Public Statement

COVID-19 Market Monitoring Group — Update and Current Efforts

Chairman Jay Clayton

S.P. Kothari
Chief Economist and Director, Division of Economic and Risk Analysis

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On April 24, the SEC announced the formation of an internal, interdisciplinary COVID-19 Market Monitoring Group.[1] This temporary, senior-level group was formed to assist the Commission and its various divisions and offices in (1) developing Commission and staff analyses and actions related to the effects of COVID-19 on markets, issuers and investors—including in particular our long-term Main Street investors, and (2) responding to requests for information, analyses and assistance from fellow regulators and other public sector partners on market matters arising from the effects of COVID-19. While the COVID-19 Market Monitoring Group is now the focal point for managing and coordinating the agency's efforts in this regard, the vast majority of the SEC's COVID-19-related market monitoring and response work began several months ago and is informed on a continuous basis by the women and men working across the Commission.

We have received inquiries from various parties regarding the work of the COVID-19 Market Monitoring Group. This statement is intended to provide investors, other market participants and the public generally with further information about our ongoing efforts and, in particular information regarding (1) the status of our ongoing coordination with domestic and foreign regulatory partners and public sector officials, and (2) certain specific medium- and longer-term market analysis work streams.[2] As discussed in more detail below, we welcome continued public engagement on these matters.

I. Coordination with U.S. and Foreign Regulatory Partners and Public Sector Officials in Identifying and Responding to the Effects of COVID-19

At the SEC, we have long recognized that close and active coordination with other financial regulators and public sector officials—both domestic and foreign—is fundamental to the fulfillment of our three-part mission to protect investors, maintain fair, orderly and efficient markets and facilitate capital formation. While any attempt to

summarize the various aspects of our regulatory coordination will inevitably lead to over-and under-inclusiveness, with that qualification, we believe the following high-level overview will prove informative and beneficial to market participants. As a threshold matter, it is important to note that, in preparing for and responding to the effects of COVID-19 on investors and our capital markets, the strong ties created by this long-standing commitment to regulatory coordination have proven beneficial.

Domestic Engagement

Domestically, we have been engaged in daily staff-to-staff communication, coordination and information sharing with our fellow regulators and other authorities concerning risks and impacts resulting from COVID-19 on investors, companies, state and local governments and other issuers, and the financial system as a whole. This includes engagement with various personnel from the Department of the Treasury ("Treasury"), National Economic Council ("NEC"), Federal Reserve Board ("Board"), Federal Reserve Bank of New York ("FRBNY"), Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, Commodity Futures Trading Commission ("CFTC") and Federal Housing Finance Agency ("FHFA"), among others. These efforts have occurred on both a bilateral and multilateral basis, including through our participation in bodies such as the Financial Stability Oversight Council ("FSOC") and the President's Working Group on Financial Markets ("PWG"), as well as ad hoc multi-agency efforts.

In addition to our engagement with the PWG and FSOC and various other bilateral communications, our coordination efforts have included: (1) weekly (and in some cases more frequent) interagency market oversight teleconferences, (2) standing interagency teleconferences on the functioning of the clearance and settlement systems across the financial industry and (3) regular teleconferences on cybersecurity and operational risks facing the financial services industry. From time to time, senior leaders of the various departments and agencies participate in these efforts.

We have also frequently sought and received guidance and assistance from our domestic regulatory partners. Our efforts to facilitate market function and protect investors have benefited immeasurably from their inputs and feedback. At the same time, we have also found ourselves called upon by other regulators for our capital markets expertise and perspectives on various responses to market developments. This has included, to name just a few examples, providing:

- capital markets advice to the Board, FRBNY and Treasury concerning the design, establishment and potential impacts of funding, credit, liquidity and loan facilities,
- technical assistance and guidance to banking regulators on the capital markets implications of various bank regulatory policy initiatives and responses to COVID-19, and
- advice to the FHFA and CFTC on corporate and disclosure issues concerning publicly traded housing finance and energy companies, respectively.

Additionally, we have engaged with members of Congress, congressional committees and staff on COVID-19 issues, including by providing briefings on Commission operations, securities markets conditions, effects on investors, and regulatory responses, as well as technical assistance on draft legislation.

International Engagement

We have also worked closely on capital markets-related matters arising from COVID-19 with our foreign counterparts and international prudential banking authorities. Bilaterally, we have been in close coordination with authorities across Europe and Asia—including the Bank of England, UK Financial Conduct Authority, Banque de France, French Autorité des Marchés Financiers, Hong Kong Securities and Futures Commission and Japan Financial Services Agency. In these exchanges, we share market and regulatory insights, as well as experiences and expectations on a wide variety of market topics, including areas of risk that may warrant increased attention.

We have also played an active role in the response efforts of various international multilateral organizations.[3] This includes assisting with the development of, and contributing to, work streams organized by the Financial

Stability Board ("FSB") and International Organization of Securities Commissions ("IOSCO"). We have contributed, for instance, to multiple COVID-19 initiatives coordinated by the FSB's Standing Committee on Assessment of Vulnerabilities ("SCAV") and Standing Committee on Supervisory and Regulatory Cooperation, as well as IOSCO's Financial Stability Engagement Group.

Speaking more generally, our agency has benefitted from our domestic and international engagement on the market impacts of COVID-19 on the domestic and global financial system broadly. For example, we have discussed the innumerable linkages, interconnections and continually evolving dynamics between global banking, housing finance, commodities and other markets and our capital markets with an eye toward identifying areas of stress and vulnerability with a particular focus on identifying current risk and vulnerabilities, as well as potential mitigating actions. In other words, these efforts have been focused on preserving orderly market function and decision-oriented analysis.

Ongoing Public Engagement

We have received the views of a wide variety of market participants and other members of the public on these important matters. We thank them for sharing their analyses and perspectives with us and welcome continued engagement on these matters. Market participants and members of the general public are encouraged to submit information, data and their perspectives on matters relating to the effects of COVID-19 on markets, issuers and investors. Submissions can be made by email to COVID-19.Market.Monitoring@sec.gov.

II. Initial SEC COVID-19 Market Analysis Initiatives

In addition to the broad market-oriented work discussed above, we have also initiated work on other medium- and longer-term market analysis work streams in response to the effects of COVID-19. This includes separate initiatives to: (1) extend the more general work discussed above to identify, analyze and clarify interconnections across key segments of our financial markets with increased specificity (the "Interconnectedness Initiative"), and (2) analyze the potential risks and downstream effects of investment strategies and mandates that include or are subject to mechanistic rules, guidelines or restrictions on holdings of assets (e.g., by reference to ratings and downgrades) (the "Initiative on the Effects of Mechanistic Portfolio Management Guidelines/Restrictions").

Each of these initiatives will support (as well as be informed by) similar efforts being undertaken by the FSB, IOSCO and other organizations. In addition, we will be working on these matters with the Office of Financial Research ("OFR"), and thank them for their willingness to join in these efforts.

Interconnectedness Initiative

The principal objective of our Interconnectedness Initiative is to identify, analyze and clarify significant channels of risk exposure and risk transfer in our domestic and global financial system with an eye toward identifying areas of vulnerability and stability. We are examining, among other things, interconnections between credit origination, risk transmission, and investment and risk exposure, to identify circumstances where shifts in risk assessment in one area may amplify risk-based price movements and capital flows in other areas. In light of our capital markets mandate, we generally are focused on capital markets instruments and flows and their interaction with the broader financial system.

Identifying interconnections generally across the domestic and global financial markets would be a massive and time-consuming undertaking. As such, the scoping of this exercise is important. In an effort to be most effective in identifying significant interconnections that could affect our efforts to address the market impact of COVID-19, we are working with OFR, FSB and others to scope and sequence this work. We intend to examine select portions of these markets and initially identify which participants, activities and linkages act or function as the originators, transmitters, amplifiers, absorbers and ultimate owners of risk. We anticipate that this work will be iterative and will inform policy discussions and decisions. Over the longer term, it is our expectation the work will facilitate further engagement on system risk and financial sector vulnerabilities, in both the domestic and international realms.

Initiative on the Effects of Mechanistic Portfolio Management Guidelines/Restrictions

Many investment guidelines, performance benchmarks and other rating-oriented portfolio construction rules embed credit ratings and other third-party metrics into their investment strategies and requirements. It has become widely accepted, with the benefit of substantial empirical analysis and academic study, that these types of strategies and requirements generally are beneficial to investors, prudential regulators and other market participants. However, the recent volatility and daily stress witnessed across a wide range of segments of our capital markets, as well as the sharp deterioration in economic activity more generally, have raised questions regarding whether *mechanistic* provisions of this type (e.g., required portfolio rebalancings, asset sales and/or capital charges triggered by ratings downgrades) should be reexamined in the current environment. For example, a question that has been raised to us in several contexts is whether there is a potential for "pro-cyclical" activity in the credit markets resulting from widespread mechanistic responses to credit downgrades (i.e., broad, downgrade-forced divestment, that in turn triggers more divestment, with limited countervailing discretionary purchasing). For completeness, we note that various sophisticated market participants believe that any such pro-cyclical effects would be mitigated by the actions of other market participants. In light of the potential continuing broad effects of COVID-19 on credit markets and the fact that, this issue has garnered attention, we believe it is appropriate to engage in further analysis.

This initiative will first explore these mechanistic activities and whether in the context of the potential continuing broad effects of COVID-19 on credit markets, the hypothetical risks associated with mechanistic provisions of the type described above are present and if so, should be addressed. We are consulting with a wide array of experts and stakeholders with diverse perspectives, including: other federal, state and foreign regulators and authorities; investment advisers, including those that manage mutual funds and hedge funds; insurance companies; pension funds; banks and broker-dealers; municipal advisors; credit rating agencies; investor advocates and academics. We will brief and work with our domestic and international regulatory colleagues—including FSOC, FSB/SCAV and IOSCO—on our work and analysis.

III. Conclusion, Market Function and Continued Efforts

In closing, we note that in times of stress a key focus for the Commission is orderly and fair market function. In this regard, we would like to thank our domestic and international partners and, in particular, Treasury and the Board for their thoughtful and decisive actions, collaboration and communication during this challenging period. Secretary Mnuchin, Chairman Powell, Vice Chair Quarles, Chairman McWilliams, Comptroller Otting, Chairman Tarbert, Director Calabria and their teams have responded promptly to all of our requests for assistance and information. Their dedication, cooperation and engagement has been particularly beneficial to our work at the SEC, including helping to ensure that trading, settlement, capital formation and the continued provision of credit continues to be as orderly, efficient and fair as practicable under the circumstances.

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[1] SEC Press Release, "SEC Forms Cross-Divisional COVID-19 Market Monitoring Group" (Apr. 24, 2020), *available at* https://www.sec.gov/news/press-release/2020-95.

[2] For an overview of selected SEC response efforts to COVID-19, including guidance and regulatory assistance and relief, please visit the SEC's "Coronavirus (COVID-19) Response" webpage, *available at* https://www.sec.gov/sec-coronavirus-covid-19-response.

[3] *See, e.g.*, FSB Press Release, "FSB members take action to ensure continuity of critical financial services functions" (Apr. 2, 2020), *available at* https://www.fsb.org/2020/04/fsb-members-take-action-to-ensure-continuity-of-critical-financial-services-functions/; IOSCO Press Release, "Securities regulators coordinate responses to COVID-19 through IOSCO" (Mar. 25, 2020), *available at* https://www.iosco.org/news/pdf/IOSCONEWS559.pdf.