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SEC Committee Tackles Disorderly Electronic Bond Trade Reporting.

New definition could affect shares of electronic bond trading platforms

Liquidity is key in bond markets, but measuring it has grown more complex as trades move onto competing electronic trading venues. A Securities and Exchange Commission committee this week moved to help.

The Fixed Income Market Structure Advisory Committee proposed the SEC adopt new reporting standards aimed at improving transparency and helping traders decide which electronic marketplaces to frequent.

Stakes are high in the proposed regulatory overhaul for publicly listed electronic bond trading platforms such as MarketAxess Holdings Inc., MKTX 0.70% Tradeweb Markets Inc. TW -0.63% and Intercontinental Exchange Inc., ICE -0.05% or ICE. The exact terms of the definition the SEC adopts could raise or lower each venue's reported market share, and the value of their stocks.

"You can't ignore the importance of this to investors in the electronic trading platforms," said Kevin McPartland, head of market structure research at Greenwich Associates.

The committee proposed the SEC adopt a clear definition of electronic trading in corporate and municipal bond markets. A uniform definition would capture a broader range of trades, avoid double-counting them and standardize reporting across different venues, according to a recommendation released at a committee meeting on October 5.

Unlike stocks, which mostly trade on listed exchanges, bonds trade over the counter, and the electronification of the market has been fragmented as financial technology companies have offered traders competing options to find buyers and sellers.

"The recommendation this week is trying to tackle the fact that electronic venues all report their trading volumes and estimates differently, so it's very difficult for any market participant or regulator to get an accurate picture of what's going on," said Rick McVey, chief executive officer at MarketAxess and a member of the SEC committee.

"Transparency and investor confidence are essential to efficient markets, and considered regulation of fast-growing electronic protocols and platforms makes a lot of sense," Tradeweb CEO Lee Olesky said. A spokesman for ICE declined to comment.

Electronic bond trading has grown since the March market crisis, when investors rushed to raise cash by selling bonds. The increase was sharpest in high-yield bonds, about 22% of which were traded electronically in August compared with 17% in February before the pandemic hit the U.S., according to data from Greenwich.

Still, trading air pockets at the height of the panic exposed liquidity shortfalls in municipal and corporate bond markets. The market freezes renewed concerns about liquidity—a term sometimes used to describe how easily traders can buy and sell at a stable price—but inconsistent reporting of electronic trading has made postmortem analysis more difficult.

“Determining the effect of electronic trading on liquidity conditions and transaction costs over time is difficult,” the SEC committee said in its recommendation.

In government bond markets, the yield of the 10-year Treasury rose to 0.784% Wednesday from a close of 0.741% Tuesday, according to data from Tradeweb.

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By Matt Wirz

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