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Gensler Turns Spotlight on How Hard It Can Be to Get Bond Prices.

- **SEC chair wants to 'bring greater efficiency and transparency'**
- **Fed's pandemic bond market rescue a source of concern**

After U.S. Securities and Exchange Commission Chairman Gary Gensler signaled he may overhaul bond market regulations, industry experts zeroed in on just how opaque trading can be.

Gensler, who testified Tuesday before the Senate Banking Committee, said in prepared remarks released beforehand that he wants to "bring greater efficiency and transparency" to the trading of corporate bonds, municipal bonds and mortgage-backed securities. He offered little detail on what new rules might look like.

Market watchers have suggestions, a year after a liquidity breakdown early in the pandemic forced the Federal Reserve to backstop the bond market. A big source of angst: especially when compared with other key financial assets like stocks, it can take a lot more effort to figure out the price of a bond.

"Pre-trade transparency is a focus," said Kumar Venkataraman, a finance professor at Southern Methodist University and former member of the SEC's Fixed Income Market Structure Advisory Committee. "If you're a large, sophisticated investor, you receive quotes from many dealers and see the best price. If you're less sophisticated, you might get a less competitive bid."

15 Minutes

Currently, corporate bond trades must be reported to the Financial Industry Regulatory Authority's Trace system no more than 15 minutes after they're executed — a deadline that feels like an eternity in the era when stock and futures traders fret about microseconds.

And before trades are placed, there are no publicly available price quotes. To get those can require making phone calls or sending electronic requests for quotes to a bunch of banks and brokers.

A potential solution would require bond brokers to report their offered prices to a centralized system, which is how it's worked in the U.S. stock market since the 1970s. That could make the business more efficient by stitching together all the different markets where bonds trade. In stocks, for instance, all orders are supposed to be automatically routed to the market with the best price.

"We think the solution is to consolidate all credible bids and offers into a central system and display that information publicly," said Christopher White, the chief executive officer of bond market data provider BondCliQ Inc. "Once you create that centralized architecture, you start to see the quality of the data and the market improve."

Sell-side banks have little incentive to provide greater transparency, since it could cut into their profits. And reporting quotes could be a costly and time-consuming process that banks currently have little interest in participating in, Venkataraman said.

Don’t expect corporate bonds to begin trading in a centralized system like equities anytime soon, says Kevin McPartland, head of research for market structure at Coalition Greenwich.

‘Very Different’ Market

“The bond market is still very different from the equity market in terms of how it trades and in terms of the market participants,” he said. “Bond markets are by and large institutional markets. So we have a very informed consumer if you will.”

There is also “post-trade reporting, and a lot of private sector work to improve pre-trade price transparency,” he added. “The buy side has pushed for it, and the platforms and data providers have really pushed to make pre-trade price transparency better. So I’m not sure we need to regulate something that’s effectively already happening.”

The bond-market crisis of March and April 2020 is fresh in regulators’ minds. Government officials appear to view the unprecedented steps taken by the Fed in March 2020 as a mandate to address long-standing concerns that bond liquidity disappears in bad times.

The giants of finance, meanwhile, are more apt to view the global pandemic as a once-in-a-century event that doesn’t justify upending how the corporate bond business runs in normal environments.

Gensler has targeted market transparency before. The opacity of the swaps market was one of the reasons why the 2008 financial crisis was so severe, since it was extremely difficult to untangle the connections between Wall Street banks who held the derivatives. Gensler, as chairman of the U.S. Commodity Futures Trading Commission, oversaw a push to get more of that business done on public markets.

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