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SEC's Gallagher Calls for Reforms in Fixed Income Markets.

(Reuters) – A top U.S. regulator called for major reforms in the fixed income markets on Tuesday, saying many of the rules are out of date and lack enough protections for retail investors.

In prepared remarks for a market structure conference at Georgetown University, Securities and Exchange Commission Republican member Daniel Gallagher said he is concerned by "a troubling asymmetry of information" in the bond market.

"Retail participation in the municipal and corporate bond market is very high," Gallagher said. "And yet, these markets are incredibly opaque to retail investors."

Gallagher called for a handful of reforms, including potential changes by the industry to permit the use of more standardized contracts similar to the standardized structure of many derivatives products.

Such a change, he said, could help improve price transparency because it would facilitate a migration toward the less opaque exchange and electronic dealer-to-dealer trading.

He also said the SEC should consider removing references from the agency's rules to CUSIP identifiers, or the nine-character code used to identify securities that are assigned by Standard & Poor's CUSIP Global Services.

"The commission needs to do something about the de facto monopoly forcing the use of CUSIPs in the fixed income markets," Gallagher said.

The push for reforms in the multi-trillion dollar municipal and corporate bond market by Gallagher and several other SEC commissioners marks a shift in focus by the agency.

Over the last several years, the SEC has mostly been focused on reforming the U.S. equity market, after a series of high-profile glitches and major market events damaged investor confidence.

Among those events were the May 2010 "flash crash," the collapse and sale of Knight Capital to what became KCG Holdings after a technology error flooded the market with erroneous orders, and most recently, the major outage of Nasdaq OMX's securities information processor (SIP), which receives all traffic quotes and orders for the exchange's stocks.

Gallagher said Tuesday that some reforms are also needed in the equities space, particularly around SIPS, which are owned and operated by exchanges.

The market's reliance on SIPs lessens competition for trading data, creates delays in gaining access to the information and concentrates risk around a single point of failure, he said.

This raises questions about whether the SEC should instead encourage market players to decide which data feeds they want to use, he said.

“We could mandate that the exchanges make their direct feeds available, for a fee, to third-party data vendors, who can then aggregate the last-sale prices. This could facilitate market competition for consolidated data,” Gallagher said.

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