Opening Remarks at the Inaugural Meeting of the Fixed Income Market Structure Advisory Committee

Chairman Jay Clayton

Jan. 11, 2018

I am delighted to welcome all of you to the inaugural meeting of the Fixed Income Market Structure Advisory Committee, or "FIMSAC" as many of us like to call it.[1] This is a significant day for the Commission. There are a few matters of importance to discuss, and I will try to be efficient, as I know we are all eager to kick off today's discussion on bond market liquidity.[2]

To start, I would like to extend a warm welcome to our two new Commissioners, Robert Jackson and Hester Peirce. With Commissioners Stein and Piwowar, we have benefited from intellect, experience, perspective and energy, as well as ongoing commitment to our mission. My interactions with Rob and Hester have made it clear that we will have more of these important attributes.

I would like to extend a sincere thank you to all of the Committee members for your willingness to serve. I also appreciate the work and leadership of Committee Chairman Michael Heaney.

I recognize that all of you have significant demands on your schedules, and our aim is for this Committee to be a valuable use of your time. The insights and recommendations that you will provide will help inform the Commission's policy decisions over the coming months and years. As many of you know, the Equity Market Structure Advisory Committee, or "EMSAC," has provided the Commission with thoughtful perspectives and recommendations, some of which we are actively considering. My hope is that FIMSAC will be similarly valuable.

Speaking of EMSAC, that Committee's charter expired this week. Going forward, rather than extending EMSAC, our plan is to organize targeted roundtables on discrete equity market structure issues, which will feature experts on each topic representative of a broad diversity of viewpoints. We will provide more information on these plans in the future. Having said that, I would like to take this opportunity to thank all of the EMSAC members for their work and many contributions.

Turning back to FIMSAC – I would like to recognize Commissioners Stein and Piwowar for their support of this Committee and their highly thoughtful and collaborative approaches to its establishment. Thank you also to the staff in our Division of Trading and Markets, Division of Economic and Risk Analysis, Office of Municipal Securities and Office of General Counsel for their work, together with Michael Heaney, in organizing this first meeting.

Let me take a step back now and provide some context to explain why I believe this Committee is so important. It is difficult to overstate the significance of the fixed income markets to the American economy and our investing public.

First, these markets are massive—and growing.

- The U.S. corporate bond market has experienced significant growth since the early 2000s. Issuance in the corporate bond market has hit record highs five years running.[3] In 2016, almost 1,400 companies issued $1.5 trillion of corporate bonds, and there was over $8.5

trillion of corporate bonds outstanding.[4] By comparison, in 2006 there was over $4.8 trillion of corporate bonds outstanding.[5]

- Growth in the U.S. corporate bond market has also outpaced growth in U.S. equities: between 2006 and 2016 the value of corporate bonds outstanding rose by about 76 percent, while the equity market cap rose by 40 percent.[6]

- The municipal bond market is also large and vital and has experienced significant growth in recent years. By the end of 2016, a total of 31,000 different municipal bond issuers had approximately $3.8 trillion bonds outstanding, up 17 percent from the end of 2006.[7]

Second, the fixed income markets significantly impact other markets, both directly and indirectly. For instance, and perhaps most obvious, is the connection to the interest rate derivatives market. The notional amount of outstanding OTC interest rate derivatives was approximately $416 trillion in the first half of 2017.[8] The gross market value of OTC interest rate derivatives was approximately $8.5 trillion at the end of June 2017.[9]

Third, the corporate and municipal debt markets—which are appropriately the initial focus of this Committee—are particularly significant to retail investors. Individual investors are key participants in these markets, both directly and indirectly through pension funds and other pooled vehicles. I am very pleased that in recent years the Commission has focused on retail investor initiatives in the corporate bond and municipal securities markets.[10] I intend for that focus to continue. To the Committee members: I urge all of you to keep the long term interests of retail investors in mind as you approach your work with the Committee.

Finally, corporate and municipal debt markets are also critical to American companies and our national infrastructure. Companies across the country—both large and small—issue corporate bonds to borrow money to help grow their businesses, fund their operations and create jobs. State and local governments issue bonds to finance a wide range of public projects and provide cash flows for governmental needs, among other things. The size, strength and vibrancy of these markets are part of the reason that our national economy rebounded from the financial crisis more quickly than other countries.

I will close by noting that I look forward to working with this Committee and my fellow Commissioners to ensure that our regulatory approach to these markets is sound and continues to meet the needs of retail investors, as well as American companies and state and local governments.

Thank you.

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[1] My remarks are my own and do not necessarily reflect the views of the Commission or my fellow Commissioners.

[2] I have previously discussed specific issues and questions that the Committee might address in the coming months. *See* Remarks at the Third Annual Conference on the Evolving Structure of the U.S. Treasury Market, SEC Chairman Jay Clayton (Nov. 28, 2017), *available at* https://www.sec.gov/news/speech/clayton-2017-11-28.

[3] *See* A Financial System That Creates Economic Opportunities: Capital Markets, Report to President Donald J. Trump, U.S. Department of the Treasury (Oct. 2017) at 85, *available at* https://www.treasury.gov/press-center/press-releases/Documents/A-Financial-System-Capital-Markets-FINAL-FINAL.pdf.

[4] *See* 2017 SIFMA Factbook at 23-24, 31, *available at* https://www.sifma.org/wp-content/uploads/2016/10/US-Fact-Book-2017-SIFMA.pdf .

[5] *See id. at* 31.

[6] *See id.* at 58.

[7] *See id.* at 31.

[8] *See* Statistical release: OTC derivatives statistics at end June 2017, Bank for International Settlements (Nov. 2, 2017) at 3, *available at* https://www.bis.org/publ/otc_hy1711.pdf .

[9] *Id.*

[10] For example, the Commission approved new FINRA and MSRB rules concerning the disclosure of corporate and municipal bond mark-ups and new MSRB requirements for determining the prevailing market price of a municipal security; and the publication by the MSRB and FINRA of separate, but consistent interpretive guidance on their respective mark-up disclosure rules.