RESEARCH

Insights

# Debrief: SIFMA Annual Meeting

Perspectives & Key Themes from Market Participants

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Recently, SIFMA hosted its Annual Meeting. Here we gained insights into top-of-mind topics for market participants from across the financial services industry, including:

- **Setting the Scene**: Based on our conference survey results, for general macro events respondents ranked Economics – U.S. debt level and geopolitical – Middle East as areas of highest concern. As to industry topics, respondents were most concerned about cyberattacks and artificial intelligence regulation.
- **Capital Markets Outlook:** The U.S. leads the world with strong capital markets and a strong banking system. As money put into investing lifts economies, governments should transform savers into investors. Investors also have opportunities to put their money to work in private markets and are blending private and public market investments.
- **Wealth Management Outlook:** A key theme is the great wealth transfer, with $84T expected to change hands over the next two decades. Another theme is the increasing longevity of Americans and the importance of preparing for longer retirements. The U.S. is on the cusp of a retirement crisis – and no one is talking about it.
- **Economic Landscape**: The consumer is still spending, and the economy has not slowed. Panelists do not see recession drivers in play. The job market is balanced. Inflation has come down. Does the Fed need to cut more? While the data can be debated, the Fed needs to normalize monetary policy in general.
- **Regulatory Update**: CFTC: AI, operational resiliency, Treasury clearing, Basel III Endgame. Dallas Fed: back to neutral (interest rate, balance sheet). SEC: equity market structure, Reg ATS, PDA, Treasury clearing. Treasury: issuance procedures, market structure changes, data additions, and Treasury clearing.
- **Treasury Market Structure**: Treasury clearing comes at a time when operations teams have already been working through a lot of regulatory changes. Electronification: UST 59%, IG corporates 50%.

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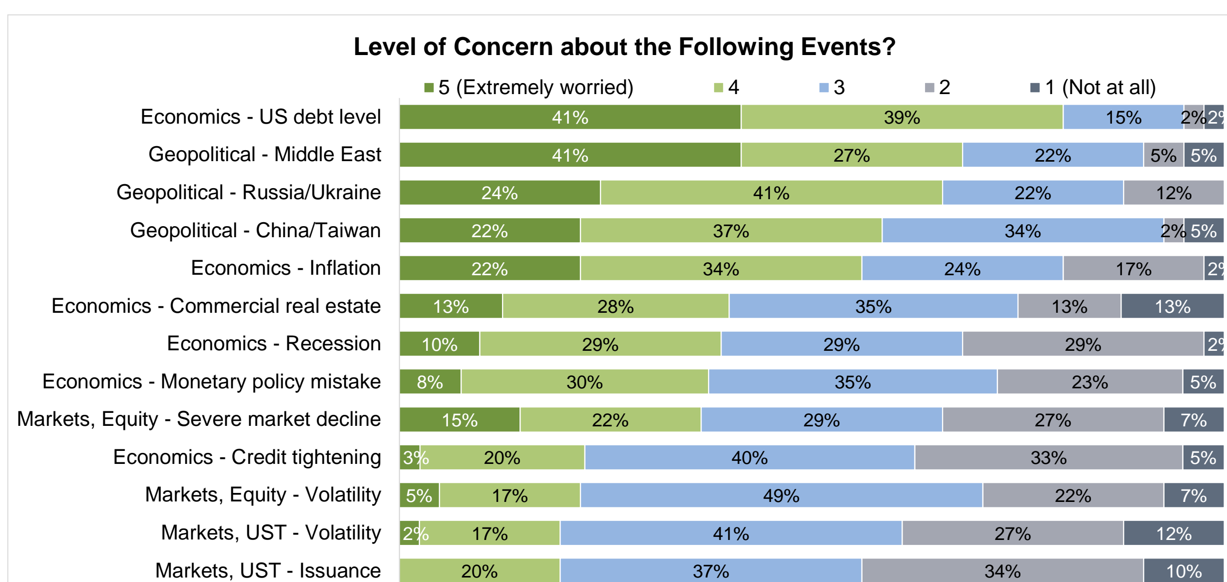
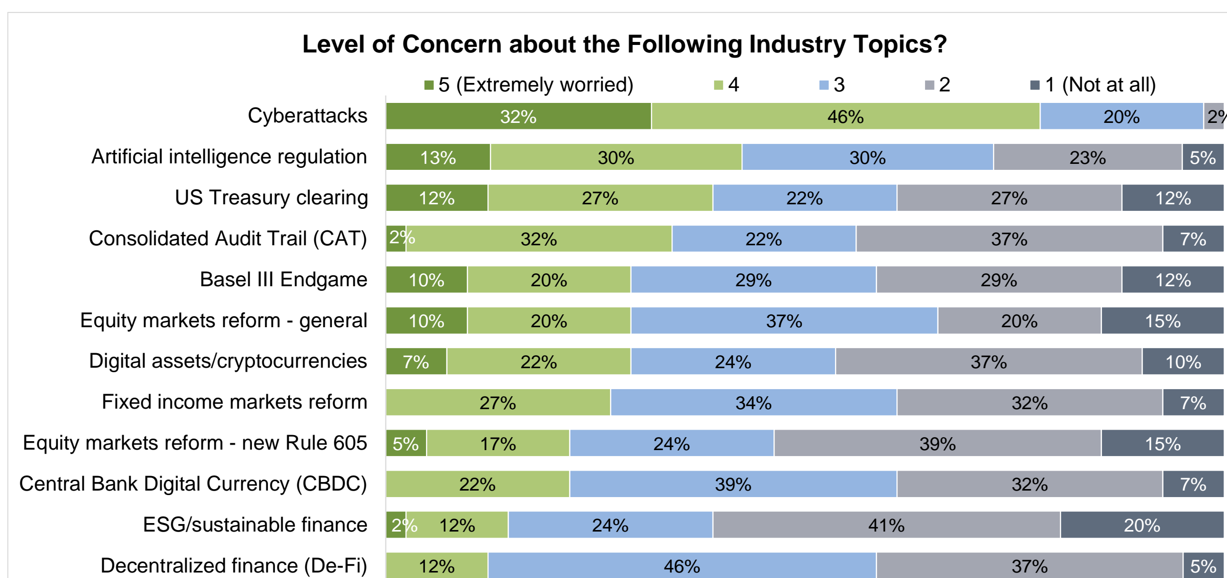
# Setting the Scene

## Survey Says: Macro & Market Topics

Our conference survey sought to gauge respondents' concerns around current geopolitical, economic, and market events and trends, ranking responses by the aggregate results categorized as #5 (extremely worried) and #4 (worried). For general macro events respondents ranked Economics – U.S. debt level and geopolitical – Middle East as areas of highest concern. As to industry topics, respondents were most concerned about cyberattacks and artificial intelligence regulation.




Source: SIFMA Insights conference survey

## Capital Markets Outlook

While we frequently write that U.S. capital markets are the largest in the world and continue to be among the deepest, most liquid, and most efficient, a speaker at the conference also pointed out that we also have the strongest banking system globally. The U.S. leads the world with this combination, and there is an "awakening" that a country needs both a strong banking system and strong capital markets. Emerging economies are trying to replicate our system: India is developing a new retirement platform with BlackRock; Saudi Arabia is setting up a mortgage securities market. Developed countries/regions are also focused on growing their capital markets: Japan is doubling the size of its NISA retirement account[1]; Europe has long indicated a desire to grow its capital markets (it has a plan for a capital markets union to create a single market for capital).

What the U.S. knows, and these other countries/regions are learning is that strong capital markets systems strengthen countries. More money put into investing lifts economies. As such, the goal of governments should be to transform more savers into investors. The imbalance between saving and investing has been a structural problem in Europe. While Europeans save a lot more than Americans, they do not invest it for the long run. Europeans keep their money in lower yielding savings accounts, even if they need to account for a forty to fifty year liability into retirement. This is similar to the environment in Japan, where savings had been preferred over investing. This asset/liability mismatch can create bad outcomes, or shortfalls in retirement funding. Meanwhile, moving people from savings into investing opens up the ability to generate higher returns and diversify income streams, given the breadth of products offered in capital markets.

Investors also have opportunities to put their money to work in the private markets. Demand for private market investments continues to grow, as institutional and individual investors blend private and public markets. There are "more and more" product offerings – not all have been tested under times of stress – which have had positive outcomes for investors.

Looking at the growth in private markets, more companies are staying private longer and have the capital to do so. This has led to a blending of public and private markets and a questioning of the term alternative assets (alts). After all, it is the same asset class – equity, credit – just done in either public or private markets.

Yet, questions remain on regulation and supervision. In private markets, firms may need to spend more time measuring liquidity requirements for companies or performing more in depth underwriting on each loan. Private markets will be tested when we have a recession, but, as a speaker put it, this is the natural evolution of a market. Investors are looking for data and analytics to fight through the opacity often found in these markets (as compared to public markets). Data can increase transparency, which should broaden demand for private market offerings.

[1] Nippon Individual Savings Account: a tax-exempt government investment account for anyone over 18. The Japanese government created NISA to encourage people to save and invest, mostly in Japanese stocks and mutual funds, tax-free for 5-year periods.

Transparency fuels the demand for investment products, on both the public and private side. Together, innovation, technology, and effective disclosures make products and markets “faster, better, and cheaper”. The democratization of markets.

The next generation of technology will bring even greater innovation. A speaker summarized trends in this area as:

- Simplify the complex – Historically firms added new technologies by adding a new asset class or geography. This was expensive and complex, leaving a mixture of legacy technologies and platforms. Tomorrow’s technologies will be integrated with legacy systems.

- Platform approach – New products should be supported by new technology ecosystems, rather than a bolt on approach.

- Data – Platforms should be connected with and monitored by data. For example, looking at artificial intelligence (AI), a speaker indicated that all platforms should have connectivity to all the firm’s commercial large language models (LLMs).

## Wealth Management Outlook

Well-functioning capital markets drive the efficient use of resources and reward innovation. Additionally, capital markets allow people to take ownership of their financial futures. The wealth management industry is there to provide high-quality financial advice to help people build resilient financial futures, with financial advisors playing a crucial role in guiding individuals through life's major milestones.

And investors are seeking out this advice. A 2023 report from Cerulli Associates, conducted in partnership with SIFMA, found that the advised investor segment grew to 47% of investors surveyed from 35% in 2009, +12 pps in those seeking advice. Additionally, 63% of investors surveyed indicated a willingness to pay for advice versus 38% in 2009, +25 pps in those willing to pay.

A key theme in the wealth management industry today is the great wealth transfer and shifting demographics of those needing financial advice. With $84 trillion expected to change hands over the next two decades, we are in the middle of this transfer at present. This wealth transfer is largely driven by the aging Baby Boomer generation passing on their assets to younger generations, who tend to be more diverse. For example, women are expected to control much of the $30 trillion in financial assets transferred, up from $10 trillion in 2020. As such, there is a need for financial advisors to adapt to the changing demographics and preferences of clients. The importance of proactive communication about wealth transfer was also emphasized, particularly in ensuring that clients' legacies reflect their values and intentions. With this wealth transfer, the industry will need 50,000 net new financial advisors to meet the expected demand for advice over the next ten years.

Another important theme is the increasing longevity of Americans and the importance of preparing for longer retirements. Financial advisors need to help clients plan for a retirement that could last twenty to thirty years or more, addressing the potential financial, health, and emotional challenges that come with extended longevity.

An Edward Jones study conducted with Age Wave, noted that almost 70% of Americans say they would like to live to 100, but only about 30% indicated that they can afford a retirement lasting more than 20 years. The concept of "longevity literacy" was discussed, stressing the significance of health, family, purpose, and finances in retirement planning. The speaker encouraged advisors to focus on holistic planning that not only covers financial stability but also enhances the overall quality of life in the later years.

Unfortunately, as speakers noted, we on the cusp of a retirement crisis in the U.S., with many people approaching retirement age having not enough saved for a long retirement. There are tools are available to help people prepare for a long retirement – employer-sponsored 401k plans, IRAs, etc. – as well as recent and proposed legislation – SECURE Act of 2019, SECURE 2.0 Act of 2022, and the proposed Improving Retirement Security for Family Caregivers Act and Catching Up Family Caregivers Act. Yet, it was indicated that there was more work to do.

A speaker mentioned that the deficit is the number one item people are not talking about – number two is this pending retirement crisis. Can individuals afford retirement? Does the country have an adequate system in place for all citizens? We as country refuse to talk about it. Despite having a population 12.9x that of Australia, the U.S. is ranked #29 in the Mercer CFA Institute Global Pension Index[2], versus Australia at #6:

- Australia: Rank #6/48, grade "B+" (adequacy #21, sustainability #5, integrity #7)
- U.S.: Rank #29/48, grade "C+" (adequacy #30, sustainability #19, integrity #46)

There are segments of the population that are "frightened" about their future, as they know they are not prepared financially. A speaker discussed the need for the U.S. to rethink its retirement system. The system can currently be thought of as a three-legged stool: social security, private pensions, and savings and investment. Social security is meant to be the foundation of the retirement system. However, with an average payout of $28,000 per annum, if this is the only income a retired person has to live on, they are living in poverty. It was suggested that the retirement system needs more solutions, in terms of investment products or methods of investing. For example, if the funds had been invested in equities, rather than as a debt liability, the fund would have had better returns.

Finally, a speaker discussed the opportunity for AI to enhance financial advice. Please note the word enhance – AI will complement, not replace, human financial advisors. AI can process vast amounts of data to provide insights, identify patterns, and predict market trends, creating more time for advisors to have meaningful conversations with clients. For example, during the recent hurricanes in North Carolina and Florida (among other impacted states), AI was used to support clients affected by hurricanes. The technology was used to quickly analyze data and help advisors offer timely and personalized advice during crises. In short, AI aims to enhance the advisor-client relationship by enabling more informed and efficient decision making.

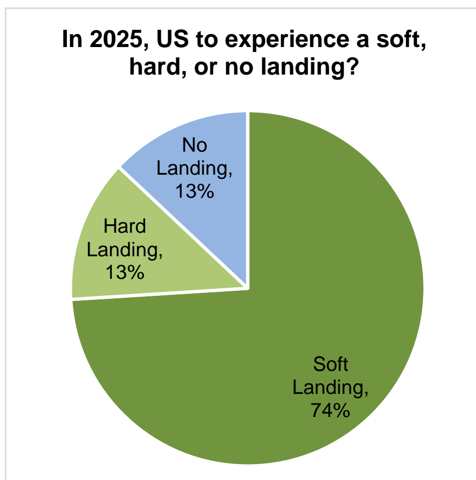
[2] Mercer CFA Institute Global Pension Index 2024: Adequacy 40% (benefits, system design, savings, government support, home ownership, growth assets); sustainability 35% (pension coverage, total assets, demography, public expenditure, government debt, economic growth); and integrity 25% (regulation, governance, protection, communication, operating costs).

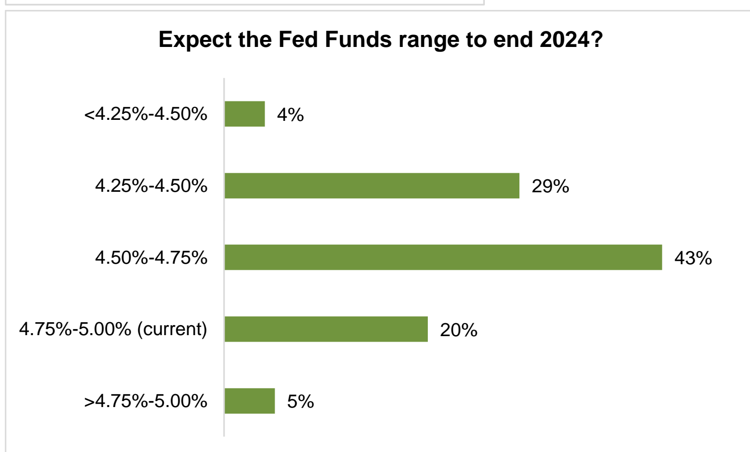
# Economic Landscape

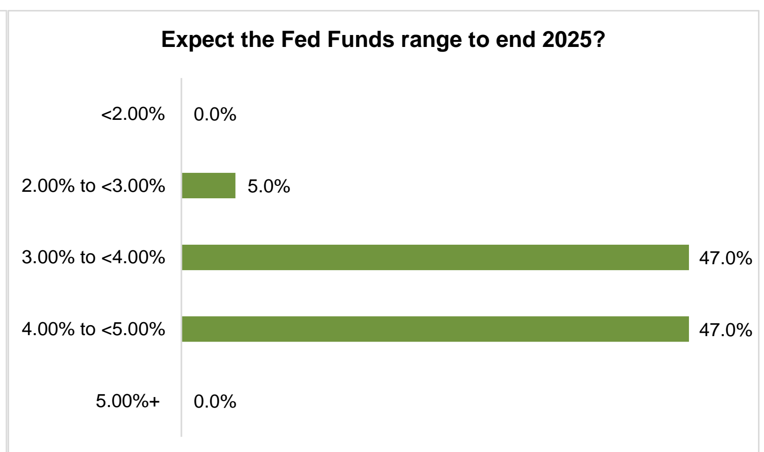
## Setting the Scene

To set the scene for the economist panel, we polled the audience on the economy and the Fed Funds rate. On the economy, the audience overwhelmingly does not expect a recession next year, with only 13% responding hard landing (recession). 74% of respondents expect a soft landing in 2025, followed by 13% responding no landing.[3]

The current target range for the Fed Funds rate is 4.75%-5.00%. With two FOMC meetings left, we asked the audience where they expect this range to end 2024 and 2025? We note that responses were based on the economic data at this time, and we know this data keeps changing. Again overwhelmingly, the audience expects the Fed to keep cutting this year and next. For 2024, 75% responded a cut, with 43% expecting an additional 25 bps cut. There was a tie at 47% each for the range to end 2025 at either 3.00% to <4.00% or 4.00% to <5.00%.




Source: Audience polling

[3] Soft landing: a moderate slowdown in economic growth with controlled reduction in inflation, without causing a recession. Hard landing: the economy contracts sharply (significant economic downturn and high unemployment) due to the central bank's efforts to control inflation, triggering a recession. No landing: the economy continues to grow despite a series of contractionary monetary policies.

## The US Economy [4]

The consumer is the biggest driver of U.S. GDP. In the second quarter, real GDP increased at an annual rate of 3.0% (third estimate). While there was no change between the second and third estimates, the advance estimate was 2.8%. The +0.2 pps increase primarily reflected an upward revision to consumer spending. The consumer is still spending, and the economy has not slowed.

For consumers in general, their wealth has grown, providing a savings cushion. They may be spending more, but it is balanced with more savings. While that is an aggregate assessment, the low end of consumers remain constrained. However, the price of gasoline has come down, -12.6% Y/Y and -2.2% M/M, benefiting this consumer segment. On the labor side, while growth has slowed, neither layoffs nor hiring are moving at a robust rate. As an economist put it, payrolls are “about right”. The job market is balanced in terms of supply and demand.

GDP is tracking at 3%, when normal growth is 2%. The unemployment rate at around 4% is “right on the nose”. The next read of the Personal Consumption Expenditures (PCE) is expected to be right around 2%, the Fed’s target. The term “exceptional” was used to describe the U.S. economy, as a panelist indicated they were hard pressed to find a time since the economy was performing better. And there is a difference to the typical comparison of the 1990s. The economy back then was fueled by not just a strong stock market but an equity bubble. Today’s stock market may be overvalued, but it is driven by real companies with real products.

## A US Recession or Not?

Panelists do not see recession drivers in play. One explanation is a misdiagnosis on what was behind inflation. While demand came into play at one point, it is viewed as a secondary factor, with supply being the main driver. The Russian/Ukraine conflict sent oil (and natural gas) prices higher, and gasoline moved above $5 (normally closer to $3). Food prices increased and remained elevated in many categories. We had to work though supply chain issues. There was a tight labor market, driving up wage growth. Additionally, inflation expectations picked up as these factors weighed on the minds of consumers. Given these non-demand drivers, there has not been a need to “crush” demand to pull inflation back in line.

There were other factors in play. The economy got “lucky” as an increase in immigration alleviated pressures in the labor market. Households benefitted from higher rates in bank accounts balancing out higher rates on the liability side. People remained locked into lower mortgage rates to stave off rate pressures. While lower income households were impacted by higher revolving rates, the top income quintile represents 45% of all consumer spending. The top two income quintiles represent over 60% of all consumer spending. When the upper income consumers are spending, it is hard to get a downturn.

Further, what the economy experienced over the last few years were rolling recessions. There was a housing recession when the Fed started raising rates. Then came a lower income recession, followed by an industrial recession. We rolled through these phases without experiencing broad, severe dislocations.

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[4] This panel included members of the SIFMA Economist Roundtable: Jay Bryson, Chief Economist Wells Fargo and Chair of the SIFMA Economist Roundtable; Mark Zandi, Chief Economist Moody’s Analytics; and Ellen Zentner, Chief Economic Strategist & Global Head of Thematic and Macro Investing, Wealth Management Morgan Stanley. SIFMA Research, Economics: https://www.sifma.org/resources/archive/research/economics/

Then why the disconnect with people on the street? People tend to fixate on one or a few factors in their lives. For example, they buy the same food item every week. They have seen the price of this food item rise – in general, prices are 20%-25% above prices three to four years ago – and remain high. This is the disinflation versus deflation conversation. While we all follow the decline in the rate of growth of price levels – the Fed's 2% target is a growth rate target – this is disinflation. Deflation is when prices actually decline, which they have not. The consumer sees price levels not growth rates in their weekly shopping cart, and this has an impact on the psyche. They feel they are "getting ripped off".

Additionally, politics in this country are fractured, and people being surveyed for consumer sentiment are looking at data through a political prism. For example, in general in the Michigan survey[5], people identifying as Republican say the economy is as bad as during the Global Financial Crisis, while Democrats say the economy is doing well. This led one economist to note that they prefer Conference Board survey[6], as it is more consistent with how people spend and behave.

Regardless of survey results, people are shopping whether they feel good or bad.

## Fed Funds Rate

The job market is balanced. Inflation has come down. Does the Fed need to cut more? While the data can be debated, the Fed needs to normalize monetary policy in general. After all, staying at higher rates means policy remains restrictive. Our audience polling showed people expect to end 2025 at around a 4% Fed Funds rate (47% each responded 3%-4% or 4%-5%).

Our economists on the panel see 3.5% as a more normal neutral rate. The election is the wild card here. The equal-weighted election outcomes are a Harris split – Republican Senate, Democrat House – or Trump sweep. A Harris win would therefore be seen as status quo, with the Fed moving back to this neutral rate. However, the Trump proposed tariffs are viewed as inflationary. Higher inflation could lead to a higher neutral rate. Even this is not clean cut. First, it may take a longer time frame for tariffs to raise prices, meaning the Fed continues along its path. Also, if policies move the U.S. into recessionary territory, this gravitational pull could force rate cuts.

In other words, it is hard to model what the policies touted on the campaign trail could mean for – or the timing of – economic growth, inflation, or monetary policy.

[5] The Michigan Consumer Sentiment Index (MCSI) is a monthly survey of consumer confidence levels in the United States conducted by the University of Michigan.
[6] The Consumer Confidence Survey reflects prevailing business conditions and likely developments for the months ahead. This monthly report details consumer attitudes, buying intentions, vacation plans, and consumer expectations for inflation, stock prices, and interest rates.

## The Deficit

The current U.S. deficit as a percent of GDP was 6.1% (end 2023). The deficit is projected to be growing to 7%-8%, which is “unsustainable”. That said, panelists are not sure when this will become a real problem. Fiscal policies can either keep the country on an unsustainable path or fuel growth to cut into the deficit. Additionally, if we get productivity growth, this can push GDP growth higher than the interest rate level. However, panelists do not see this as the base case.

The real problem comes when people stop buying Treasuries to fund our deficit. Could the cliff be closer than we think, asked an economist. We are looking at a battle over the debt limit at the start of next year. Looking at the last time we saw this story play out, the U.S. was able to avoid a breach but then had to do a “massive” Treasury issuance to refill the government’s coffers. This could come to play again in June of 2025.

At the same time Treasury issuance levels are concerning, holders of Treasuries have shifted. The Fed, China, and Japan have pulled back. This leaves asset managers and hedge funds as buyers. These participants are price sensitive, whereas central banks are not. Bond investors may demand more.

## Artificial Intelligence (AI)

Finally, the panelists discussed AI and what it could mean for productivity. Currently, we are seeing typical, cyclical productivity growth, not an impact from AI. Looking to the Internet as the last game changing technology from a productivity perspective, it was invented in the 1970s but did not have a significant impact on productivity until the 1990s.

Panelists believe an AI driven productivity bump could happen more quickly this time, not taking decades. However, it needs to do better than just summarize reports – it needs to be more profound. Innovation takes a long time to diffuse into economies – “computers are everywhere but in the economic data”. Legacy companies are not set up to adopt this technology. The technology needs to be diffused through new businesses. This will not be an instant shift.

Panelists noted that perhaps AI could impact the labor market and productivity in five years.

# Regulatory Update

## Commodity Futures Trading Commission (CFTC)

We heard from Rostin Behnam, Chairman of the CFTC. He discussed the evolution of regulations to meet new product innovation. As market structure and technologies change, regulations must adapt. New technologies are complex, yet the regulations and rules were established decades ago and are not as complex – and some areas may need input from Washington. For example, in the digital asset space – thinking about both blockchain technology and tokenization – he indicated that he would appreciate legislation here and surmised that there could be movement next year with a new U.S. President and Congress. Until then, the CFTC remains in a “difficult spot”, enforcing markets they do not regulate. As such, institutional money sits on the sidelines, not integrating beneficial new technologies into traditional finance.

Looking deeper at the potential uses of new technologies, Behnam discussed the use of AI to enhance operational resiliency in the swaps market. AI can be used to identify anomalous trading patterns or detect cyberattacks. Regulators can use AI to regulate better – identify concentration risk, monitor potential market resiliency risks – and firms can use AI to ensure compliance with regulations. While this technology presents opportunities to firms and markets, market participants and regulators must weigh the risks and benefits and how firms are managing both.

Continuing on the operational resiliency theme, Behnam discussed the CFTC’s role here. Many firms regulated by the CFTC are already covered by prudential regulations in the areas of cyber, business resiliency, and third-party risk management. However, not all CFTC members are regulated by prudential agencies. The CFTC monitors some 55-60 Futures Commission Merchants (FCM) and 100-110 swap dealers. The agency needs to set rules and guidelines for these firms not covered by other regulatory structures, not spend time regulating those already being regulated. As such, the CFTC is working with prudential regulators to not create duplicate schemes as they finalize their own rules.

On Treasury clearing, Behnam noted that while central clearing can create risk at clearing houses, overall, cross margining capabilities reduce risks and make the system safer. As market participants prepare for the 2025/2026 deadlines (please see Appendix for timeline), the agency has many remaining questions. Who will be the new players in this space? What efficiencies will cross margining bring, and could one participant be advantaged or disadvantaged? What role will the CFTC and SEC play with dually registered participants? (He noted he will continue to communicate with the SEC on this.) And what will be the clearing model(s)? Currently, the Fixed Income Clearing Corporation (FICC) uses sponsored access, but other clearing houses are used to client clearing models.

Finally, on the Basel III Endgame proposal, Behnam noted that he has had extensive conversations with the Fed and other prudential regulators, as he was concerned the original proposal had unintended consequences for the cleared derivatives market and, therefore, the ability of dealers to remain in this market (too costly given capital charges). Further, the original proposal did not address the risk reducing benefits of clearing. Behnam is hopeful that the prudential regulators will address this issue in their yet to be published re-proposal of the rule.

## Federal Reserve Bank of Dallas

We heard from President and CEO of the Federal Reserve Bank of Dallas Lorie Logan. While not currently a voting member of the Federal Open Market Committee (FOMC), she will be an alternate in 2025 and a voting member in 2026.[7] The FOMC has a dual mandate to promote maximum employment and price stability, with a risk overlay to these goals. The economy is strong and stable, but risks have increased. There is now an upside risk to inflation which can be complex to measure. Logan expects the FOMC to gradually lower rates to a neutral state, but they will remain nimble and adjust to the ever changing data. She noted that the Fed Funds target range is "well away" from neutral. As the Fed moves to neutral from these higher (for longer) rates, monetary policy remains restrictive.

Logan reminded us that as the Fed normalizes monetary policy, it has two tools: adjusting the Fed Funds target range and its changing its balance sheet (BS). It is consistent to do both in tandem. The normalization process effects both sides of the BS. On the liability side, the system needs an ample reserves regime to meet banks demand, where money market (MM) rates are close to the reserve rate. The benefits of this are it: (1) provides a stable and robust rate environment; (2) controls rates for financial stability and (3) does not penalize banks for holding reserves.

Logan noted that reserves are at a "good" level but have doubled in the last ten years. The Tri-Party General Collateral Rate (TGCR[8]) is 8 bps below the interest rate on reserve balances (IORB[9]), meaning there is excess supply. The Fed Funds rate is 7 bps below the IORB. There is a buffer of excess liquidity in the system. There are some settlement date fluctuations, where there is less supply at month or quarter end. For example, on September 30 and October 1, the TGCR/IORB spread widened 10-12 bps. Yet, overall, we are in an ample reserve regime.

Logan expects modest rate pressure as the Fed reduces its BS and indicated that markets need "tolerable" normal, modest pressures for the Fed to get to an efficient, neutral BS size. In the long run, the MM rate should be similar to IORB, consistent with the Friedman rule[10]. However, these rates will only ever be roughly equal – or even slightly less on MM – as normal frictions in MMs can cause "blips". A backstop for the floor in MM rates is the balance of reverse repurchase agreements (reverse repo, RRP). Current levels are not permanent. While the balance "rapidly" declined in 2022, it then slowed. Logan noted that the remaining balance may be "stickier".

On the asset side of the BS, the FOMC has stated that they will hold predominantly Treasuries on its balance sheet for the long term. Logan noted that they are still "far off" from that objective. Mortgage-backed securities (MBS) are running off slowly since mortgage holders are holding onto their lower rate mortgages. Logan stated that currently,

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[7] The FOMC consists of 12 members: 7 from the Board of Governors, the president of the Federal Reserve Bank of New York; and four rotating members, one each from Boston/Philadelphia/Richmond, Cleveland/Chicago, Atlanta/St. Louis/Dallas, and Minneapolis/Kansas City/San Francisco.
[8] A measure of rates on overnight, specific-counterparty tri-party general collateral repurchase agreement (repo) transactions secured by Treasury securities. General collateral repo transactions are those for which the specific securities provided as collateral are not identified until after other terms of the trade are agreed.
[9] The Federal Reserve Banks pay interest on reserve balances held by or on behalf of eligible institutions in master accounts at Reserve Banks. The IORB rate is determined by the Board and is an important tool for the Federal Reserve's conduct of monetary policy.

[10] Economist Milton Friedman promoted monetary policy that would result in the nominal interest rate being at or very near zero. The opportunity cost of holding money faced by private agents should equal the social cost of creating additional fiat money. Assuming that the marginal cost of creating additional money is essentially zero, nominal rates of interest should also be zero. A central bank should seek a rate of inflation equal to the real interest rate on government bonds and other safe assets, to make the nominal interest rate zero.

MBS represent around 34% of par value held on the Fed's BS, +0.5% from the start of 2024. This level is projected to be just over 15% by the end of the decade.

The path to a neutral BS also includes the choice of which Treasuries to hold. The ideal neutral portfolio would have a maturity composition similar to the Treasury universe (please see the Appendix for Treasury outstanding data), or tilt towards shorter maturities which allow for more flexibility. Currently, the weighted average maturity is significantly greater than marketable debt outstanding. Unfortunately, the Fed is not in full control here – the path to a neutral portfolio is dependent on fiscal policy (spending).

Just as the operations discussed above are a core responsibility for the Fed, the Treasury market is the bedrock for markets globally. Central clearing on a voluntary basis is already reinforcing market transparency and strengthening risk management. Logan noted that there is more work to do from the Fed's side (the mandatory clearing rule is under the purview of the SEC). They now have the Standing Repurchase Agreement Facility (SRF[11]) and Foreign and International Monetary Authorities Repo Facility (FIMA[12]), after lessons learned from the pandemic dash for cash. (Logan pondered if these could be centrally cleared.) The Fed has made significant risk management improvements and enhanced intermediation in its lending facilities, all to increase Treasury market resiliency under stress.

[11] The SRF serves as a backstop in money markets to support the effective implementation of monetary policy and smooth market functioning.
[12] A backstop source of temporary dollar liquidity for FIMA account holders, addressing pressures in global dollar funding markets that could affect U.S. financial market conditions and acting as a liquidity backstop to support the smooth functioning of financial markets more generally.

## Securities and Exchange Commission (SEC)

We heard from Gary Gensler, Chair of the SEC, who walked us back in time to the meme stock event almost four years ago (January 2021). As technologies, business models, and retail engagement changed significantly – while remaining the deepest and most liquid markets in the world – equity market structure questions arose at the SEC, noted Gensler. The $57.7 trillion (market cap, as of August) U.S. equity markets are critical to corporate issuers, as a reference market enabling price discovery. They are critical for individuals to save and invest, as well as for job creation in the overall economy. “As you can’t take it (the success of markets) for granted – even gold medalists keep training – it is our duty to regularly update markets”.

Where are we today? Of the four rules proposed in December 2022[13] (please see the Appendix), two are finalized. The amendments to the Exchange Act Rule 605 – enhancing broker disclosure of order execution information – was adopted on March 6, 2024. The amendments to Exchange Act Rules 610 and 612 – amending minimum pricing increments (tick sizes) and exchange access fee caps and enhancing the transparency of better-priced orders – was adopted on September 18, 2024. Gensler noted that these rules should drive “efficiencies, competitiveness, and fairness”.

As to other areas, Gensler discussed the move to T+1 settlement for stocks, corporate bonds, and municipal securities in May of this year. This lowered risk and capital requirements for institutional investors, thereby reducing risk. He also noted continued work on short selling and digital engagement (gamification).

What about going forward?

- Equity market structure: Gensler indicated that SEC staff are still reviewing industry comments on the best execution and order competition proposals.
- Reg ATS: On the proposal to extend Regulation Alternative Trading Systems,[14] Gensler’s comments focused on government securities dealers only.
- Treasury clearing: Gensler indicated that, currently, there would not be an update or change to the timeline (please see the Appendix). He believes the timeline is sufficient.
- Predictive Data Analytics (PDA[15]): Gensler confirmed that he has instructed SEC staff to rewrite this proposal, a positive for market participants.

[13] https://www.sec.gov/newsroom/market-structure-proposals-december-2022
[14] Extend Reg ATS to bring more ATS that trade Treasuries and other government securities under the regulatory umbrella by including systems that offer the use of non-firm trading interest and provide protocols to bring together buyers and sellers for trading any type of security. These Communication Protocol Systems would be required to either register as exchanges or register as broker-dealers and comply with Reg ATS. https://www.sec.gov/newsroom/press-releases/2022-10
[15] New proposed rule requiring broker-dealers and investment advisers to take certain steps to address conflicts of interest associated with their use of predictive data analytics and similar technologies to interact with investors to prevent firms from placing their interests ahead of investors’ interests. https://www.sec.gov/newsroom/press-releases/2023-140

## U.S. Department of the Treasury

We heard from Josh Frost, Assistant Secretary for Financial Markets at the U.S. Department of the Treasury. The Treasury's objective is to promote a broad and diverse investor base in order to keep the financing used to run the U.S. government at the lowest cost to taxpayers. Frost noted that there is a good range of product offerings with a regular, predictable issuance schedule. To establish the level of issuance, Treasury surveys primary dealers each quarter on issuance needs. Additionally, the Treasury Borrowing Advisory Committee (TBAC[16]) meets to provide recommendations on Treasury issuance.

Frost noted that they are confident in their procedures around issuance, but they need strong secondary markets as well. YTD through September, the average daily trading volume in the Treasury market was $911.6 billion, and this level has been shown to increase under times of stress. As such, it is important to strive for resiliency in the Treasury market. Frost discussed the work of the Inter Agency Working Group on Treasury Market Surveillance (IAWG[17]). Since the 2014 Flash Rally[18], the group's focus shifted to structural changes in the Treasury market which had not been holistically analyzed. The IAWG discusses and sets out principles on fair trading, trading platforms, transparency, clearing, and more.

On the transparency side, he discussed data quality and credibility. For example, seven years ago there was not a definitive data source for the Treasury market, noting it was even hard to find the total amount traded in the market. Now the Trade Reporting and Compliance Engine (TRACE) publishes daily data. To fill a data gap, this December they will begin collecting data in the bilateral repo market. Frost expects this data – when combined with Treasury clearing data – will piece together a fuller picture of the Treasury market. Other areas where Frost mentioned they are looking at enhancing the usefulness of data include:

- Shortening public dissemination time frames.
- Providing more transparency on off-the-run[19] Treasuries.
- Providing more transparency on other Treasury securities, such as Treasury Bills and Treasury Inflation-Protected Securities (TIPS).

Frost expects this to benefit the market and the research community. That said, he indicated that, with regards to additional public transparency, they want to walk not run so as to do no harm to the Treasury market. The different characteristics of each segment of the Treasury market may call for different transparency regimes to protect important proprietary information.

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[16] An advisory committee that meets quarterly with the Treasury Department. Membership is comprised of senior representatives from a variety of buy and sell side institutions, such as banks, broker-dealers, asset managers, hedge funds, and insurance companies. TBAC presents their observations to Treasury on the overall strength of the U.S. economy as well as provide recommendations on a variety of technical debt management issues.

[17] Members include: U.S. Department of the Treasury, Board of Governors of the Federal Reserve System, Federal Reserve Bank of New York, U.S. Securities and Exchange Commission, and U.S. Commodity Futures Trading Commission. Work includes: enhancing data quality and availability, bolstering the resilience of market intermediation, evaluating expanded central clearing, and enhancing trading venue transparency and oversight.

[18] On October 15, 2014, between 9:33 a.m. and 9:45 a.m. EST, the benchmark 10-year Treasury yield dropped 16 bps and then rebounded, without a clear cause. This volatility was unprecedented in the recent history of the Treasury market.

[19] On-the-run Treasuries are the most recent security released for a certain maturity. Off-the-run Treasuries are those that have been issued before and remain outstanding

Finally, on Treasury clearing, tick tock goes the clock, and it has started to tick loudly noted Frost. The done with clearing model documentation is completed, and the market has started working on done away clearing model documentation.[20] Frost stressed that no one in the official sector underestimated how complex this transition is. He believes public/private collaboration will prevail as it did with the move away from the London Interbank Offered Rate (LIBOR).

The move to clearing has increased "greatly", as people begin voluntarily clearing Treasuries ahead of the deadlines. Questions and sticking points remain, such as: impact on international participants, new participants – clearing houses, clearing members, firms who never cleared before – accounting issues, affiliate transactions, etc. Frost ended by saying that he is optimistic that market participants will get there, and the Treasury market will be more resilient for having done the work. It is not a trivial undertaking, but it will have a more than trivial impact on the market.

[20] Done-with (or sponsored) clearing: Participants trade and clear through their sponsor. Done-away clearing: Participants trade with third parties and submit the trades to their clearing member for clearing.

## Treasury Market Structure

Please see the Appendix for the Treasury clearing timeline, background data, and additional information.

**Treasury clearing**: Firms have already been voluntarily clearing repo with hedge funds. Under the clearing mandate they need to industrialize this and add scale. Many outstanding questions remain, even as the deadline fast approaches. Market participants expect multiple clearing houses to eventually enter this space, leaving questions around: access models, margin frameworks, margin haircut thresholds and whether they will be mandatory or not, among others. For now, people are focused on operational readiness for done with clearing. Done away clearing has challenges, with regulations, accounting treatment, etc.

It was noted by a speaker to be mindful that Treasury clearing has come at a time when operations teams have already been working through a lot of changes: the transition to T+1 settlement, one minute TRACE reporting, Basel III Endgame, etc. The pace and volume of regulations has been aggressive. A lot has already been done to improve transparency, reporting, and resiliency across multiple markets, but there is a lot more work to be done operationally for the Treasury market.

It was noted that a phased approach to implementing regulations would have been preferred.

**Electronification**: The percentage of the market traded electronically continues to grow. Dealers have truly embraced it, touting the speed, accuracy, and efficiencies of trading this way. We highlight the current electronic trading statistics (Coalition Greenwich Research, for the month of September):

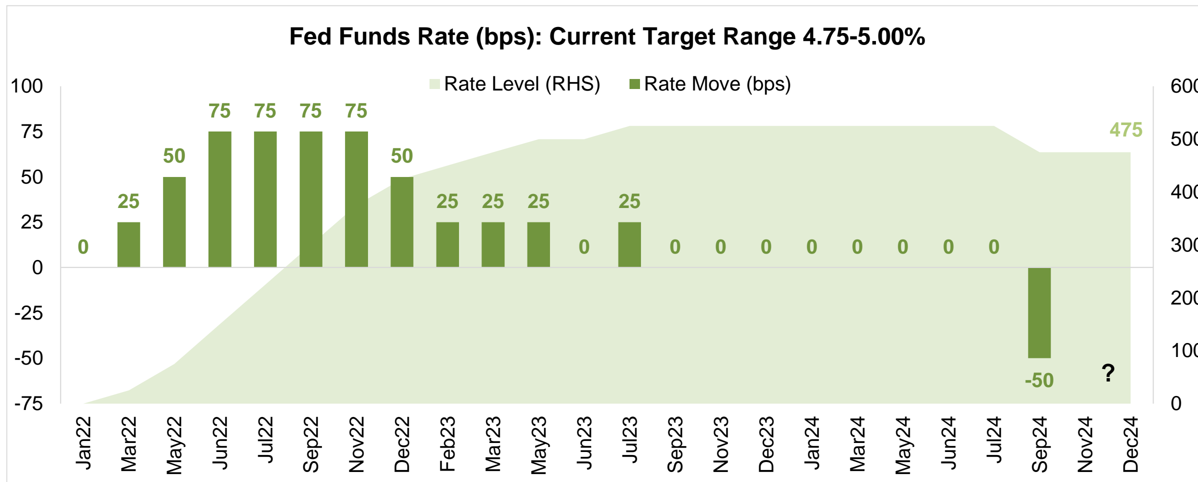
- Treasuries
  - Total 59%
  - Dealer-to-client 63%

- Corporate bonds
  - Investment grade 50%
  - High yield 32%

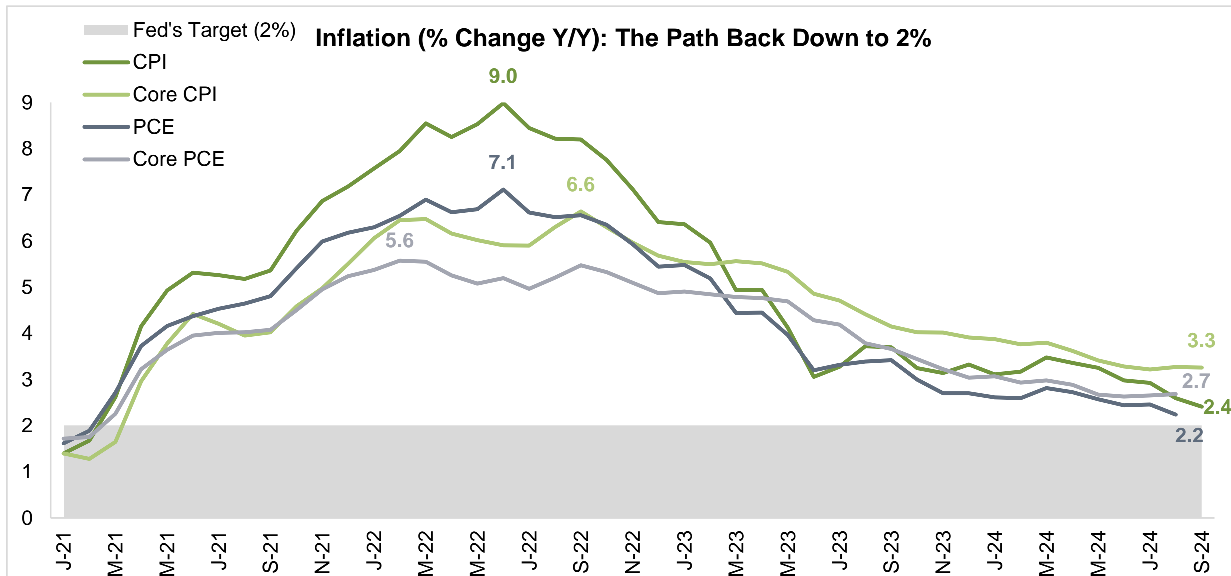
# Appendix: Background Data & Information

## Economic Landscape

### Fed Funds Rate




### Inflation




Source: Federal Reserve, FRED, SIFMA estimates
Note: As of October 2024.

## Equity Market Structure

On December 14, 2022, the SEC proposed four equity market structure rulemakings. Then, on October 18, 2023, the SEC proposed a fifth rule. These rules included:
https://www.sec.gov/newsroom/market-structure-proposals-december-2022

1. (Amendments to) Exchange Act **Rule 605** – **adopted on March 6, 2024** – enhancing broker disclosure of order execution information. The new rule expands the scope of entities required to report to include: broker-dealers who introduce or carry 100,000 or more customer accounts; single-dealer platforms; and entities that would operate qualified auctions under the proposed Order Competition Rule. It also revises the scope and content of the information required to be included in the monthly reports, including: broadening the definition of covered order; modifying existing order size categories, basing them on round lots and including other size groups for fractional shares, odd-lots, and larger-sized orders; requiring new statistical measures of execution quality, including a size improvement benchmark calculating execution greater than the displayed size at the quote. The rule further revised report content and requires a summary report to be published. https://www.sec.gov/newsroom/press-releases/2024-32

2. (Amendments to) Exchange Act **Rules 610 and 612** – **adopted on September 18, 2024** – amending minimum pricing increments (tick sizes) and exchange access fee caps and enhancing the transparency of better-priced orders. This proposed rule would eliminate the current one-size-fits-all tick approach for NMS stocks priced at $1.00 or more and establish variable minimum pricing increments according to certain criteria, which would apply to the quoting of NMS stocks on any national securities exchange or alternative trading system as well as over-the-counter. The proposed rule also recalibrates access fee caps that limit what a trading center may charge for the execution of orders. The proposal would also accelerate the modified round lot definition and inclusion of odd-lot information into consolidated market data. This will be the first time the SIP introduces an odd lot BBO, which could lead to investor confusion since it will not be protected. https://www.sec.gov/newsroom/press-releases/2024-137

3. (New) **Regulation Best Execution**, establishing a best execution standard to which broker-dealers must achieve the most favorable price for customers under prevailing market conditions. It would also require policies and procedures for certain conflicted transactions with retail customers. To some extent, the proposal mirrored existing rules from FINRA for its broker-dealer members and the Municipal Securities Rulemaking Board (MSRB) for municipal securities dealers. However, it includes a conflicted transactions section which specifically targets payment for order flow (conflicted also includes principal trading and routing customer orders to affiliates), subjecting broker-dealers transacting with retail customers to additional best ex obligations. Further, the proposal requires exchanges disclose the fee for transactions at the time of execution, in contrast to proposal #5 below.

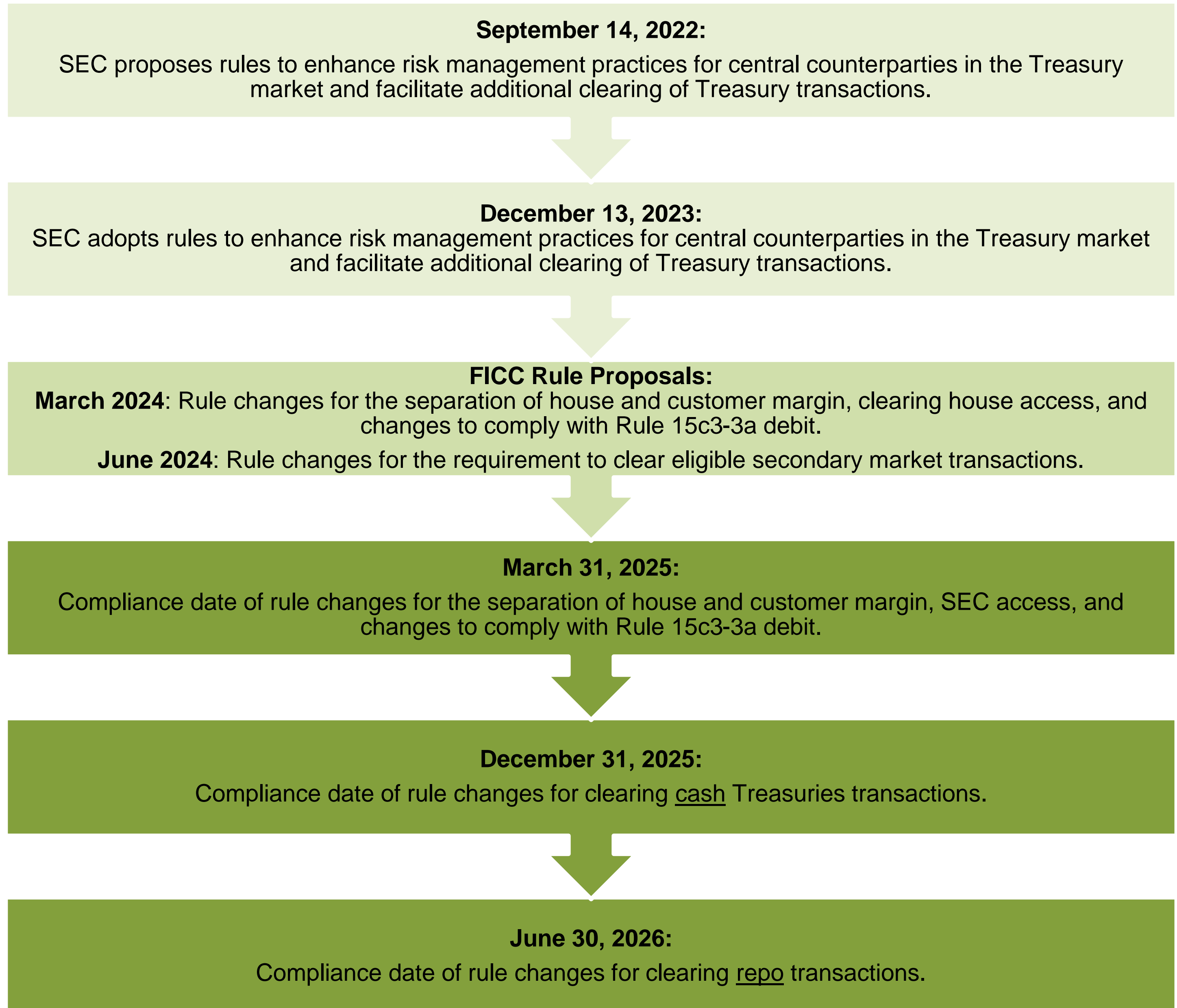
4. (New) **Order Competition Rule**, requiring certain retail orders to be sent to auctions or midpoint ATSs before being internalized. This proposal would require segmented orders of natural persons in Reg NMS stocks to be exposed to competition in fair and open auctions before they could be executed internally by any trading center that restricts order-by-order competition, with certain exemptions. The duration of auctions would be between 100 and 300 milliseconds (an eternity in trading terms).

5. (New) Exchange Act **Rule 6b-1**, addressing volume based exchange transaction pricing for NMS stocks. This proposal would prohibit national securities exchanges from offering volume-based transaction pricing in connection with the execution of agency or riskless principal-related orders in NMS stocks.

In addition to these five proposals/rules, participants in equity markets are dealing with a slew of other SEC proposals and issues, including but not limited to: definitions of exchange and dealer; Regulation Systems Compliance and Integrity (Reg SCI); Consolidated Audit Trail (CAT) funding; amendments to Reg ATS/Definition of an Exchange; and Predictive Data Analytics (PDA).

## Treasury Market Structure

### Treasury Clearing: Timeline




Proposal: https://www.sec.gov/newsroom/press-releases/2022-162
Final rule: https://www.sec.gov/newsroom/press-releases/2023-247
Published to Federal Registry, January 16, 2024: https://www.federalregister.gov/documents/2024/01/16/2023-27860/standards-for-covered-clearing-agencies-for-us-treasury-securities-and-application-of-the

### Treasury Clearing: Scope

The rule applies to covered clearing agencies in the U.S. Treasury market. At present, the only clearinghouse to which this rule applies is FICC, a subsidiary of DTCC. The rule requires that covered clearing agencies adopt policies and procedures designed to require their members to submit for clearing certain secondary market transactions, including:

- Repo – All repo and reverse repo collateralized by Treasury securities entered into by a member of the covered clearing agency, unless the counterparty is a state or local government or another clearing organization or the repurchase agreement is an inter-affiliate transaction.
- Cash Treasuries –
    - All purchase and sale transactions entered into by a member of the clearing agency that is an interdealer broker.
    - All purchase and sale transactions entered into between a clearing agency member and a registered broker-dealer, government securities broker, or government securities dealer

### Treasury Clearing: FICC Access & Clearing Models

- Direct versus indirect access
    - Direct: market participants are FICC/GSD members
        - Netting membership
        - Centrally cleared institutional tri-party (CCIT) service membership
    - Indirect: market participants are not FICC/GSD members
        - Sponsored membership requires that a sponsored member access clearing at through at least one sponsoring FICC/GSD member relationship.
        - Under the agency model, market participants clear through an intermediary who participates in either FICC's prime broker clearing or correspondent clearing services.
        - Both indirect access models facilitate futures commission merchant style clearing arrangements between clients and their clearing intermediaries where client activity is given up to the intermediary for clearing or where the client and the clearing intermediary are trading counterparties.
- Done-away versus done-with clearing
    - Done-away: A trade executed between an agent clearing member's executing firm customer and another GSD netting member. Or a trade executed between an agent clearing member's executing firm customer and an executing firm customer of another agent clearing member.
    - Done-with: A trade executed between an agent clearing member and its executing firm customer.

**SIFMA Workstreams**

In order to help market participants meet the timeline, SIFMA has organized several workstreams, each of these seek to provide clarity and garner efficiencies as firms implement the Treasury clearing rule:

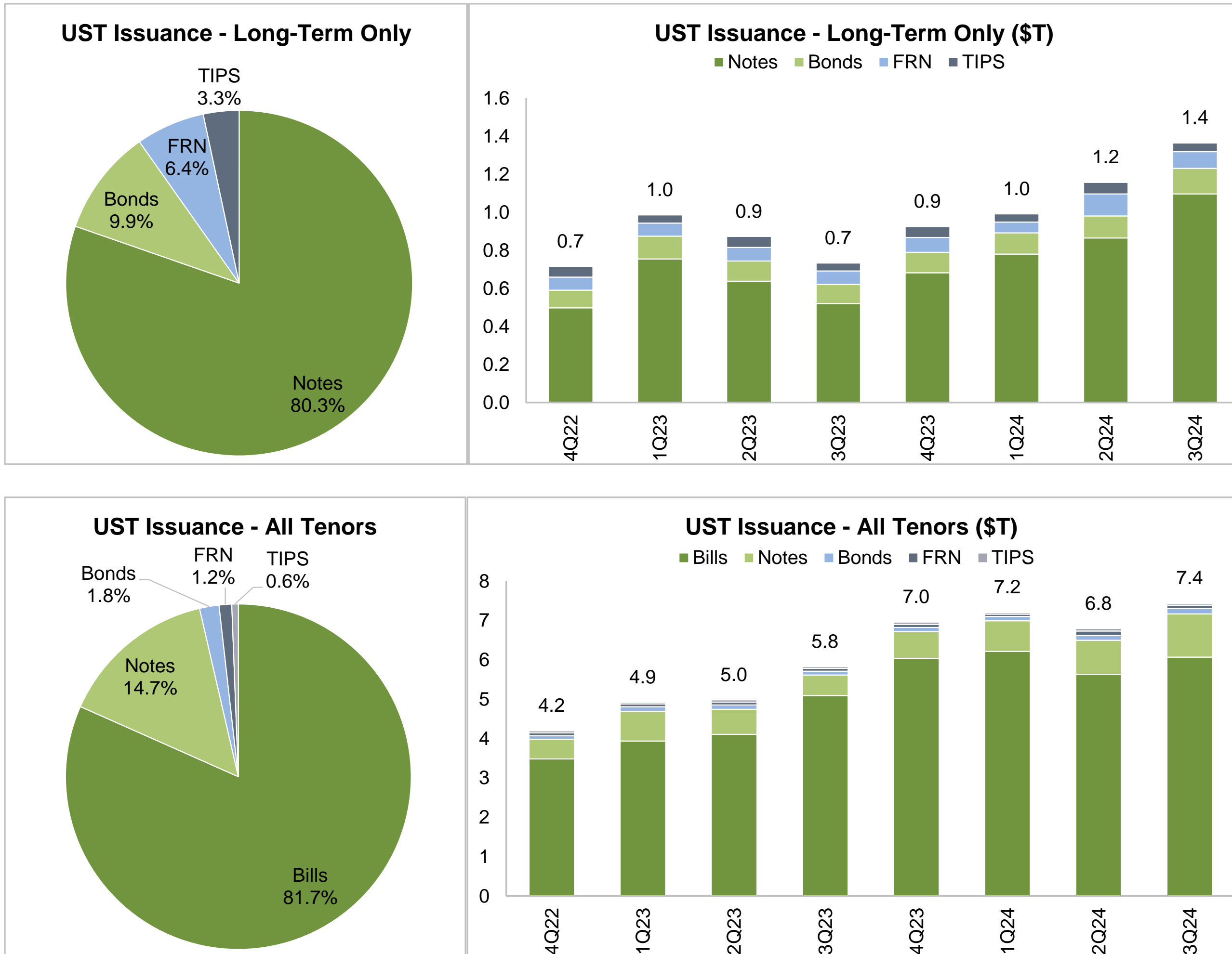
- **Documentation**: A working group has developed standard documentation for "done with" transactions and expects to publish standard documentation for "done away". The "done with" documentation was published September 25, and SIFMA expects the "done away" documentation to be available later in the fall. This will provide market participants with an efficient starting point for the on boarding process of new entrants to the clearing ecosystem.

- **Timeline/Playbook**: SIFMA and its partner, EY, are developing a playbook/timeline – similar to the one produced for T+1 – that market participants can use to benchmark and understand the key operational implementation issues.

- **Interpretive Questions**: SIFMA continues to work with its members and the regulators to provide clarity around outstanding questions/issues in the final Treasury clearing rule, most notably with respect to the inter-affiliate exemption, the treatment of tri-party transactions, and the treatment of margin by investment advisors.

## Market Data

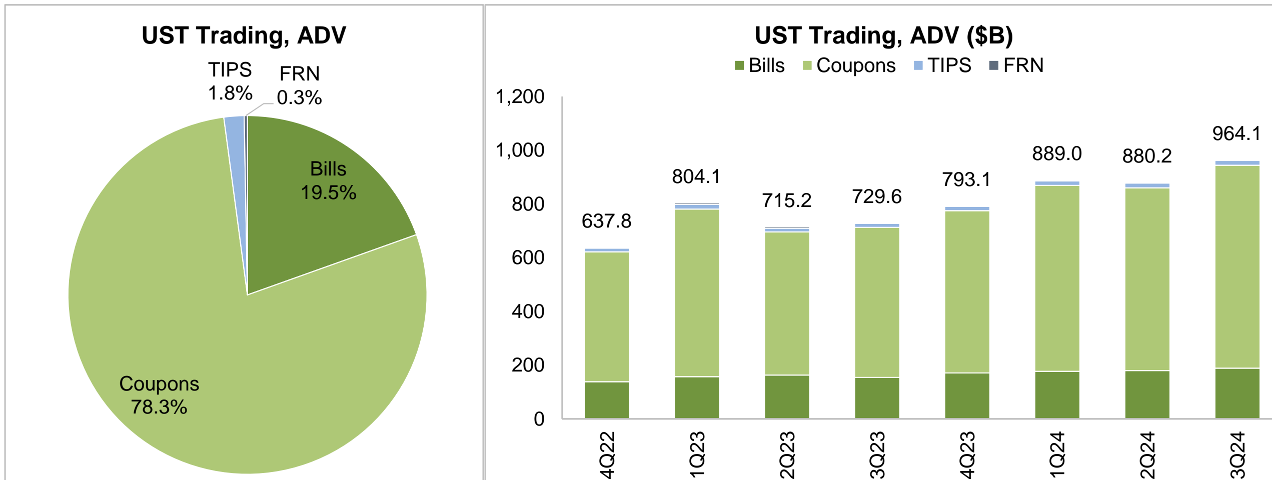
- Issuance
  - Long Term; $1.4T; +17.8% Q/Q, +86.1% Y/Y
  - All: $7.4T; +9.5% Q/Q, +27.6% Y/Y




Source: US Treasury, SIFMA estimates

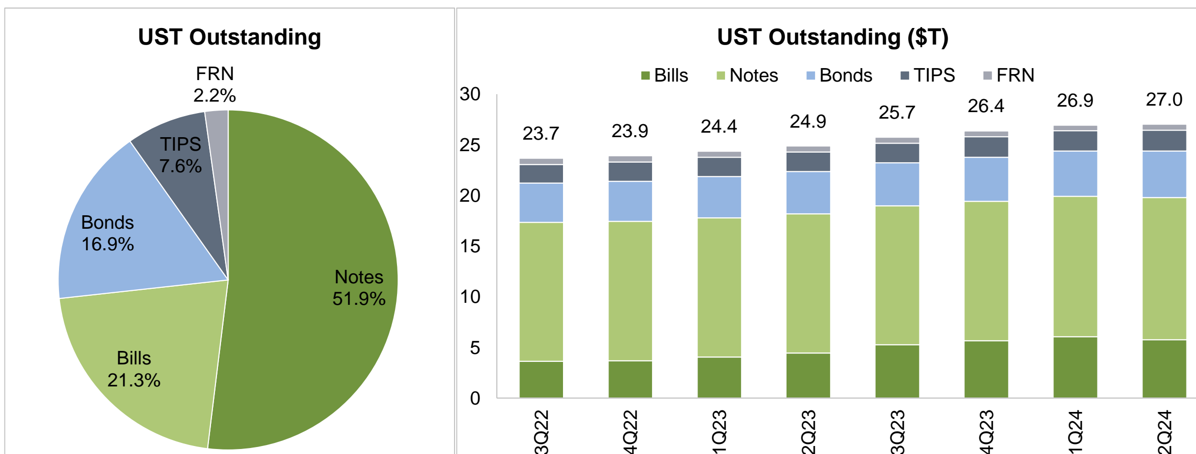
Note: As of 3Q24. FRN = floating rate note, TIPS = Treasury inflation-protected securities

- Trading, ADV: $964.1B; +9.5% Q/Q, +32.1% Y/Y

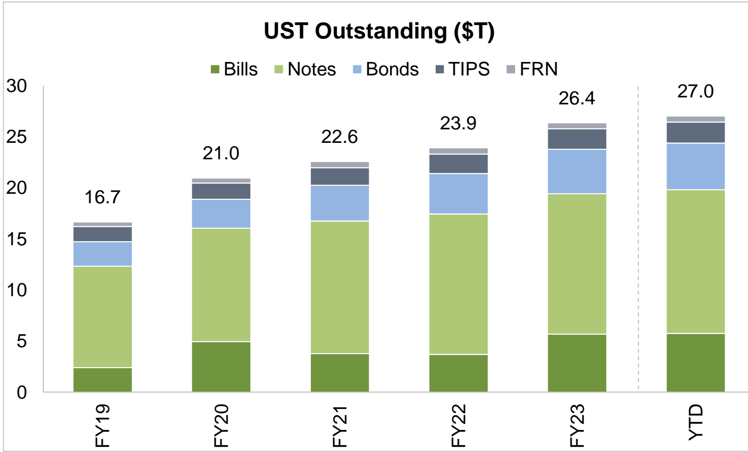


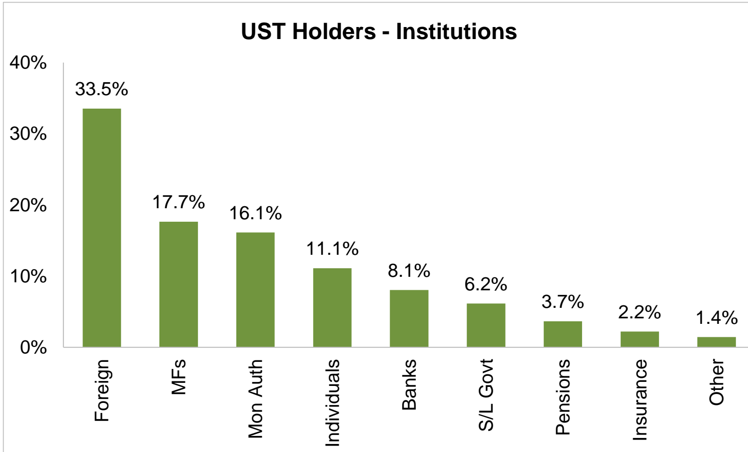

Source: FINRA, SIFMA estimates
Note: As of 3Q24. FRN = floating rate note, TIPS = Treasury inflation-protected securities

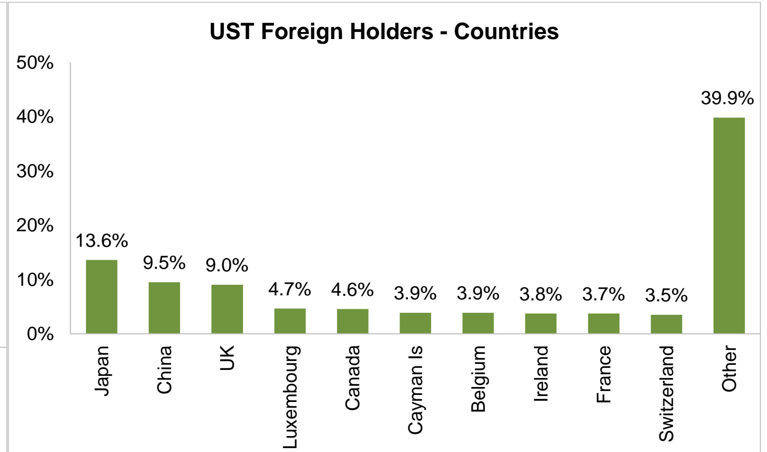
- UST Outstanding: $27.0T; +0.4% Q/Q, +8.7% Y/Y




Source: US Treasury, SIFMA estimates
Note: As of 2Q24. FRN = floating rate note, TIPS = Treasury inflation-protected securities




Source: US Treasury, SIFMA estimates

Note: As of 2Q24. FRN = floating rate note, TIPS = Treasury inflation-protected securities; Holders as of March 2024

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