

## Speech

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# Remarks to the Financial Stability Oversight Council



Chairman Jay Clayton

May 14, 2020

From a systemic risk point of view, the SEC's primary responsibilities<sup>[1]</sup> in this period of stress are three-fold:

1. **Market function.** Using our authority, expertise and experience to help ensure the continuing, orderly and fair function of the securities markets—including equities, fixed income securities, funds and other products.
2. **Market monitoring.** Monitoring market prices and price movements, flows of capital and availability of credit to assess functionality and resiliency of the capital markets—and taking action, including providing regulatory relief and guidance, as appropriate.
3. **Corporate and other issuer disclosure.** Monitoring and providing guidance concerning, and emphasizing, timely and accurate issuer and other disclosures, recognizing that transparency and broad disclosure of material information are fundamental to market function and resiliency.

Before I give a few specifics on each of these three areas, and at the risk of repeating prior public comments, I will make a few general observations on our capital markets.

- The continued orderly operation of our funding markets and other capital markets has been and will continue to be an essential factor in driving an effective national health and safety response to COVID-19. Consumers, the thousands of firms and entrepreneurs that are working to fight and respond to COVID-19—not to mention the state and local governments, hospital systems, transportation and public services that are critical to the response—all depend on continued access to financial services and markets. Turning to this group, the efforts of FSOC members, individually and collectively, as well as so many others, to preserve the flows of credit and capital in our economy have substantially mitigated the economic consequences of COVID-19.<sup>[2]</sup>
- More specifically, the rapid fiscal, monetary and financial regulatory response to market and economic effects of COVID-19 has been both remarkable and appropriate. Speaking personally, without the prompt and decisive actions taken by Treasury, the Federal Reserve Board and the Federal Reserve Bank of New York—individually and in coordination with Congress and the White House—our markets would not have continued to function in anywhere as near an orderly and fair manner as they have to date. Your actions have been pragmatic, transparent, credible and effective. Thank you.

## I. Market Function

At the SEC, one of the ways we have been helping to facilitate continuing, orderly and fair market function is by working to promptly provide guidance to market participants and targeted regulatory assistance and relief, as appropriate. Our efforts in this regard have been focused on assisting exchanges, central clearing parties and other key participants in our securities market infrastructure successfully implement business continuity measures, including shifting to remote work environments, while preserving important investor and market protections. For example, the SEC worked with the New York Stock Exchange and the CBOE Options Exchange to facilitate the closure of their physical trading floors and shift to fully electronic operations.<sup>[3]</sup> Various other specific responses are described on our website.<sup>[4]</sup>

To provide further context on market function, I would like to share a few statistics.

- From the equities perspective, the ten highest days by notional volume or trade count—*of all time*—occurred in 2020.<sup>[5]</sup> In 2019, the average daily volume was 7.0 billion shares per day; on the last day of February 2020, we observed the second most shares traded ever, 19.3 billion shares. In May, the average has dropped slightly—but is still relatively high at 10.5 billion shares per day.
- Equities volatility has also been high. For example, the ‘VIX’ Index provides an options market-based measure of expected future volatility. At the beginning of January 2020, the VIX value was 12.5. On March 16, it reached an all-time high of 82.7. Earlier this week the VIX reached 33.04.
- The volume and volatility story is similar in the corporate and municipal bonds markets. The average number of daily municipal bond transactions in mid-February was approximately 34,000. That number increased to 50,000 transactions per day in March, and on March 23 reached 75,000 per day.<sup>[6]</sup>

Functioning of fair and orderly markets is essential to investor protection. Despite these extraordinary volumes and volatility, the “pipes and plumbing” of the securities markets—i.e., the clearing agencies, exchanges, ATSS and securities information processors, among other things—functioned largely as designed, and importantly, as market participants would expect. In other words, we can report that during this time of unprecedented stress, we have observed no systemically adverse operational issues with respect to our key infrastructure.

At a more specific level, there have been questions about exchange traded funds (“ETFs”). In general, they have performed as expected. Currently, there are relatively few significant differences in prices between the ETF and the underlying basket. As of yesterday, only about \$4.1 billion of the \$4 trillion ETF market had an absolute value premium or discount greater than 2 percent.

## II. Market Monitoring

A second emphasis for SEC staff has been our ongoing monitoring of our capital markets. In addition to monitoring prices and price movements, capital flows and credit availability, we have engaged closely with staff, including the senior executives, of issuers, exchanges, clearing agencies, broker-dealers, investment companies, public accounting firms, credit rating agencies, fund sponsors and investment advisers.

In late April, formalizing what had already been ongoing, we announced that an internal, cross-divisional COVID-19 Market Monitoring Group would function as a focal point for managing and coordinating our efforts to (1) monitor and respond to the effects of COVID-19 on markets, issuers and investors and (2) assist other regulators and public sector officials.<sup>[7]</sup>

Our work coordinating with FSOC and its member agencies and other domestic bodies, has proven invaluable. We have also worked on capital markets-related matters arising from COVID-19 with our foreign counterparts and international prudential banking authorities. This has occurred on both a bilateral and multilateral basis—including through work streams organized by the Financial Stability Board (“FSB”) and International Organization of Securities Commissions (“IOSCO”). We have benefitted from this domestic and international engagement, including discussions concerning 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 and potential mitigating actions.

To provide some specificity, I note that we have initiated work in the following areas.

- We are engaged in an effort to identify, analyze and clarify interconnections across key segments of our financial markets with increased specificity.
- We are also analyzing 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—for instance, by reference to ratings and downgrades.<sup>[8]</sup>

These two initiatives will support (as well as be informed by) similar efforts being undertaken by the FSB, IOSCO and other organizations. We look forward to briefing and coordinating with all of you, as well as our international colleagues, on this work.

### III. Corporate and Other Issuer Disclosure

We have also been monitoring and providing guidance with respect to corporate filings and disclosures of U.S. issuers, as well as foreign companies listed in the United States. A fundamental principle for the SEC and our capital markets has always been—and today is even more important than ever—the importance of issuers providing investors with financial and operational disclosures that are clear, high-quality and timely.

It is no surprise we have observed the presence of uncertainty regarding the financial and operating status of companies and municipal issuers, as well as their future prospects, and a resulting thirst for information from investors and the marketplace more generally. I believe that the timely disclosure of high-quality information—be it positive, negative or neutral and be it definitive or lacking certainty—increases credibility and has a generally calming value that contributes to market function, and in turn, reduces the potential for system risk. We recently issued two public statements discussing the importance of corporate and municipal disclosures and urging issuers to provide investors with as much information as practicable regarding their current financial and operating status.<sup>[9]</sup>

### IV. Conclusion

In closing, I would like to thank all of you and your teams. Your dedication, cooperation and engagement has been particularly beneficial to our work at the SEC. Thank you.

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<sup>[1]</sup> Investor protection is core to the SEC mission. Functioning of fair and orderly markets is essential to investor protection. Additionally, SEC enforcement and examination staff remain fully operational and continue to execute on their mission of protecting investors. The women and men of the SEC are actively monitoring our markets for frauds, illicit schemes and other misconduct affecting U.S. investors relating to COVID-19 and otherwise.

<sup>[2]</sup> See SEC Chairman Jay Clayton, “The Deep and Essential Connections Among Markets, Businesses, and Workers and the Importance of Maintaining those Connections in our Fight Against COVID-19” (Mar. 24, 2020), available at <https://www.sec.gov/news/public-statement/statement-clayton-covid-19-2020-03-24>.

<sup>[3]</sup> See SEC Press Release, “Cboe Options Exchange Temporarily Shifts to Fully Electronic Trading – SEC Enables Immediate Effectiveness of Proposed Rule Change to Facilitate Continued Operations in Light of Temporary Suspension of Cboe Physical Trading Floor” (Mar. 14), available at <https://www.sec.gov/news/press-release/2020-64>; SEC Press Release, “SEC Enables Immediate Effectiveness of Proposed Rule Change to Facilitate NYSE Electronic Auctions in Light of Temporary Closure of Physical Trading Floor” (Mar. 21, 2020), available at <https://www.sec.gov/news/press-release/2020-67>.

<sup>[4]</sup> Additionally, the Commission and SEC staff have also provided: (1) conditional relief to permit publicly traded companies additional time to file certain disclosure reports, (2) guidance to promote continued shareholder engagement—including at virtual annual shareholder meetings—for companies and funds affected by COVID-19 and (3) guidance for investment advisers on conducting business from temporary locations. 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>.

[5] In terms of *shares* traded, volumes in 2020 have competed with records set during the 2008-2009 financial crisis.

[6] SEC staff prepared the various statistics cited in these remarks based on data from various sources, including from the World Bank, Bloomberg, Financial Industry Regulatory Authority, Municipal Securities Rulemaking Board and the SEC's own Market Information Data Analytics System.

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

[8] Further information concerning these initiatives is available in the SEC COVID-19 Market Monitoring Group Announcement.

[9] See SEC Chairman Jay Clayton and William Hinman, Director, Division of Corporation Finance, "The Importance of Disclosure – For Investors, Markets and Our Fight Against COVID-19" (Apr. 8, 2020), *available at* <https://www.sec.gov/news/public-statement/statement-clayton-hinman>; SEC Chairman Jay Clayton and Rebecca Olsen, Director, Office of Municipal Securities, "The Importance of Disclosure for our Municipal Markets" (May 4, 2020), *available at* <https://www.sec.gov/news/public-statement/statement-clayton-olsen-2020-05-04>.