EXECUTIVE SPEECH

Avoiding Complacency: Why Vigilance is More Important Than Ever to Protect Market Stability

Welcome Remarks
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Welcome

Welcome everyone and thank you for attending our 5th annual Risk Forum. It's great to see so many people here with us today. This is an important opportunity for us to get together as risk managers to continue our dialogue on global risk topics and trends.

I'm sure many of you have been watching and reading the retrospectives on the causes of the 2008 financial crisis and the actions we've taken as an industry to strengthen market safety and stability. As we acknowledge the 10th anniversary of the crisis, it's important for us to look back and learn from events like this so that we don't repeat the mistakes of yesterday. They also help remind us of the perils of complacency and the need for continued vigilance.

If you read our most recent systemic risk white paper, which we published in September, that's the single most important take-away, and it's what I'd like to focus on during my opening remarks this morning.

- First, I want to look back at the progress we've made over the past decade to strengthen financial stability and talk about whether these improvements will protect us from the next systemic shock.
- Second, I want to examine what's happening in the external environment and explain why we may be getting lulled into complacency at a time when storm clouds appear to be gathering.
- And, third, I'll talk about how we can become more forward-thinking risk managers by building intelligent resilience into our organizations.

Progress Since the '08 Crisis

Let me begin with my first topic and talk about what we've accomplished over the past decade. Since the '08 crisis, we've seen the most dramatic transformation of the financial industry compared to any other 10-year period in history with perhaps the exception of the Great Depression.

If you think about what we've accomplished, it's clear that we've made significant progress in a relatively short period of time to improve global market stability and enhance resilience. For instance…

- Financial firms have deleveraged, strengthened their balance sheets and enhanced their capital position consistent with post-crisis regulatory reforms…
- New rules like Dodd-Frank, EMIR, MiFID and MiFID II have increased market stability and transparency…

- CCPs in general are stronger and more resilient…
- And the OTC derivatives markets are the most transparent they've ever been, with more than half of derivatives trades now centrally cleared.

Fighting the Last War

As an industry, our response to the crisis has been thoughtful, comprehensive and effective at addressing the causes of the crash, but the key question is: Will "fighting this last war" adequately prepare us for the next one?

While we're focused on closing the gaps that helped spark the '08 crisis, risk has evolved in unexpected ways. As a result, the next crisis will likely look very different than the last one, and it will likely be triggered by a risk that either didn't exist or barely registered on the radar 10 years ago.

As risk managers, our job is to be vigilant and forward-thinking so that we stay ahead of this curve because the risks that are below the surface today may be the ones creating systemic shocks tomorrow.

Topic #2: The External Environment and Emerging Threats & Risks

So let me turn to my second topic and talk about why the current macroeconomic and market environments may be lulling us into complacency and the emerging risks that could pose a threat in the future.

By many measures, times are good – better than they've been in years although the market volatility we have been experiencing is a reminder of how quickly circumstances can change. Despite that…

- Global economic growth is above 3%…
- We've had the longest bull market run in history in the US…
- The unemployment rate in the US is 3.7%…
    - And QE programs around the world – unprecedented, unproven and unclear in their impact when they were launched – have been largely successful at stabilizing the economy, and despite warnings of runaway inflation, the U.S. inflation rate is just 2.7%...

Is the Good News Fostering Complacency?

As a risk manager speaking to my fellow risk managers, what worries me is that this is exactly the environment that encourages complacency. It's the type of environment that could make us more tolerant of certain risks and less vigilant in identifying and mitigating emerging threats.

Boston Federal Reserve President & CEO Eric Rosengren summed it up best when he recently said that financial sector problems could be developing and that "while there are no alarms going off at present, there are a bunch of yellow lights."

So what are some examples of these yellow lights?

- For one, the emerging markets are slumping, with Argentina and Turkey seeing their currencies fall precipitously, while concerns over several other emerging economies are growing.
- In Europe, the continued uncertainty over Brexit, as well as the fiscal challenges in Italy, could have significant impacts on global markets…
- Adding to this geopolitical uncertainty, trade wars are intensifying with no signs of resolution in the immediate future…
- Cyber-attack remains the number one threat to the stability of the financial system…
- Interest rates are on the rise…
- And on top of all this, the next market bubbles are growing right in front of us as debt levels are reaching record heights…

Topic #3: Establishing A Forward-Looking Mindset Through Intelligent Resilience

With so much uncertainty brewing in the risk landscape, remaining vigilant and having a forward-looking mindset are more important than ever, so let me turn to my third topic and explain how we can build greater intelligent resilience into our organizations.

"Intelligent resilience" is a phrase we coined earlier this year to describe how risk managers can use strategic data analysis and informed decision-making and preparation to more effectively predict future shocks and understand how to recover efficiently should a market event occur.

Central to the idea of intelligent resilience is investing in people, processes and technology to create robust risk management programs that are forward-looking in nature. I can't stress enough the importance of the human element of risk management. It's essential because only people can set risk management strategy, build a strong risk management culture that empowers employees to act as risk managers and establish processes that support a risk mindset.

Role of Technology

However, technology also has tremendous potential to allow us to create risk management programs that are more sophisticated and predictive than what's ever been possible in the past. For example, we can leverage technology for data collection and consolidation, and using AI or machine learning, we can conduct analyses across the extended enterprise that extracts insights from massive data sets, detects patterns and supports faster adaptation of risk models through automated learning. Technology has an important place in risk management – primarily as an enabler of the risk management strategy.

Risk as a Service

Later this morning, we're going to update you on DTCC's Risk Management as a Service, which is a centralized platform we've created that leverages the data we collect to help clients meet their evolving risk management needs and provide greater transparency and insight.

As initiatives like this and others across the industry advance in the years ahead, what underpins them is the concept of intelligent resilience – that is, combining the power of technology with the power of human intelligence to create risk management programs that are grounded in vigilance and focused on proactive prevention through prediction.

Conclusion/Today's Agenda

As I conclude, I want to reinforce that we've made a lot of progress over the past decade, but the risk environment has also evolved and is more unpredictable than ever. Pockets of risk still exist that represent a potential threat to market stability. As risk managers, we must use our expertise and knowledge – and leverage technology where appropriate – to gain predictive insights into risk, which can help us further strengthen financial stability and enhance resiliency.

I look forward to discussing these topics with you throughout today's conference starting with our first panel, which I will moderate, on what's changed and what's on the horizon 10 years after the start of the financial crisis. We also have sessions today focused on:

- The future of technology innovation and risk management…
- Key initiatives we're pursuing at DTCC to collaborate with our clients to reduce risk…
- Plans for creating an alternate settlement model and our Settlement Optimization initiative, and…
- Overviews of our Risk as a Service and Client Security Program.

So, in closing, I would like to thank you for your support and for taking the time today to be part of this important dialogue. Let's begin our program. Thank you.