

April 11, 2022

Vanessa A. Countryman
Secretary
Securities and Exchange Commission
100 F Street NE, Washington DC 20549

Via E-Mail: rule-comments@sec.gov

Re: File No. S7-05-22; Shortening the Securities Transaction Settlement Cycle

Dear Ms. Countryman:

MarketAxess Holdings Inc. (“MarketAxess”)¹ is grateful for the opportunity to provide the Securities and Exchange Commission (“SEC” or “Commission”) with our comments regarding the above-referenced proposed rule change (“Proposal”).

In 2021, MarketAxess was the broker-dealer that reported the most corporate bonds trades to TRACE. As such, MarketAxess is generally in favor of shortening the standard settlement cycle for most bond transactions from two business days after the trade date (T+2) to one business day after the trade date (T+1). The Proposal would allow us and other broker-dealers to more efficiently utilize our capital and decrease our settlement and credit risk on unsettled trades. For example, the Proposal would allow us to reduce the overall capital that we have to post for margin. We also believe there will be benefits from aligning the settlement and funding conventions of the credit and equity markets with those of the U.S. Treasury and Agency markets². Despite these benefits, however, MarketAxess has serious reservations regarding the impact the proposed amendments to Rule 15c6-1(a) and Rule 15c6-2 will have on cross border trading unless, and until, other global financial markets also shorten their settlement cycle. We also believe the Commission should take a different approach to achieving same-day allocation, confirmation and affirmation.

I. In order to avoid increased operational costs and settlement risks associated with cross border transactions, the Commission should work with international regulators to coordinate a move to T+1 settlement on a global basis.

In the post-financial crisis years, liquidity has remained a persistent concern for credit market participants as regulators raised banks’ capital requirements and adopted other measures that

¹ MarketAxess operates the leading, institutional electronic trading platform for corporate bonds. Through its registered broker-dealer, MarketAxess Corporation, and its global affiliates, more than 1,900 firms traded a record \$6.8 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 2021. MarketAxess’ Open Trading™ marketplace is regarded as the premier all-to-all trading solution in the global credit markets, creating a unique liquidity pool for the broad range of credit market participants.

² In response to Question 37, MarketAxess believes the Commission should strongly consider including municipal securities in Rule 15c6-2. Our experience is that municipal securities are just as capable of settling on a T+1 basis as corporate bonds and the shortened settlement cycle would produce similar benefits.

prompted many dealers to reduce market-making activities even as the buy side's bond holdings have grown rapidly. In this environment, all-to-all trading, led by MarketAxess' Open Trading functionality, has emerged as one solution to the post-crisis liquidity problem. Open Trading enhances our clients' ability to obtain a competitive price by allowing all of our global system participants to interact with each other, thereby increasing the potential sources of liquidity available for each participant, as well as the likelihood of receiving a competitive price response.

The global nature of the liquidity pool created by MarketAxess is valuable to market participants in the relatively illiquid credit markets in which we operate. Institutional investors in Europe may seek liquidity provided by U.S. broker-dealers in U.S. high-grade bonds, or U.S. participants may use Open Trading to anonymously source additional liquidity from European dealers. For most cross-border trades, one of our local regulated subsidiaries acts as counterparty to the foreign participant, while our U.S. broker-dealer faces the U.S. participant, resulting in matching back-to-back trades. Our subsidiaries will also process an affiliate back-to-back trade so that the bonds can be delivered cross-border. Under the T+2 regime that currently prevails in the U.S., Europe and Asia, these back-to-back cross border trades can generally settle by the intended settlement date.

If, however, the U.S. shortens the settlement cycle to T+1 while other major global financial centres remain on T+2, there will be increased operational cost and significant settlement risks associated with multi-leg cross border transactions. We expect that mismatched settlement cycles would result in increased financing costs on transactions in which the U.S. participant is selling to a cross-border participant because we will be forced to receive (and pay for) a securities position on T+1 for the U.S. leg, but generally be unable to onward deliver the position on the foreign leg until T+2. In this case, we would have to fund the position until the next settlement cycle. Similarly, we expect that there will be a significant number of settlement fails when the U.S. participant is buying and the cross-border participant is unable to deliver the bonds until T+2. We believe these cross-border challenges are exacerbated by the matched-principal trading model in which there are back-to-back trades (with an affiliate leg in the middle), but will also be present in direct (non-intermediated) settlement models.

MarketAxess encourages the Commission to work with international regulators to coordinate a move to T+1 settlement on a global basis if possible. If the Proposal is adopted and other financial markets do not move in lockstep, the increase in financing costs and settlement fails in connection with cross-border transactions may force broker-dealers to decrease or cease offering cross-border services to their clients. Any decrease or cessation of cross-border trading ultimately will reduce liquidity for U.S. investors.

II. The Commission should directly regulate the allocation, confirmation and affirmation process rather than putting broker-dealers in the difficult position of trying to regulate the conduct of their customers through commercial contracts.

The proposed Rule 15c6-2 generally requires that, where parties have agreed to engage in an allocation, confirmation, or affirmation process (the "Post-Trade Processes"), a broker-dealer would be prohibited from executing the trade unless such broker-dealer has entered into a written agreement with the customer that requires the Post-Trade Processes be completed as soon as technologically practicable and no later than the end of the day on trade date. While MarketAxess agrees that same-day allocation, confirmation and affirmation is a prerequisite to achieving a shorter settlement cycle in compliance with Rule 15c6-1(a), we disagree that broker-dealers are best positioned to ensure that customers adhere to the required time frame.

The Proposed Rule 15c6-2 would require a massive repapering exercise whereby every broker or dealer would have to enter into a new or amended written agreement with virtually every one of their institutional customers and/or their agents. These written agreements would need to provide that the Post-Trade Processes be completed as soon as technologically practicable and no later than the end of the day on trade date. The Commission's Proposal does not specify what should happen if the customer breaches the written agreement. Ultimately, broker-dealers are not regulators and cannot force a customer to upgrade their technology or processes. In the competitive market in which we operate, a broker-dealer's only remedy is to cease providing services to such a customer, forcing the customer to use a different broker-dealer. A more effective solution would be for the Commission to simply require that all broker-dealers and investment advisors adopt policies and procedures reasonably designed to complete the Post-Trade Processes in the required time frame. Not only will this avoid a massive repapering exercise on a global basis, but it would not put broker-dealers in the difficult position of trying to regulate the conduct of their customers through commercial contracts.

If you have any questions concerning this letter or our responses to the questions, please feel free to contact us. We would welcome the opportunity to discuss these issues further with the Commission.

Yours sincerely,



Scott Pintoff
General Counsel, MarketAxess

cc: The Honorable Gary Gensler, Chair
The Honorable Allison Herren Lee, Commissioner
The Honorable Hester M. Peirce, Commissioner
The Honorable Caroline A. Crenshaw, Commissioner