SIFMA Fixed Income Market Structure Seminar
SIFMA Conference Center
April 27, 2017

Opening Remarks
As prepared for delivery
Randy Snook
Executive Vice President, Business Policy and Practices, SIFMA

Good afternoon. I'm Randy Snook, Executive Vice President of Business Policies and Practices at SIFMA, and I'm pleased to welcome you to this year's Fixed Income Market Structure Seminar. Before we begin, I'd like to thank all of today's speakers. I'd also like to thank our sponsors: MarketAxess, Tradeweb, Algomi, Cleary Gottlieb, and Wilmer Hale. We appreciate your support.

SIFMA plays a central role in stimulating discussion on market structure among key stakeholders, as this seminar today does. Bringing both buy and sell side voices to the table, arms us with the input we need to engage regulators on issues that impact market structure. As we look at market structure and regulation, it's important to clarify there are clear distinctions between the Treasury, corporate and equity markets. While there is an optimal market structure for each, there is no one-size-fits-all solution.

The U.S. debt capital markets, which provide as much as 80% of long term financing for businesses in the U.S., are the largest and deepest in the world. Well-functioning capital markets recognize and drive capital to the best ideas and enterprises. The efficient allocation of capital provides substantial benefits to individuals, companies, and the economy more generally.

In particular, the corporate bond market is an integral component to economic growth, providing funding flow that is efficient, long term and cost effective to companies allowing them to expand, innovate and provide goods and services demanded by society. The U.S. corporate bond market is the largest in the world: in 2016, over 1,300 companies issued $1.5 trillion in corporate bonds in the U.S. to fund their operations and growth. In fact, corporate bond issuance in the first quarter of 2017 is 20% higher than that of the first quarter of 2016. Our first panel today will discuss the investment grade new issue process and will try to create a better understanding of the process and how we might expect it to evolve. The importance of the primary market is evident in its size but new issues often dominate secondary market trading volumes, and thus are a vital part of price discovery in the market more generally. This part of the market functions in an extremely efficient manner which we in the industry believe is imperative to maintain as the market evolves in order to preserve attractive access to the markets and allow companies to grow.

Policymakers have been focused on generating ideas to stimulate and promote capital formation since the financial crisis. We are encouraged that the new Administration has indicated it plans to pursue a pro-growth agenda and brings a fresh perspective on the way we approach financial regulations and the path to reforms. The President issued an Executive Order outlining "core principles" of his Administration and has tasked Treasury Secretary Mnuchin to file a report within 120 days on possible regulatory reforms.

This is an opportunity to step back, assess the current regulations and see how we can eliminate duplicative or harmful rules and ensure coordination among agencies in order to make our capital markets more effective and efficient. The U.S. is not alone in this endeavor as, for example, Europe already has initiated its own "Call for Evidence" that has led to proposed changes in the European ruleset.

This is not a new concept. In fact, SIFMA has long called for a cumulative review of financial regulations including those put in place since 2008, and we believe the Trump Administration's action in issuing the Executive Order is timely in that regard. Financial services is one of the most regulated sectors in the U.S. economy.

The industry has commissioned several studies to jumpstart a comprehensive regulatory review, including a 2016 Oliver Wyman report to review Basel reforms, and a 2015 report by PwC on the state of global market liquidity. Research found early warning signals that implementation of new rules is creating higher costs which are likely to be transmitted the broader economy.

Regulators have increasingly acknowledged the impact of post-crisis regulation on market liquidity. A 2016 Federal Reserve study, concluded that the Volcker Rule has a deleterious effect on corporate bond liquidity during times of stress. In his departing remarks, Governor Daniel Tarullo stated that the Volcker Rule is too complicated as it has been drafted and implemented. While it still may be more anecdotal than systematic, it could be having a deleterious effect on market making, particularly for some less liquid issues. This is on top of the extremely challenging and suboptimal regulation and supervision from five agencies.

SIFMA is currently compiling its own proposals and approach to regulatory reform we and look forward to providing our observations and recommendations to the Treasury and members of the Financial Stability Oversight Council. We also continue to provide input to Capitol Hill given their increasing focus on capital formation initiatives.

Technology has and continues to change the way market participants interact and we know that today's Treasury market structure is highly electronic. However, electronic trading is making inroads in the corporate and municipal markets, and the potentially transformative use of market data is expanding the options and tools available for market participants. This innovation and modernization has sometimes progressed in fits and starts but SIFMA is pleased to promote constructive and informed discussions like this. Through those discussions, we know that market participants continue to express increased difficulty in executing large trades with some sense of immediacy and without higher price concessions than fundamentals suggest. For instance, a 2016 Greenwich Associates study noted that 75 percent of institutional investors believed that it was either difficult or extremely difficult to execute trades of $15 million or greater. Certainly, not all liquidity issues can be attributed to regulation. As such, we need to continue to encourage market-based solutions to enhance liquidity and promote transparency.

Our second panel today will talk about the state of pre-trade price transparency and how data management is changing trading and market interactions. Lastly, our third and final panel will address how the business model is changing in a broader discussion of execution management.

With that backdrop on today's agenda, it is my pleasure to introduce the moderator of our first panel, Sean Davy, managing director at SIFMA. Please join me in welcoming Sean and his panelists.