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U.S. SEC Panel Recommends Review of Electronic Bond Trading Rules.

July 16 (Reuters) – The U.S. Securities and Exchange Commission should form a working group with two of its regulatory counterparts to review and harmonize the rules they use to police electronic corporate and municipal bond-trading platforms, an SEC subcommittee said on Monday.

The regulation of electronic fixed income trading venues varies depending on the business models and trading protocols of the venues, increasing the potential for investor harm, systemic risk and unfair competition, said a subgroup of the SEC's Fixed Income Market Structure Advisory Committee.

The group of industry professionals recommended that the SEC, the Financial Industry Regulatory Authority and the Municipal Securities Rulemaking Board consider creating a unified regulatory framework for all fixed income electronic trading platforms.

Some bond trading venues are regulated as alternative trading systems (ATs), some are regulated as broker-dealers, while other major platforms operating similar models are not regulated at all, the group said.

"Without a unifying regulatory framework for all fixed income electronic trading platforms, market structures will likely fragment further as regulators adopt new regulations that apply to only one type of platform," they said in a statement.

For example, the regulation of ATs largely reflects how trading occurs in the equity markets, and excludes electronic platforms that use a "request for quote" model, which are regulated as broker dealers. There is also at least one major municipal and corporate bond trading platform that does not fall under any U.S. regulatory oversight, the subcommittee said in its recommendation.

"These distinctions in regulatory oversight complicate efforts to improve the efficiency and resiliency of the fixed income electronic trading markets," the group said.

(Reporting by John McCrank in New York Editing by Marguerita Choy)