair White delivered a speech to the Economic Club of New York in which she outlined initiatives to improve the quality and transparency of fixed income markets. [\[1\]](#) Chair White noted that fixed income markets had not undergone technological changes as dramatic as those experienced by the equity markets, remained highly decentralized, and had intermediation costs that were much more difficult to measure. Chair White expressed concern that in the fixed income markets, technology was being leveraged to make the old decentralized method of trading more efficient for market intermediaries while not realizing benefits for investors. To partially address this concern, Chair White described two initiatives:

1. The SEC will be working closely with the Municipal Securities Rulemaking Board ("MSRB") as it finalizes a best execution rule for the municipal securities market, [\[2\]](#) and with FINRA and the MSRB as they develop guidance on how brokers might effectively achieve best execution, which is "vital for the protection of investors and enhancing price competition"; and
2. The SEC will be working closely with FINRA and the MSRB as they develop rules regarding disclosure of markups in "riskless principal" transactions for both corporate and municipal bonds, [\[3\]](#) which "should help customers assess the reasonableness of their dealer's compensation and should deter overcharging."

Chair White also stated that she had asked the SEC staff to focus on a regulatory initiative to enhance the public availability of pre-trade pricing information in the fixed income

markets by requiring the public dissemination of the best prices generated by alternative trading systems and other electronic dealer networks in the corporate and municipal bond markets, and noted that this change would broaden access to pricing information currently available to select parties only. She also noted “the need to carefully calibrate any regulatory proposal in this area” and “be mindful to strike the right balance of compelling the disclosure of meaningful pre-trade pricing information without discouraging market participants from producing it because of concerns that it will compromise trading positions.”

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#### endnotes

[1] “Intermediation in the Modern Securities Markets: Putting Technology and Competition to Work for Investors”, available at <http://www.sec.gov/News/Speech/Detail/Speech/1370542122012#.U7HJWJ3D8dU>. Chair White’s speech also addressed technology and market structure generally, and included a discussion of equity markets.

[2] See Request for Comment on Draft Best-Execution Rule, Including Exception for Transactions with Sophisticated Municipal Market Professionals, MSRB Notice 2014-02 (Feb. 19, 2014), available at <http://msrb.org/~media/Files/Regulatory-Notices/RFCs/2014-02.ashx?n=1>.

[3] “These transactions occur when dealers buy and sell a fixed income security at substantially the same price and time to fill two customer orders. Markups—the dealers’ compensation—for these transactions can be readily identified because they are based on the difference in prices on the two contemporaneous transactions, which already must be reported promptly to FINRA and the MSRB for public posting after the trade.”

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