



SEC INVESTOR ADVISORY COMMITTEE MEETING

OVERVIEW

For questions on the note below, please contact [Kwon Park](#) at (202) 547-3035.

Today, the SEC held a meeting of the Investor Advisory Committee (IAC) to discuss 1) the Market Structure Subcommittee's [recommendations](#) (Recommendation) to enhance information for bond market investors; and 2) the Commission's [concept release](#) on business and financial disclosure required by Regulation S-K.

Please click [here](#) for the agenda.

Key Takeaways

- Committee Members unanimously approved both the recommendations to enhance information for bond market investors and the concept release on Regulation S-K.
- The recommendation deals with disclosing information regarding the transactional costs for purchasing and selling bonds. Moving forward, the Committee seems focused to shift these efforts toward pre-trade transparency.

SUMMARY

Opening Statements

[Chair Mary Jo White](#)

- Enhancing pre-trade price transparency in the municipal and corporate bond markets should remain a very important objective. The Commission staff continues to work through the very challenging issues inherent in such a transformative market structure change as it develops a recommendation for the Commission's consideration.
- On Regulation S-K, we will continue to take the steps that are necessary to ensure that any non-GAAP measures work for investors, not against them.
- The issues identified in the Committee's draft letter about the manner of delivery, layered disclosure, and the technology and data requirements that support delivery are all directly relevant to this challenge.
- The Division of Corporation Finance, as part of its disclosure effectiveness review, has brought together staff from OIT, DERA, and the Office of the Investor Advocate to help develop our thinking and approaches, seeking input from a wide range of experts and users of disclosure.

Commissioner Kara Stein

- Emphasized that while retail investors do not have the money or the resources to write lengthy comment letters and to participate in meetings with SEC Commissioners or staff, this Committee has enabled them to have a voice.

[Commissioner Mike Piwowar](#)

- As successful as these advances in post-trade transparency have been, they did not solve all of the

problems in our bond markets or clear the fog of opacity that hovers around the pricing of many products in these markets.

- The recommendations up for discussion today highlight the fact that there is still more that we can do to increase transparency in our fixed-income markets and improve the experience of those who invest in these products.
- Once rules requiring the disclosure of markups on riskless principal transactions are in place, we will have implemented two of the three pieces of what I have called the “low hanging fruit” for regulatory reform in the fixed-income markets. I hope that accomplishing those goals will allow us to turn more focused attention to the last of the three pieces, the delicate task of adding pre-trade transparency to these markets.
- I look forward to seeing a staff recommendation on fixed-income pre-trade transparency in the near term.

Recommendation to Enhance Information for Bond Market Investors

Darcy Bradbury, D.E. Shaw

- The recommendation directly relates to expanding information about transaction costs for purchasing or selling bonds. While some information is available, mark up/down information when the dealer is acting as the principal is not currently available to investors. Both the MSRB and FINRA are considering proposals in this area.
- The current system is equivalent to buying something online and not knowing the shipping costs associated until after transaction. This will be an important step moving forward and the Commission needs to keep the pressure on MSRB and FINRA.
- Pre-trade transparency is imperative because bonds are not actively traded and people are not familiar with the associated transaction costs. The next step would be to compare and contrast different bonds to get the pricing information pre-transaction.
- Lastly, to improve easy access to price transparency in bond markets, FINRA and MSRB need to create a well-known and well-advertised system.

Discussion

Kurt Schacht: Is there a significant cost involved in trying to get pre-trade information? *Bradbury:* Once the first recommendation is fully implemented, it will not be difficult for brokers to provide the information pre-decision. Currently, brokers are still putting together a system to accurately calculate what the mark ups/downs are. Once the information is in the system, it will be pretty straightforward to provide pre-trade information.

Concept Release on Business and Financial Disclosure Required by Reg S-K

Kurt Schacht, CFA Institute

- The Fast Act directed that the Commission carry out a study of Regulation S-K to simplify disclosure requirements, to provide better information, and to make disclosures more efficient. The Division of Corporation Finance has issued a concept release for the Committee’s input.

Roy Katzovicz, Pershing Square Capital Management

- Legal Entity Identifiers (LEI) would improve the Commission's ability to map entities' and their interconnectedness.
- There was a minority concern expressed that the Commission's disclosure rules or new qualitative guidance could be used to advance political or social issues that those members believe to be better suited for the Congress or other federal authorities. There were also concerns on international taxes.

Discussion

Schacht: On non-GAAP financial information, was there discussion about the GAAP reconciliation of equal or greater prominence disclosure? *Katzovicz:* Yes, a minority view was expressed in footnote 17.

Bradbury: Did the Subcommittee discuss other ways to provide these linkages or proposals? *Katzovicz:* We did not weigh other options in light of how advanced the system is.