

SYSTEMIC RISK BAROMETER 2019 RISK FORECAST

First launched in 2013, the DTCC Systemic Risk Barometer Survey serves as an annual pulse check to monitor existing and emerging risks that may impact the safety, resiliency and stability of the global financial system. It is designed to help identify trends and foster industry-wide dialogue on potential threats to financial stability. The survey is a key component of DTCC's thought leadership with respect to systemic risk. In addition to promoting transparency, DTCC also uses these survey results to support its member outreach efforts and to benchmark its risk management initiatives versus the concerns highlighted by respondents.

KEY FINDINGS

NEARLY HALF OF RESPONDENTS CITED SIGNIFICANT CONCERNS ATTRIBUTED TO BREXIT

- Brexit concerns surged among respondents as the March 2019 UK exit date from the EU rapidly approaches, with a significant number of open questions and known variables still to be resolved.
- Brexit was the most significant percentage advancer (+11%) and #3 overall risk for the survey.

NEW RISKS ADDED FOR EXCESSIVE GLOBAL DEBT, INFLATION, STRETCHED ASSET VALUATIONS AND TRADE TENSIONS

- Excessive Global Debt, which was included as a risk category for the first time, was cited by 28% of respondents within their Top 5 risks, which ranked it as the #4 overall risk within the survey.

FINTECH AND CONCERNS OF AN ECONOMIC SLOWDOWN WERE AMONG THE LARGEST PERCENTAGE ADVANCERS

- Concerns on disruption and headwinds to economic growth across all geographies, European Economic Slowdown, US Economic Slowdown and Asia Economic Slowdown, were pervasive amongst respondents.
- Fintech was frequently cited by respondents as these new technologies continue to evolve and increase in both adoption and their levels of interaction across the financial ecosystem.

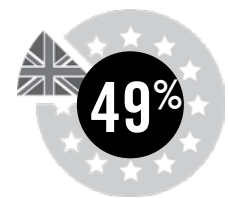
CYBER RISK REMAINS THE TOP RISK OVERALL, DESPITE SOME PULLBACK

- Cyber Risk was ranked within the Top 5 Risks by 69% of respondents, which represents a decrease from last survey's record high of 78%.

PERSPECTIVES ON PROGRESS AT THE 10 YEAR ANNIVERSARY OF THE 2008 FINANCIAL CRISIS

- Respondents were asked to provide their perspectives on what's improved, what's stayed the same and what's gotten worse, in conjunction with the ten year anniversary of the 2008 financial crisis.
- In the aggregate, responses were generally positive and cited that the actions following the 2008 financial crisis have improved resilience and stability – although there have been a number of unintended consequences that emerged and revisions that were (are still) required.
- While no consensus was reached among respondents, the overarching theme that emerged is that additional work and enhancements are still required and the importance of staying vigilant remains paramount.

TOP SYSTEMIC RISKS



BREXIT

49% OF RESPONDENTS INCLUDED BREXIT AS A TOP 5 RISK



EXCESSIVE GLOBAL DEBT

28% OF RESPONDENTS RANKED EXCESSIVE GLOBAL DEBT AS A TOP 5 RISK



CYBER RISK

37% OF RESPONDENTS CITED CYBER RISK AS THE SINGLE BIGGEST THREAT

HOW IS DTCC RESPONDING TO THE TOP RISKS?

DTCC EXECUTIVES PROVIDE THEIR PERSPECTIVES ON THE TOP RISKS IDENTIFIED BY DTCC'S SYSTEMIC RISK BAROMETER SURVEY

STEPHEN SCHARF

DTCC Managing Director and Chief Security Officer, on:

Cyber Risk



“The increase in concern around fintech’s impact on systemic risk demonstrates a growing awareness of the potential risk and highlights the need to evaluate both risks and rewards associated with fintech initiatives. DTCC embraces the promise that fintech innovations hold to further mitigate risk and reduce post-trade costs. But as the industry continues to adopt fintech innovations, like blockchain, AI and cloud solutions, we must ensure that those innovations do not jeopardize the safety and security of the current global financial marketplace.”

ANDREW DOUGLAS

CEO, DDRL and Managing Director, Government Relations EMEA / Asia, on:

Brexit



“As we approach the March 2019 date, firms remain concerned about a number of factors associated with Brexit. These include uncertainty about the nature of the exit agreement and subsequent trade agreements, uncertainty as to whether there will be a transition period or not and consequently uncertainty about the impact that Brexit will have on both the UK and the EU economies. We see firms actioning their plans to deal with Brexit without a clear understanding of what a post-Brexit Europe will actually look like.”

MICHAEL LEIBROCK

DTCC Managing Director, Chief Systemic Risk Officer and Head of Counterparty Credit Risk, on:

Excessive Global Debt



“The issue of excessive global debt is one that has been widely discussed over the last several years, but may be reaching an inflection point as central banks across the globe continue monetary policy tightening campaigns, suspend asset purchase programs and initiate/accelerate efforts to unwind and liquidate their balance sheet holdings. The Fed’s monetary policy tightening campaign may have a pronounced effect on countries with debt that is benchmarked against or denominated in US dollars.”

MARK WETJEN

DTCC Managing Director and Head of Global Public Policy, on:

Geopolitical Risk



“The emergence of new and significant geopolitical flash points is only increasing the level of risk across markets and concerns among financial service professionals. As tension continues to materialize, there is an increasing possibility of spikes, fluctuations and/or dislocations in markets that react to these events.”

WHAT DO THESE RESULTS MEAN FOR THE FINANCIAL SERVICES INDUSTRY AND DTCC?

ANDREW GRAY Managing Director, Group Chief Risk Officer, on:

A Look Ahead / The Next Crisis will be Different



“As we have recently passed the 10 year anniversary of the 2008 financial crisis, this survey provides a good opportunity to reflect on some of the behavioral, structural and regulatory changes that materialized in the ten years post crisis to strengthen the financial system. While significant progress has been made to promote stability across the financial system, new risks and challenges have also emerged. History has taught us that the next crisis is unlikely to look exactly like the previous crisis, could be fundamentally different than what is presently being envisioned and could potentially be triggered by new risks that didn’t exist a decade ago or don’t presently exist today. DTCC’s ongoing commitment to thought leadership and outreach campaigns reinforce the importance of continued information sharing and transparency as well as the criticality of staying vigilant and prepared.”

CYBER RISK HAS CONSISTENTLY BEEN CITED AS THE TOP RISK SINCE DTCC LAUNCHED ITS SYSTEMIC RISK BAROMETER SURVEY

HOWEVER, THE REMAINDER OF THE TOP 5 RISKS HAVE FLUCTUATED WITH GEOPOLITICAL RISK, BREXIT AND IMPACT OF NEW REGULATIONS AMONG THE MOST FREQUENTLY CITED RISKS.

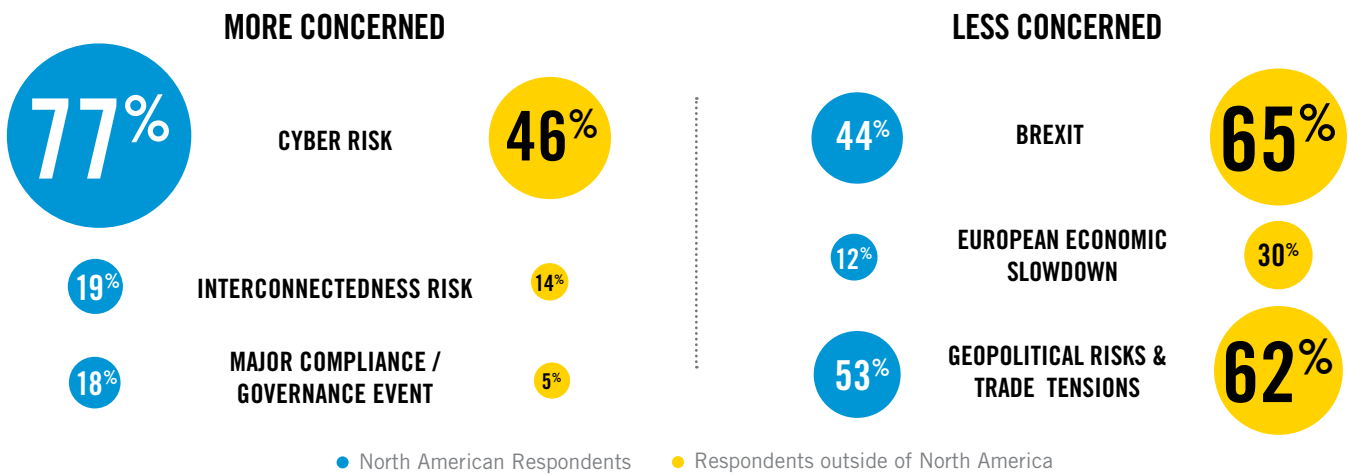
HISTORICAL LOOK BACK ON TOP 5 RISKS



Risk size is proportionate to level of response

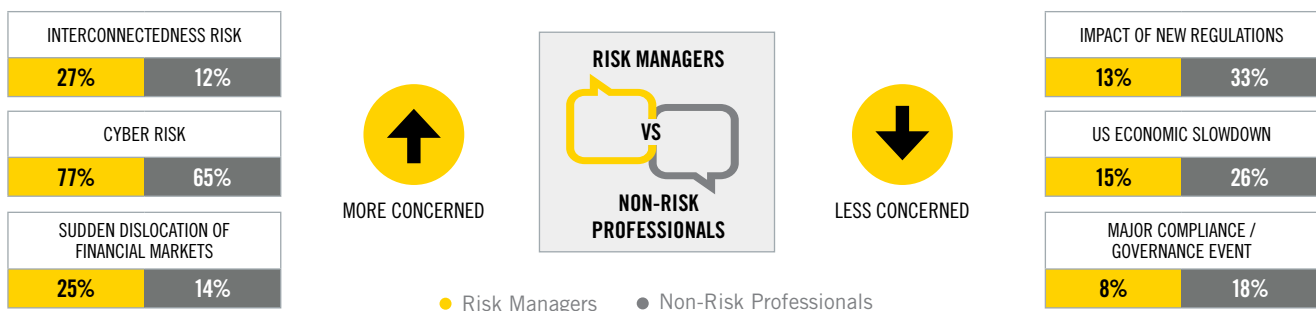
REGIONAL DIFFERENCES

NORTH AMERICAN (NA) RESPONDENTS ARE MORE CONCERNED ABOUT CYBER RISK, INTERCONNECTEDNESS RISK AND A MAJOR COMPLIANCE / GOVERNANCE EVENT WHILE **NON-NA RESPONDENTS** ARE MORE CONCERNED WITH BREXIT, EUROPEAN ECONOMIC SLOWDOWN AND GEOPOLITICAL RISK & TRADE TENSIONS.



FUNCTIONAL DIFFERENCES

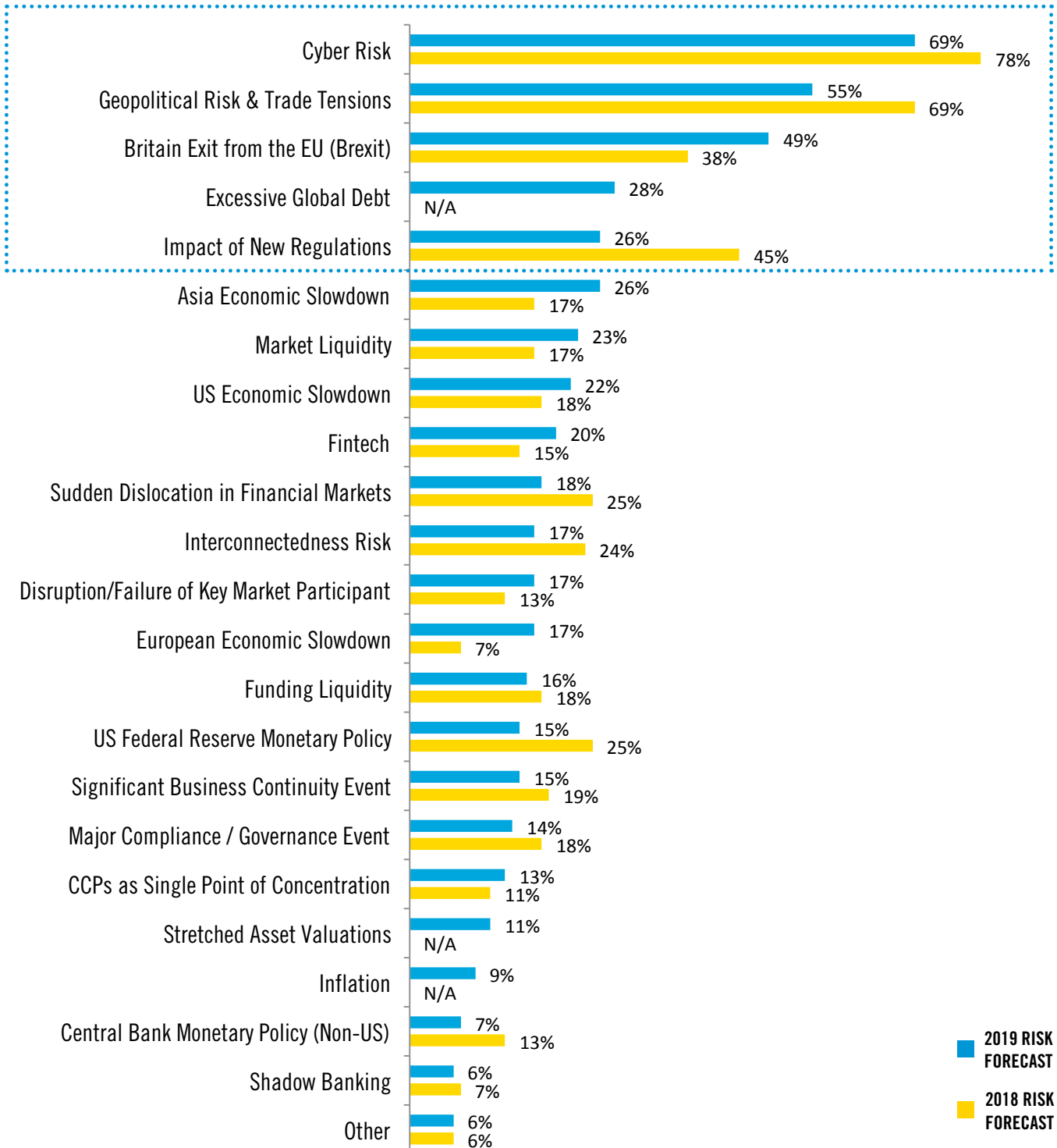
RISK MANAGERS ARE MORE CONCERNED ABOUT INTERCONNECTEDNESS RISK, CYBER RISK AND A SUDDEN DISLOCATION IN FINANCIAL MARKETS, WHILE **NON-RISK PROFESSIONALS** ARE MORE FOCUSED ON THE IMPACT OF NEW REGULATIONS, A US ECONOMIC SLOWDOWN AND A MAJOR COMPLIANCE / GOVERNANCE EVENT.



TOP 5 RISKS IDENTIFIED

When asked to identify the top 5 systemic risks to the broader economy, most respondents cited Cyber Risk, Geopolitical Risks & Trade Tensions, Britain Exit from the EU (Brexit), Excessive Global Debt and Impact of New Regulations. The results below reflect changes compared to the 2018 Risk Forecast.

RISK TO BROADER ECONOMY



*Excessive Global Debt, Inflation, and Stretched Asset Valuations were added as new risk categories for the 2019 Risk Forecast, with Deflation/Disinflation, Greece Exiting the Eurozone and Search for Yield removed as risk categories. Geopolitical Risk category was broadened to Geopolitical Risk & Trade Tensions.