MarketAxess

T +1 212 813 6000
F +1 212 813 6060
marketaxess.com

55 Hudson Yards 15th Floor
New York, NY 10001
United States of America

January 16, 2024

Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

James P. Sheesley
Assistant Executive Secretary
Attention: Comments/Legal OES (RIN 3064–AF29)
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Chief Counsel's Office
Attention: Comment Processing
Office of the Comptroller of the Currency
400 7th Street SW
Suite 3E–218
Washington, DC 20219

Via E-Mail: regs.comments@federalreserve.gov

Re: Regulatory Capital Rule: Large Banking Organizations and Banking Organizations with Significant Trading Activity: Docket No. R-1813; RIN 7100-AG64

Ladies and Gentlemen:

MarketAxess Holdings Inc. ("MarketAxess") appreciates the opportunity to provide the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System (the "Federal Reserve") and the Federal Deposit Insurance Corporation (together, "the Agencies") with our comments regarding the proposed rule referenced above.[1] MarketAxess operates a leading institutional electronic trading platform for corporate bonds and other fixed income securities. Through its registered broker-dealer, MarketAxess Corporation, and its global affiliates, more than 2,000 firms traded over $7.5 trillion of U.S. investment-grade bonds, U.S. high yield bonds, emerging market debt, Eurobonds, Treasuries, and other fixed income securities on the MarketAxess platform in 2023.

We believe that the increased use of electronic trading platforms over the last 20 years has significantly improved the liquidity of the U.S. corporate bond markets. The trading mechanisms

[1] See 88 Fed. Reg. 64028 (September 18, 2023) (the "Proposed Rule").

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provided by the MarketAxess platform serve to improve efficiency, reduce transaction costs, enhance transparency and fairness, improve risk management practices and encourage participation by new entrants who may otherwise be reluctant to engage in a market where they have less information than their counterparties. Among other things, MarketAxess provides a unique all-to-all trading solution that has proven effective at supplementing the available bank-owned broker-dealer liquidity in the corporate bond markets. Despite the growth of all-to-all trading over the last ten years, bank-owned broker-dealers continue to be the most significant liquidity providers in the U.S. corporate bond markets.

It is generally understood that the appropriate calibration of bank capital requirements involves balancing the safety and soundness of individual banks and improved financial stability against the risk of reducing economic growth, lending and capital markets activities.[2] As noted in the release setting forth the Proposed Rule, higher capital requirements for trading activity could enhance the resilience of bank-owned broker-dealers and, therefore, benefit the provision of market liquidity, especially during stress periods.[3] Conversely, higher capital requirements on trading activity may also reduce banking organizations' incentives to engage in certain market making activities and may impair market liquidity.[4] For example, the increase in bank capital requirements following the 2008 Financial Crisis imposed significant balance sheet constraints on the ability of bank-owned broker-dealers to provide liquidity in the corporate bond markets while, at the same time, U.S. corporate debt outstanding increased from $5.5 trillion in 2008 to $10.6 trillion in 2023.[5]

The Agencies have estimated that capital requirements primarily affecting trading activities would increase substantially under the Proposed Rule, and that the increase in RWA associated with trading activity related to market risk, credit valuation adjustments and attributable operational risk would be around $880 billion for large bank holding companies. We are concerned that this increase may cause bank-owned broker-dealers to reallocate capital away from market-making activity in the corporate bond and other fixed income markets, especially during times of market stress. For example, during the early stages of the COVID-19 economic shock, corporate bond trading volume spiked, trading costs increased dramatically, and credit spreads

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[2] See Identifying an Optimal Level of Capital and Evaluation the Impact of Higher Bank Capital Requirements on U.S. Capital Markets; Securities Industry and Financial Markets Association (May 15, 2023) (available at https://www.sifma.org/resources/news/identifying-an-optimal-level-of-capital-and-evaluating-the-impact-of-higher-bank-capital-requirements-on-us-capital-markets/#_ftn10).

[3] See 88 Fed. Reg. 64028, at 64170 (September 18, 2023)

[4] Id.

[5] This increase has also constrained the ability of dealers to provide liquidity in the U.S. Treasury security markets and has coincided with a dramatic increase in the amount of outstanding U.S. government debt. For example, outstanding marketable Treasury securities stood at $25 trillion as of August 2023, which represents a 743% increase since 2000. This trend is likely to continue, with the U.S. Congressional Budget Office estimating that the total amount of Treasury securities outstanding will rise from 98% of U.S. GDP in 2023 to 107% in 2029. See https://www.sifma.org/resources/news/revisiting-us-treasury-market-capacity-and-resiliency-part-i/ (December 14, 2023).

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widened, thus limiting the capacity of dealers to take on more inventory.[6] It was only after the Federal Reserve provided certain capital relief to regulated banks and introduced the Primary and Secondary Market Corporate Credit Facilities (in which MarketAxess was an Eligible Seller) that dealers began to accommodate customer demand by absorbing more inventory.

It is important to note that liquidity in the corporate bond markets varies significantly across different securities as many securities trade episodically. In this regard, even the most liquid U.S. investment grade corporate bonds only average approximately 50 trades per day across the entire market. Liquidity in high-yield corporate bonds is even more constrained, and it is not unusual for there to be only a few market-makers that are willing to respond to requests-for-quote for these securities on any trading day. The fragility of liquidity in the corporate bond market is reflected in the fact that the available liquidity on the MarketAxess platform decreased by 60% at the onset of the COVID-19 pandemic in March 2020 and by 46% in March 2023 in connection with the regional banking crisis.[7] During these stressed market environments, all-to-all liquidity on electronic trading venues supports market resiliency but cannot fully replace bank-owned broker-dealer liquidity.

As a result, we believe that it is critical for the Agencies to calibrate bank capital requirements in a manner that does not disincentivize bank-owned broker-dealers from providing liquidity in the corporate bond and Treasury markets. Otherwise, the push for enhanced market stability could inadvertently reverse the progress that electronic trading platforms have made in enhancing liquidity formation in the corporate bond markets over the last 20 years. Accordingly, we request that the Agencies carefully consider the likely impact that the Proposed Rule will have on the ability of bank-owned broker-dealers to provide liquidity in the market for corporate bonds and other fixed income securities when finalizing this rule.

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MarketAxess appreciates the opportunity to comment on the Proposed Rule. We would be happy to discuss our comments with the Agencies or their staff. If you have any comments or questions concerning this letter, please feel free to contact us.

Sincerely,

Richard M. McVey

Executive Chairman, MarketAxess

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[6] See U.S. Credit Markets Interconnectedness and the Effects of the COVID-19 Economic Shock, Division of Economic Analysis, U.S. Securities and Exchange Commission (October 2020) (US Credit Markets COVID-19 Report (sec.gov))

[7] As measured by the average number of price responses received by MarketAxess participants on requests for quotes for corporate bond trades in excess of $1 million notional.