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SEC Needs to Take 'Bottom to Top' Review of Fixed Income Markets: Crenshaw

The next chairman or chairwoman will likely “take a hard look at the commission’s approach to ESG,” Crenshaw said.

Once Securities and Exchange Commission Chairman Jay Clayton departs at year-end, the four member agency — which will consist of two Republicans and two Democrats — can likely find bipartisan agreement on fixed income market structure issues, according to SEC Commissioner Caroline Crenshaw.

“Right now, our fixed income markets are regulated using a regime that ... has been imported from the equity markets,” Crenshaw, a Democrat, said Friday during the virtual Georgetown Financial Markets Quality Conference. “This can cause problems. Fixed income securities are traded in a very different way.”

The commission should take “a bottom to top look at the corporate and muni markets. ... We need to understand how these bonds are actually traded and how these things are happening on the ground as we build a regulatory system around it,” Crenshaw said.

SEC Commissioner Elad Roisman, a Republican, added that “there is still a lot we can do when it comes to fixed income.”

Retail investors, Crenshaw said, “have more exposure, perhaps more than anyone else, to municipal bonds, both directly and indirectly through various funds.”

The SEC, she continued, needs “to do a better job of ensuring that all investors have the information they need to make the best investment decisions they can. It’s especially an issue for retail investors because they often don’t have access to the same type of information that nonretail investors have access to.

“That’s true across all products, but it’s especially true in the muni markets where a lot of bonds are thinly traded and there’s very little pre-trade transparency.”

Next SEC Chair’s Priorities

The next chairman or chairwoman will likely “take a hard look at the commission’s approach to ESG,” especially those focused on climate risk, Crenshaw said.

Added Roisman: ESG is “a conversation that will be ongoing; it’s one that I can’t imagine we’re not going to be having.”

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