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Thank you, Paula. Good morning, everyone. Let me also welcome you...and tell you how pleased...and honored... we are that you could find the time to come. We have an exciting and informative program today, and I certainly hope you will be very active in commenting on and debating the matters we'll be discussing.

Our aim in today's forum is to explore a number of issues critically important to all of us. Landmark financial reforms are in process globally. Banks face much tougher capital standards. And, as part of all this, our industry is involved in a radical reappraisal of how we manage risk. The reality, of course, is that we're entering a period of transformational change – a metamorphosis in the regulation and oversight of financial systems that hasn't been seen or experienced in almost 75 years. This transformation, driven and shaped by what we've learned from the financial crisis that peaked two years ago, also comes in the midst of the worst economic turmoil we've had in three-quarters of a century, with all the problems that brings.

## Differing perceptions

How did we get to this point?

At this Forum two years ago, I reported that, during the depths of the market crisis and the period of unprecedented volatility and shaken confidence that followed, DTCC was able to sustain reliability and mitigate risk across the industry. In the wake of the Lehman collapse, we closed out more than a half trillion dollars in open positions, and we prevented losses for the industry, and perhaps ultimately for taxpayers, that could have been in the hundreds of millions or billions of dollars. And we did all this without having to draw on any of the self-insurance funds you have on deposit with us. Many of you, in turn, told us of the quick actions you took, and the sometimes painful decisions you made, to get your firms through the crisis. Together, our stories made a compelling tale about our success in fighting a number of dangerous fires.

For people outside the financial industry, however, that wasn't the important part. They didn't – and don't – care what we had to do to put the fire out. They want to know why it got started in the first place, why it burned so fiercely, and why as an industry we hadn't taken preventive action. While each of us individually did our part to put out the flames, the prevailing view, as far as the public, their elected representatives and our regulators are concerned, is that the fire itself was the product of a shocking and fundamental failure of risk management and oversight in the markets we serve. And they continue to be very unhappy about it, because they view our failure as having led not just to a financial crisis, but also a harsh global recession, a staggering loss of jobs and wealth, and extreme damage to public finances in the developed nations as they bailed out failing institutions and sought to stabilize their economies.

## The financial crisis

In fact, the loss of capital in financial assets world-wide as a result of the crisis is estimated at well over \$50 trillion. That amounts to the equivalent of one full year of GDP worldwide. In other words, it wiped out the value of all the work done by all the people in the entire world for a whole year.

While the most difficult phase of the global financial crisis seems to have passed, and in China, the world's second largest economy, growth has hardly slowed at all, recovery in much of the world remains fragile. This year alone, an estimated 64 million more people worldwide will fall into extreme poverty – living on less than \$1.25 per day – due to the financial crisis.

Meanwhile, the reverberations from the crisis continue to dominate the policy making and regulatory environments around the world. If the fervor for financial reform can be measured by sheer volume, the Dodd-Frank bill that Congress approved two months ago is a good gauge. It runs to more than 2,300 pages. And since all those pages of legislative policy changes get translated into new rules and regulations, we face a daunting array of new requirements.

More fallout from the crisis came out of Basel earlier this month, as regulators from 27 countries agreed to new standards requiring banks to increase their capital and risk reserves substantially. And we can all expect that these new rules will be enforced with vigor.

Unavoidably, in the new post-crisis world, governments and regulators will understandably be focused on financial risk to a much greater extent than previously. To address these issues, we in the private sector will have to work with our regulators as partners, rather than adversaries, to improve our risk management operations. After all, at the end of the day the relationship between regulator and financial enterprise is symbiotic. Regulators want the financial services companies they supervise to be healthy and safe, and they know that firms cannot be safe and sound unless they earn strong risk-adjusted returns – in fact, regulators for generations have utilized rating systems that have included earnings, along with other important factors such as capital and liquidity, as a key metric of the health of financial services firms.

## Industry context

We at DTCC understand that the bar of regulatory expectations on risk has been raised and what used to be normal or standard operating procedure is fast becoming history. As a result, we're now initiating a top-to-bottom transformation in how DTCC thinks about risk, how we oversee risk, how we manage risk and how we plan to address risk—and I mean all aspects of risk—both within DTCC and within the financial system we are a key part of. This is a sweeping all-hands-on-deck initiative that comes at the direction of our Board.

In effect, we're setting off on a voyage that will take us to the edge of the map—and maybe off the map entirely. Those of you who were here last year may recall that I talked about ancient maps and the expression – “there be dragons” – that appears in the corners of many of them. “There be Dragons” was the mapmakers' way of saying they had no idea what was out there at the edge of the world, but it was unquestionably dangerous.

Well, there's no navigational map for any of us in this new risk environment – and on the journey we'll probably run into some dragons in the form of tough and complex risk management issues. This journey will be an extremely ambitious undertaking that forces DTCC to re-think many of the assumptions behind the practices we've employed and the services we've been offering our participants for decades. In other words, it will alter—in some ways significantly— how we support and work with you—to further mitigate risk.

We are firm in our understanding of this new responsibility. We are clear that our regulators and supervisors view it as imperative that we address this new responsibility. And we also received a very similar message from many of you earlier this year when we polled our member firms about our strategic direction and planning. The principal message that came back to us from those interviews was to keep focused on our core services and, above all else, to ensure risk mitigation. And our Board has emphatically reinforced this message, telling us that we need to make a quantum leap in the level and scope of risk mitigation we provide all across the industry.

## The “Minsky Moment”

One example that I’ve used internally at DTCC to explain this new perspective comes from an economist who has become quite popular in the past few years, as his theories cast an interesting light on the financial crisis. You may have heard of Hyman Minsky, a specialist in the economics of financial systems. Minsky’s key perception was recently summarized as “stability itself is destabilizing” – that the financial system, over time, has a bias toward instability and crisis.

As the financial system becomes confident about stability – we’re in good times, with minimal losses on investments and credit decisions – people naturally relax, and, for competitive reasons and others, begin to make closer calls, to make credit and investment decisions that are nearer to the margin. The level of risk in the system begins inexorably to rise. Minsky set out a very structured way of understanding how this unfolds – that initially credit decisions require a demonstration of ability to repay both principal and interest, but then shift towards loans with more “balloon-like” structures (dependent on the borrower’s ability to refinance to pay the principal), and then, as the boom really reaches its peak, towards loans that depend on continued improvement in economic conditions to be repayable at all – what Minsky characterized as “Ponzi finance.” At some point the music stops, we reach what has now become known as a “Minsky moment,” and the process goes into reverse – loans fail, collateral must be liquidated, the process of collateral liquidation forces more loans to fail, . . . repeat indefinitely as the strength of the financial hurricane whips up through Category 3 to Category 4 and beyond. Does any of this sound somewhat familiar?

Internally we’ve used Minsky’s theories and other, similar views, to help our staff understand the challenge of renewal we face at DTCC. As a core industry infrastructure, we must understand and act upon Minsky’s critical insight – that stability itself is destabilizing, and that our very success at identifying and managing risks brews a propensity in the financial system to generate more risks, through the creation of more demanding investment instruments, more complex trading programs, or other forms of risk. And we must be vigilant as that propensity unfolds, to identify those new forms of risk and extend our capabilities and understanding to address them effectively. And, again, repeat that process as that new success in risk mitigation engenders new forms of risk-taking.

We’ve also used the example of the evolution of our “business continuity” capabilities after 9/11. In that event, DTCC realized – as we all did – that as good as our business continuity planning had been it would have to be transformed. We could no longer focus primarily on surviving natural disasters, or assume that the problem to be solved was our inability to operate; we had to recognize that we were responsible for safeguarding against events that caused the system to become temporarily inoperable. We realized we had to begin planning to protect ourselves—and the industry we serve—against the unthinkable and the unimaginable. And, truthfully, we and the industry have done a spectacular job in responding to that transformed understanding of BCP.

Now, in the post financial crisis period, DTCC must, again, rethink and re-imagine our processes, this time focused on the ongoing cycle of risk mitigation and risk-taking. We must adopt a risk methodology that plans for the unthinkable and unimaginable – to ensure that it never comes.

## Raising our Risk Intelligence Quotient

In that re-imagining, we will be working – as you do – with the “three lines of defense” model.

The first line is our individual business units. After all, the businesses own their risks. They have to identify and measure them, and judge how effectively they’re being controlled. But today’s new premise is that risks that the businesses once might have tolerated now must be addressed and ways to reduce them developed and implemented. And when that process is completed, we’ll start it all over again. Unlike physics, there is no “steady state” in risk mitigation. Every time we reduce particular forms of risk, we have to go back and assess the risk picture again with an even more powerful lens.

Our second and third lines of defense – as is common in the industry – rest with our specific risk control areas – the “enterprise” and “operational” risk management units – and our Internal Audit group, respectively. Significant steps forward will be taken in all these areas to upgrade their capabilities and to ensure that these areas are prepared to challenge our thinking—and certainly our complacency – about the levels of risk we think we need to tolerate.

In short, we’re ratcheting up the organization’s RIQ – our risk intelligence quotient. We need to re-think years of habits and behaviors in order to recognize and tackle risk in all its variations...old and new. Fundamentally, this is a zero-based remaking of our approach. We’re going to start at the baseline, and that may force us to re-think many of the assumptions behind the practices we’ve employed and the services we’ve been offering our participants for decades. In other words, we will find ourselves looking at things and doing things very differently.

## Customer impact

By now, I imagine many of you are beginning to think “uh-oh...what’s this going to do to my business and the way I use DTCC services. How will it impact my systems? What’s it going to cost?” Those are all good questions, and we need to give you answers. Since this effort requires us to sail into the unknown, however, we don’t have all the answers yet – and that’s the unpredictable environment we’ll need to manage in the coming years.

For example, NSCC has never applied any kind of “debit cap” restriction on the end-of-day net settlement balances its members can build up during a day – that has been industry practice since NSCC was founded. We’ve always done it that way and we all have systems and procedures built around it. But that does impose serious liquidity risk on the clearing corporation, and we need to find a way of controlling that.

As another example, in risk tolerance formulas the industry standard is typically 99 percent certainty. That’s a pretty high standard. But the bar has been raised and one could argue that a clearing house needs to seriously think about reducing our risk tolerance level still further. That, too, is a policy decision that we will have to explore. Clearly we have to keep cost in mind in weighing that decision; but we also have to recognize that the “benefit” side of that calculation must factor in the prevention of far more costly problems or errors somewhere down the line.

In short, we all know that remaking an entire process with far more checks and balances will not be easy...or cheap. There will be costs involved, and that will likely drive some increases in fees. We will be aiming to provide you some guidance on this later next month. Just as important, we need to collaborate with you in this effort. We need to run ideas and tolerances and procedures by you. We can’t – and won’t – do this in a vacuum.

## Innovation

But mitigating risk is not simply a matter of increasing the margin reserves against it. This new challenge of mitigating risk will demand relentless experimentation, and the bursts of innovation that can flow from that. In fact, we already have innovative initiatives under way that will help you to efficiently use your capital. New York Portfolio Clearing, for example, our joint venture with NYSE Euronext, is designed to provide unprecedented transparency for market overseers by giving them a simultaneous view of both futures and cash markets for government securities. It’s also designed to provide much larger efficiencies in margining. Or consider our intent to launch a new central counterparty for mortgage-backed securities. It will provide the safety of a trade guarantee to this market for the first time ever. But it will also reduce risk and costs in the handling of the underlying mortgage pools.

## Writing new financial rules

The challenge of overhauling our systems and processes from the ground up may seem daunting, but we can do it. Part of the challenge, of course, is that we'll be doing it within a regulatory environment that's already beginning to change as a result of the forces the Dodd-Frank bill has set in motion. So let me talk about how DTCC is also transforming our relationships with our regulators, and our efforts to monitor and shape public and regulatory policy.

DTCC has long had a close working relationship with our regulators, a relationship we value highly. The new world of risk mitigation will demand that this become an even closer, tightly coordinated relationship for DTCC as well as for all financial institutions. Our regulators need to observe and play a major role in this remaking of our risk knowledge, and we want to ensure that they do so.

A major new player in the regulatory field will be the new Financial Stability Oversight Council Congress created in the Dodd-Frank bill. It's an independent 10-member committee that includes representatives from across the regulatory spectrum...from the Treasury Department, the Federal Reserve, the SEC, and five other agencies. This new Council will have authority to determine whether DTCC is a "systemically significant" financial market utility. And if the council says to us, "Yes, you are systemically significant,"—as there is little doubt they will—then the Federal Reserve becomes the prudential regulator for all of our subsidiaries, as it is today for DTC and Warehouse Trust Company.

To back up its powers for monitoring systemic risk, the new Oversight Council will rely on another new agency, the Office of Financial Research (OFR), to collect and standardize data from financial services companies, to perform research, and to develop risk measurement and monitoring tools. Based on our interactions with the Treasury and others involved, we expect that the OFR will collect significant amounts of position, transaction and counterparty exposure data from throughout the industry. They could requisition the data directly, but hopefully they will take the alternative approach of obtaining it from central "data stores" like DTCC.

Given our unique position in the cash equity and fixed income markets, not to mention the depth and quality of the over-the-counter derivatives data we keep in our Trade Information Warehouse, we are quite clear that we have a role to play in aggregating data for the new OFR in ways that would take the burdens and costs off you as individual companies. And that's certainly something we're working on in Washington right now.

There are other new agencies created by the law that could also have an impact on your business and ours. But the changes most likely to affect our industry will come out of the enormous rulemaking process that's now getting under way. By one estimate, the financial reform legislation calls for 243 separate rulemakings and 67 individual studies, most of them to be completed within 12 months of the bill's passage— that is, by next July. Another analysis finds that the number of rulemakings required is more than thirty times that of Sarbanes-Oxley, which resulted in only 16 new regulations. So it's no surprise that the regulatory agencies are hiring hundreds of additional people to meet the Congressional deadline.

This afternoon, Larry Thompson will moderate a panel describing how this upcoming process may unfold, and some of the issues that will arise as these studies and regulations are completed. During Congress's consideration of the Dodd-Frank bill, we tried very hard to ensure that legislators understood the critical systemic risk concerns if the final bill inadvertently led to the fragmentation of the OTC derivative information we now hold centrally in the Trade Information Warehouse. Thanks to some strong support from Senators Schumer and Menendez, we succeeded. As Larry's panel will be discussing, we're hoping to have the same opportunities to work with the regulators in their upcoming efforts to make further contributions to reinforcing risk safeguards. Later this morning, I'm very pleased that we will be hearing from Congressman Scott Murphy from New York's 20th District, who will give us a direct perspective on Congress's view of where financial reform came from and where it is going.

## Making our case in Europe

Europe, as you may know, is also hard at work on remaking their financial markets. They are prepared, for example, to impose uniform market requirements for the first time throughout the 27 countries that make up the European Union. That's a move I expect all of us would welcome.

Earlier this year, we spent a lot of time and effort meeting with European policymakers to educate them on who we are and what we do, and to make sure that the European regulatory consensus on OTC derivatives also provided for reporting those trades to a single repository for each asset class.

But we've been doing more than simply talking. We've taken concrete steps to allay European concerns about access to the data that we hold in our trade repositories. Last month, we launched a European subsidiary – called DTCC Derivatives Repository Ltd. – which will maintain global credit default swap data identical to that maintained in our New-York-based Trade Information Warehouse. This European-based repository will support a wide variety of critical functions, including, most importantly, CDS trade reporting to support the transparency needs of regulators and the public.

Last year, as you may recall, DTCC won the contract to build a similar repository for global OTC equity derivatives, and we have now opened that facility in London as well. Our goal is to avoid a proliferation of redundant trade repositories that would fragment data and introduce further systemic risk. We've made clear to regulatory agencies that function outside the U.S. that the data we collect from across the globe will be available to any of them with a legitimate interest. Another step we took in August was to add additional data to what we already publish about credit default swaps. We're working hard to expand transparency in this global market.

## Risk control in our DNA

As I hope I've made clear, DTCC is now moving on multiple fronts, with great focus and speed to create a new, deeper understanding of risk and more rigorous ways to guard against it. To achieve this, we will be working closely both in the U.S. and abroad with financial regulators, recognizing the systemic nature of what we do. The more we move into this, of course, the more we will also need to collaborate closely with you, our participants. We will look to you for ideas and innovation and practical experience, and we will look for guidance and counsel as well.

Making this change – in effect, sailing out beyond the edge of the map – is an enormous undertaking. But as we often say at DTCC, risk mitigation is in our DNA. It's what we do. And now, we're simply going to do more of it, more often and more fully. You may get a taste of what this is all about in the discussion on risk that Doug George will take us through this afternoon. Of course, we're not going to be able to rewrite the book on risk without collaboration with all of you, and without a lot of smart ideas. And I hope we hear plenty of those in Mike Bodson's session later this morning. Market structures are also under pressure as a result of technology and other factors, and Rob Hegarty is up next to lead a panel examining this issue.

Our luncheon speaker, Gillian Tett of the Financial Times, will provide her independent perspective as a journalist on the financial crisis and trends in the current environment. I certainly look forward to hearing her take later today. I'm also very pleased that John Lipsky of the IMF will be on hand this afternoon to sort out the global economic scene and the international view on where financial stability oversight will be headed.

Again, thank you all for coming today, and let me again encourage you to weigh in actively with your comments and reactions to what you're hearing throughout the day. And now, let me turn the program back to Paula.