

**Remarks by William Aimetti, senior advisor, The Depository Trust & Clearing Corporation
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Insights into Leadership of Market Infrastructures**

Buenos días a todos. Good morning, everyone.

First, let me thank Omgeo, which is a joint venture between DTCC and Thomson Reuters, for hosting our morning coffee, as well as all the other sponsors supporting this conference. I especially want to thank Juan Carlos and his team for organizing this event.

What a pleasure to be here today! Buenos Aires in the spring – that’s always a pleasant thing, especially when it gets me out of New York just as the cold of winter begins to arrive. In fact, on the last Saturday in October, many of us in the Northeast U.S. experienced the earliest snow in our history. It resulted in downed power lines and no electricity for over a million people, as well as the closing of many schools for up to a week.

It has been a year of strange weather from around the world...with earthquakes in Chile, Haiti, Peru, Japan, Turkey and even the mid-west United States, not to mention relentless rains in Thailand.

So it’s a delight, despite the weather, to see so many of my industry colleagues from throughout the Americas and around the world. Since I retired from DTCC as president and chief operating officer earlier this year, I really miss the interactions with business colleagues like you. It’s certainly an honor to be here to talk about leadership and the kind of vision that’s needed to build today’s market infrastructures. As some of you know from experience, it’s a job that requires the imagination of an architect, the tact of a diplomat and, sometimes, the courage of a warrior like Colocolo, who fought relentlessly and bravely against the people he saw as invaders.

Let me add that, in my judgment, thinking about this leadership challenge is not something you have the leisure to delay. Challenges originate from changes in regulations, technology advancements, governmental policy changes, customer needs, new investment opportunities and so on and so on. The list of reasons for change will continue to grow in our ever-changing world.

As a result, you’re already facing the challenge of leadership. Rivers of investment capital have been flowing into your markets. Last year alone, Latin America pulled in more capital than all the cross-border flows that went into China, Russia and India combined. That is a startling fact. You work in a global hotspot. Caliente, my friends. And in response, you’ve been building alliances and agreements that not only stitch together parts of your infrastructure, but extend to the global marketplace.

Just amongst the 26 members of ACSDA itself there’s a lot of tango and salsa and rumba going on. (Not as good as last night’s show, but still amazing!) Every few months we hear about new cross-border alliances and agreements and arrangements. In addition, we see the expanding web of connections you are building with clearing houses, depositories, exchanges and OTC marketplaces throughout the world.

Because you are in the thick of it, you understand how much your market infrastructures are changing...and need to change. The reality is that you are moving in positions of leadership all across our industry. So your suggestion that we talk this morning about leadership and infrastructure is timely...and important.

Let's start by looking first at how well infrastructure organizations are learning to work with each other. Then let's speculate a little on the longer-range possibilities, on where you want to go and what might get you there. And finally, let's talk about what it will take to meet the challenges of the future and the leadership needed to overcome them. As the market infrastructures you have built are asked to provide more and more services for an increasingly global industry, the more critical it becomes for you to have a "vision" of where you want to go. And as you develop that vision, you have to start answering a number of hard questions such as:

- How widely do you need to partner with other infrastructure organizations in order to serve the regional and global markets that increasingly make up your customer base?
- What level of technology and capacity will you need to service new instruments and higher trading volumes?
- How do you structure your business to service both your longstanding local listings and your regional and global listings – and help the exchanges build liquidity?
- How do you harness your customer base to build momentum for new agreements and partnerships that will attract additional inflows of foreign investment?
- How can you and your partners standardize your operations to achieve economies of scale, tighter risk control and consistent revenue growth?
- How do you pick winners and losers among increasingly competitive international clearinghouses? And...
- How will you meet the new CPSS-IOSCO global standards for operational reliability?

The list of questions can go on and on. It's a very big challenge. Clearly, it will take vision and leadership.

Today's industry

Let's begin by stating the obvious: a major priority for your industry today is that exchanges, central depositories and clearing houses need expanded links. Your economies are growing...and investors want to be part of that growth. Even amongst the ACSDA economies that aren't expanding as fast as others, the ability to take in outside capital through your markets will always be critical. You will need to be in a position to handle everything from traditional local and regional listings...to dual listings of global shares...to new instruments including derivatives and exchange traded funds. Once you begin clearing these trades, of course, you also need to link your CSD to local, regional and global custodians and other CSDs in order to settle the trades.

An example of all this that comes to my mind – because I am familiar with it from DTCC's investment in it – is the extraordinary outreach program that DCV in Chile has undertaken. Let me explain. DCV has a direct account with us at DTCC to handle all its cross-border transactions in securities eligible for all its operations in the U.S. market as well as for low-cost processing for mutual fund transactions. It maintains a direct account with Euroclear to cover its cross-border domestic debt transactions for European investors. It works with Deutsche Bank to cover its global exchange-traded funds business. It works with Citibank to cover its operations elsewhere in Latin America as well as in Asia. And, and it works with Deceval in Columbia and Cavali in Peru to handle the cross-listing business created through MILA, and finally, it works with Omgeo on institutional trade matching.

Like DCV, you have also created numerous alliances to support your markets. .

I understand that the next panel this morning will discuss cross-listing, partnerships and alliances in ACSDA markets... so I will not detail all the agreements and coalitions that have been built...even if I could keep track of them all (which I can't). The reality, which you know because you're helping to drive it, is that the growth of alliances and agreements has been breathtaking...and will continue to expand.

Along with this growth has come an expansion of alliances involving technology and training. Again, let me cite an agreement between DCV in Chile and DTCC in the United States. As we heard yesterday, DTCC now hosts DCV's primary back-up data center and technology at its remote data centers in North America. As you can guess, part of the impetus for this agreement grew out of the severe earthquake Chile experienced early last year. DCV wanted a back-up site that is both safe and distant...with sufficient capacity to handle high-frequency trading volumes and other aspects of today's markets. We were able to fit the bill. Other factors, such as cost and capacity, also played a role, and the result is another example of the very tangible results that cross-border alliances can achieve. A similar strategy will be implemented by Cavali and, I anticipate, by others in the region.

Global Industry Initiatives that can Impact Alliances

Meanwhile, in addition to the economic forces at work in much of Latin America, a number of global industry initiatives currently under way to establish "uniform standards" are also likely to make it easier to build cross-border alliances.

One that I mentioned in passing earlier is the CPSS-IOSCO Consultative Report. As you may know, it outlines 24 separate benchmarks for how well CCPs, CSDs, payment systems and trade repositories should function. The idea, of course, is that if your organization meets the appropriate benchmarks, then you are a trustworthy clearing and settlement business...and other infrastructure organizations can rely on your ability to get a securities processing job done within a specific risk and time framework. It's not unlike the ISO standards that various other industries...from manufacturing to shipping to technology...now use throughout much of the world. At the least, it makes performing "due diligence" on a prospective alliance partner much easier. It should also make it easier for alliances to pass regulatory muster, because now regulators can look at a performance report card.

A second international initiative in the works involves global corporate actions. There's a children's story in the U.S which says that "if you give a mouse a cookie, the mouse will then want a glass of milk." Well, the same condition applies to the securities industry. If you give me a place in your depository for my securities, eventually I will need to have those securities serviced. In other words, expanding depository inventories to include non-domestic issues inevitably means having to handle more global corporate actions. We all know the potential for error and problems and extra cost that these activities can create.

As you may have heard, however, there's a push under way to change global corporate actions announcement processing in a fundamental way. If you attended the ACSDA meeting in Mexico City, you know this was discussed. The goal is to increase accuracy while lowering risks and costs. An obvious way to achieve that goal is to improve transparency and communication between issuers and investors by putting corporate actions announcements into standardized eXtensible Business Reporting Language – or XBRL. A number of Latin American-based companies already use XBRL for their accounting and regulatory reporting.

DTCC has been working with SWIFT for nearly two years now to create international standards that all issuers can follow. We anticipate the result will be the electronic capture of data directly from issuers or underwriters using the standardized XBRL format...in other words, straight-through processing with data not subject to interpretation. In effect, we'll all be speaking the same language, including the lawyers who draw up these documents. We think this will be a quiet but effective revolution in our business, and the sooner we can get broad acceptance, the better.

The third global initiative on standardization involves "legal entity identifiers," which is essentially an effort to assign a specific number to all the companies involved in securities transactions, and to provide background data on them as well. Martin Paladino touched on this idea yesterday. Think of it as an ISIN or CUSIP system for companies. Every legal entity would have its own unique number, which, in turn, would be linked to specific reference data and can be used by all of us to identify the legal entity.

The idea came up as a response to a key issue the industry faces, which is the need to recognize and identify our counterparties. You're likely to know the firms whose trades you routinely clear and settle, but you may not know as much about the counterparties to those trades in the context of an alliance with another clearing house or depository. The use of a legal entity identifier will help you overcome that problem.

Regulators in the U.S. and elsewhere in the world have endorsed this idea, and DTCC will once again be working with SWIFT to develop a global numbering and identification system and then act as the repository. Eventually, this effort will work its way to you as well, because we will need the records and knowledge of local numbering authorities to get the job done and to maintain the system.

As you recognize, economic forces are also at play in shaping your markets. The more that European and U.S. economies mature and economic growth slows, the more that pension funds, mutual funds and other investors will begin to diversify their portfolios outside their domestic markets. Last year, for instance, U.S. mutual funds had only about 16 percent of their assets invested in equity and bond markets outside the United States, even though U.S. GDP grew by just 2.8 percent. I don't know what this year's ratio is, but I expect it will have grown larger. Investors are demanding higher returns, and the maturation of many non-U.S. markets is making them look far more attractive.

The other attraction of your markets is that they also reflect not just growing but increasingly diverse and sophisticated economies. You have strong and competitive agricultural and energy sectors. You have internationally recognized manufacturing and mining industries. You have a growing record of globally respected research and innovation. And your financial markets follow international standards and offer investor safeguards. That's a good recipe for bringing in more investment capital. We heard many times yesterday that you avoided the shock of the 2008 financial meltdown.

Thinking about the future

So in many ways, this is an exciting time for you. I'm sure you have all been giving a lot of thought to where you're headed, and to what the future might hold for the structure of your markets and the infrastructure you maintain to support them. None of us goes into the future totally blind. We plan for it. We have some idea what to expect, although we don't always have the imagination to explore alternatives. But we can try raising some questions. For example, what improvements or changes can technology bring to your markets? Earlier, I cited a children's story. Now let me cite an old U.S. movie about baseball called "Field of Dreams," where the refrain was, "If you build it, they will come." Not always...but often.

That's exactly the experience BF&M Bovespa had recently when they finished upgrading their trading systems to accommodate high-frequency trading. Even though they didn't yet have a lot of high-frequency trading, they wanted to be ready. And then what happened? Because they could accommodate it, high-frequency trading took off on its own. In other words, a technology improvement spurred increased liquidity in their markets. If you build it, they will come. So the question is...what other things can you build or imagine that will make business follow?

Can you imagine a time when you might experience the pace of consolidation of exchanges that is now under way between European and U.S. markets? Is there any reason that at some point you won't see many of these same pressures driving exchanges together across your markets – and with other global organizations? I firmly believe you will see it. It is coming. As Bruce also mentioned yesterday, Ian recently experienced this when the LSE attempted to buy the TMX.

And if the exchanges consolidate, what happens to the infrastructures that support them, especially those that are vertically aligned with the exchanges? Or what happens if the industry decides that a more consolidated marketplace requires a more consolidated clearing and settlement system because it will bring significant cost savings? Although what took place in U.S. markets years ago may not be a good guide to what could happen in other ACSDA markets, there are some lessons that I think are worth examining. Once the U.S. Congress ruled back in the 1970s

that investors in U.S. markets should be able to trade on any exchange they wanted, and clear their trades through any clearinghouse they wanted, the original market infrastructure slowly began to unravel as costs to operate became excessive.

As is the practice in much of the rest of the world, most of the U.S. exchanges back then maintained their own clearing organizations and depositories. The Boston Exchange had a clearing house and depository. The Philadelphia Exchange had a clearing house and depository. The New York Stock Exchange had a clearing house, the Stock Clearing Corporation. The Pacific Exchange had a clearing house. And so on.

Eventually, however, financial intermediaries began to complain about the costs of having to maintain collateral at... and connectivity with...all these separate clearing houses. Over time, more and more firms began to centralize their clearing activity with NSCC, a company now within the DTCC family. Not only did this help them reduce their margin costs, but ultimately volumes grew to the point where we could achieve economies of scale and drive down clearing and settlement costs sharply.

Could this occur in some of ACSDA's markets? Well, it has already happened within major markets such as Brazil. Whether it can occur on a large scale across markets depends on regulatory and policy decisions in more than one marketplace. Over time, however, economic forces will also be at play, prompting policy makers to confront cross-border issues. For example, it's hard to imagine even a short time ago that regulatory authorities in Germany and the U.S. would have approved the merger of their principal equity markets. Today, as the economics of the markets change, they have indeed approved the merger. NYSE-Euronext will merge with Deutsche Borse. And what's interesting to me is that the merger is actually driven more by the trading of other instruments such as derivatives than by equity trading.

In fact, one of the more exciting market creations in the last few years is a company in the U.S. called New York Portfolio Clearing. It is driven by the interplay between the cash and futures markets for U.S. government securities. Many of you probably know that DTCC created this company together with NYSE-Liffe. What the company offers is the opportunity for trading firms to combine their margin for the cash market and futures market trades in the same account. Because these markets tend to offset each other, the result is a much lower margin requirement...as much as US\$ 5 billion a day in collateral. What this tells us is that, even in a mature market like the U.S., there is ample room for innovation.

I'm sure many of you have thought about what might possibly lie ahead for your markets. You don't need the liberating effects of a liter of pisco to imagine a future for your business and the industry that's far different from what you have today. But it does raise the bigger question: how do you get from here to there? How do you turn this future you can imagine into reality?

That's where leadership comes in. That's what your markets, your investors, your participants, your employees and your regulators are all looking for.

Leadership is the Key

Based on my experience, I divide leadership roughly into three components. The first part is vision – knowing where you want to go. That's why I have been talking about what you might see ahead for your businesses and your industry.

The second piece I call structure. You can't get where you want to go if you don't have the right structure, organization or vehicle to get you there. Right now, structures within ACSDA are somewhat fluid. And that's good. You are building alliances and changing your emphasis to correspond to what's happening in the markets and the economy. But you have to have some structure in order to work toward your vision. I doubt whether ACSDA is the right forum to state the vision or create the structure, but it certainly should attempt to influence both.

The third component is the capacity and ability to develop plans and implement them. If you have a vision, if you have a structure, then you need to put things in motion to get where you want to be. You need to bring the vision to life, and that's probably the hardest part of all.

There's undoubtedly one other quality that leaders require – and that's the ability to pick yourself up when you've been knocked back, because believe me, you won't get where you want to go without a few setbacks. A person who understood this only too well was one of South America's revolutionary heroes: Simon Bolivar. "To do something right," he said, "it must be done twice. The first time instructs the second."

Vision is a challenge I leave to you. You know far more than I what you'd like to accomplish in and beyond your markets...and what your customers are looking to have you do. The only advice I offer here is that you "think big".

Structure is a component I can talk about. A key point to remember is that capital flows to growing markets like yours because it can earn higher returns. But it also flows more quickly into the markets that are the most efficient and offer the most effective and risk-conscious infrastructure. Creating such markets is a responsibility you share with your regulators. So by all means, work with them and explain your vision and encourage them to build legal structures that will meet their needs, your needs and the needs of the growing number of investors looking to come into your markets.

Also, don't forget to harness the persuasive power of your customers as well as others in the financial markets. During the many years it took to consolidate the market infrastructure in the United States, some of the most vocal proponents of change were banks, brokers and other businesses that were not directly members of DTCC.

The final component in my trinity of leadership is really "execution". When you have a vision, and you have begun to mold a structure, then develop a plan and go to work to make it happen. The other thing, as Mr. Bolivar pointed out, is to learn from your mistakes. If you can reach your vision without making any mistakes, then you probably weren't thinking big enough.

Conclusion

In conclusion, whatever you hope to achieve, and however well you achieve it, I can only say that you are working among some of the most exciting markets in some of the most exciting economies in the world. There's a lot of room for experimentation, a lot of room for growth, and a lot of room to reduce costs and risks while expanding the services you offer your members and customers, including all those additional customers you likely will be serving through expanded networks and imaginative infrastructure tools.

It actually might not be a bad idea for the next ACSDA meeting to have discussions on a vision for the region, a structure to get you there and the obstacles that will have to be overcome. I'll leave that to your executive committee. I, however, am a firm believer that you should try to take the lead in shaping your own destiny instead of leaving it to others who might not see things your way. I am sure that this leadership philosophy drove the success of both Colocolo and Simon Bolivar in their great endeavors in Latin America. They took the lead with a vision and a plan, and they executed it, remaining focused and flexible in their journeys.

I hope you succeed in your journey, because our industry and economies will be a better place if you do.

Thank you.