



**SIFMA Fixed Income Market Structure Conference
June 11, 2015**

**Opening Remarks
As prepared for delivery
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Good afternoon. I'm Randy Snook, executive vice president, business policies and practices at SIFMA, and I'd like to welcome you to our Fixed Income Market Structure Conference. Today's event follows an inaugural event we held a year ago. We have had great support from our speakers and from sponsors to continue this event and I would like to extend my sincere thanks to you for that support. Our gold sponsors today are Alogmi Limited and MarketAxess, and our other sponsors are KCG and MTS Markets. I'd also like to thank Interactive Data, a premium associate SIFMA member, and McGraw Hill, a premium associate member and strategic partner, for their continuous support of SIFMA throughout the year. On both the buy and sell side, we are all fully vested in these issues. Fixed income market structure and liquidity are in the news almost every day and are getting more attention and focus from policy makers as well.

It is important for SIFMA to be at the nexus of these issues and to help lead and advance discussions with our members--asset managers and market-makers and intermediaries, as well as with global policy makers. I understand that representatives from the SEC, FINRA and the MSRB are participating today, and I think we may even have some congressional staff as well, and I am pleased and thankful that you all took the time to join us in this discussion.

We acknowledge that there are a range of factors supporting varying views across the marketplace as to the degree of the liquidity issues and their causes. Certainly not all liquidity issues can be attributed to regulation. We need to continue to encourage market-based solutions to enhance liquidity and promote transparency in our capital markets, striking the right balance to achieve both financial stability and efficient markets – both of which are important pillars to our economic strength.

Certainly our discussion of these issues has to be multifaceted. Today's agenda will inform this debate. In that regard GFMA, which is comprised of SIFMA and our sister organizations in Europe and Asia, has partnered with the (IIF) Institute of International Finance and (ISDA) International Swaps and Derivatives Association in engaging PWC to undertake a study on market liquidity. This industry study is designed to give a more comprehensive review of how our markets are functioning and how many aspects of regulatory reform have directly or indirectly impacted liquidity. Importantly, it seeks to do this through the lens of end users such as issuers and investors. There has been much good research published, including some excellent pieces by our members, and this study aims to build on existing work and connect many of the key themes. We have asked Nick Forrest, a Director of Economics at Price Waterhouse Coopers, to lead off our conference today and to share some observations on his research leading up to the forthcoming report.

Since the global financial crisis, regulators have implemented numerous banking regulations that aim to reduce both individual bank risk and systemic risk through additional capital, leverage and liquidity requirements, as well as the various structural reforms. In the US, the Volcker Rule is now at the implementation stage and market participants are increasingly concerned that the full impact on FICC markets has yet to be seen, especially in a more volatile or rising rate environment. Market infrastructure reforms have also been introduced in Europe, such as EMIR and MiFID, which aim to move trading away from over-the-counter markets to centrally cleared exchanges in order to improve transparency in capital markets. And on the global level, proposed standards such as the Fundamental Review of the Trading Book and Net Stable Funding Ratio, are changing the very way firms manage and structure their balance sheets. Many of these regulations have put significant upward pressure on trading costs and we've heard increased anecdotes from end users that liquidity has been impacted already – even with some regulations still in the pipeline. There are also notable signs of liquidity bifurcation, with liquidity directed at the more liquid securities and less liquid securities becoming even less so.

Our concern is that these frictions will have real economic consequences as liquidity costs translate into impaired capital formation and inefficient allocation of capital. It is imperative then that we continue this discussion as stakeholders to ensure that the capital markets can function effectively and efficiently. It is equally imperative that regulators assess the cumulative impacts

on our markets and liquidity before any additional regulations are enacted to ensure that our markets remain strong and vibrant.

The marketplace will necessarily adapt, and market-based solutions will be an important piece of the puzzle. We don't believe that many layers of new regulation for asset managers are the right or reasonable approach to address liquidity concerns. Asset managers are already heavily regulated, and, in our view, layering on more regulation would only compound the liquidity issue rather than help solve it.

In trying to address the liquidity issues, we recognize there is no silver bullet solution, nor is this an area where one size fits all. We see that in the new entrants and the creation of multiple new trading platforms with a range of business models. However, thoughtful discussions are yielding many ideas, and that dialogue and innovation or even experimentation is very positive for the market. Regardless of the specific solutions, there is a common thread: the need for stakeholders to better understand how the market has changed, and the need for us to work together to adapt and to evolve market structure. Following Nick's remarks, our conference will touch on a number of key elements in the overall market structure discussion. We will discuss 1) regulation that is more directly tied to market structure, 2) developments in electronic trading and, importantly, in the last panel, 3) where resources are being directed as market participants adapt.

I know we are all very much looking forward to hearing today's discussion. Nick Forrest has been leading the liquidity project at PWC out of London and was kind enough to fly over for today's conference. His team has been working diligently on the report but we thought it would be a helpful backdrop to today's conference. I thank all of you for joining us and I ask you to now join me in welcoming Nick to share some of his insights.