

MEMO# 31154

April 10, 2018

April 9 SEC Meeting of Fixed Income Market Structure Advisory Committee

[31154]

April 10, 2018 TO: Equity Markets Advisory Committee

ETF (Exchange-Traded Funds) Committee

ETF Advisory Committee

Fixed-Income Advisory Committee

Municipal Securities Advisory Committee RE: April 9 SEC Meeting of Fixed Income Market Structure Advisory Committee

On April 9th, the Securities and Exchange Committee held the second meeting of its Fixed Income Market Structure Advisory Committee (FIMSAC).^[1] FIMSAC has three subcommittees: (i) the Transparency Subcommittee; (ii) the ETF and Bond Fund Subcommittee; and (iii) the Technology and Electronic Trading Subcommittee. Each of the subcommittees reported on the issues they have studied since the last FIMSAC meeting. The primary focus of the meeting was a draft recommendation by the Transparency Subcommittee for a one-year pilot program to study the market implications of changing the reporting regime for block-size trades in corporate bonds.^[2] The recommended pilot program would raise the dissemination caps currently applicable to block trades under FINRA rules and modify the dissemination time frames for block trade data. The key elements of the draft recommendation are:

- One-year pilot program.
- All trades in TRACE-eligible corporate bonds would be eligible to participate.^[3]
- Would increase the dissemination cap for investment grade corporate bonds in TRACE from \$5 million (current threshold) to \$10 million. For non-investment grade/high-yield bonds, the threshold would increase from \$1 million (current threshold) to \$5 million.
- Trades both below and above the new block thresholds would continue to be required to be reported to TRACE within 15 minutes of execution. Trades below the thresholds would continue to be disseminated immediately upon receipt, while block trades above the new thresholds would be disseminated at least 48 hours after execution time.
- Data on sizes of block trades would be disseminated 3 months after the end of the calendar quarter in which the trades are reported, rather than 6 months as is currently required.

Following discussion, FIMSAC approved the draft recommendation. The pilot program would need to be developed and proposed by FINRA, subject to SEC consideration and approval.

The process would include an opportunity for public comment.

In addition to the recommendation on block trades by the Transparency Subcommittee, the ETF and Bond Fund Subcommittee led discussions on liquidity considerations for bond ETFs, and retail investor disclosure and education. ICI's Chief Economist, Sean Collins, participated in the discussion on liquidity considerations for bond ETFs. One issue discussed was whether bond ETFs create a "mismatch" between the liquidity of the ETF and the liquidity of the underlying ETF investments that could raise concerns under stressed market conditions. Sean explained that there is no evidence that "liquidity mismatch" is a problem, and that any concerns would be addressed by the secondary market trading that takes place in ETF shares and the in-kind purchase and redemption mechanism ETFs utilize. He noted that ETFs add to price discovery. The Technology and Electronic Trading Subcommittee led a discussion of electronic trading in the retail market.

The next FIMSAC meeting will take place on July 16, 2018.

Sarah A. Bessin
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endnotes

[1] Information about FIMSAC and materials from its meetings are *available at* <https://www.sec.gov/spotlight/fixed-income-advisory-committee>.

[2] See <https://www.sec.gov/spotlight/fixed-income-advisory-committee/fimsac-block-trade-recommendation.pdf>.

[3] The subcommittee explained that it considered a pilot for the reporting and dissemination of block-size trades in municipal securities but decided not to make such a recommendation at this time. See <https://www.sec.gov/spotlight/fixed-income-advisory-committee/transparency-subcommittee-consideration-of-block-masking-fimsa-040918.pdf>.