The Securities and Exchange Commission is examining what else it can do to encourage more price transparency before trades happen, said Stephen Luparello, the commission’s director of trading and markets, who added he would prefer the regulator had more employees examining fixed-income trading.

Photographer: Brendan Hoffman/Bloomberg

(Bloomberg) -- Large investors including BlackRock Inc. have criticized the structure of the U.S. bond market in recent years. Even the market’s regulator says trading needs to be reviewed better.

“We spend a lot of time on equities, when there is a greater amount of efficiency,” Stephen Luparello, the Securities and Exchange Commission’s director of trading and markets, said Tuesday at a Investment Company Institute conference in New York. “We spend less time on fixed income, when there is a greater amount of inefficiency.”

His remarks come after U.S. companies sold a record $1.65 trillion of debt in 2014, raising the stakes for the regulator. The International Monetary Fund has warned that investors could find it difficult to sell assets such as high-yield bonds and loans once the Federal Reserve begins raising interest rates, which many analysts see as imminent.

The SEC last year outlined a sweeping agenda to improve transparency in the $24 trillion U.S. stock market, including giving investors more information about how their orders are filled. By comparison, the SEC has outsourced many fixed-income reforms to groups such as the Financial Industry Regulatory Authority.
Finra and the Municipal Securities Rulemaking Board have proposed requiring that brokers disclose markups on bonds they hold for no more than one day. While stock brokers must tell investors how much they earn, the same hasn’t been required of bond dealers, which have profited from an opaque market where most trades are completed by telephone.

SEC Focus

SEC Chair Mary Jo White said in June that the regulator wants more public information on privately negotiated prices in the bond markets. The agency is concerned that smaller investors are being penalized, a person with direct knowledge of the inquiry said in March. The SEC is “very focused” on making changes in market structure in the “next year or two,” White said in June.

The SEC is examining what else it can do to encourage more price transparency before trades happen, Luparello said Tuesday, adding that he would prefer the regulator had more employees examining fixed-income trading.

“There is a lot to do there,” he said. “It’s very much on our agenda.”

In September, BlackRock made a third attempt in as many years to draw attention to a corporate bond market that it says is “broken.” The world’s largest asset manager said that low interest rates and muted volatility mask the “extent of the breakage” in the market. The firm’s suggested overhaul includes unseating banks as the primary middlemen in the market and shifting transactions to electronic markets. Another solution is reducing complexity by encouraging corporations to issue debt with more standardized terms.