

SYSTEMIC RISK BAROMETER RESULTS OVERVIEW – 2017 Q1

KEY FINDINGS

CYBER RISK REMAINS THE TOP RISK OVERALL, BY AN INCREASING MARGIN

- Cyber Risk remains the top overall risk, with 34% of survey respondents citing it as the single biggest risk to the global financial system and 71% ranking it within the top five risks.
- Cyber Risk also saw the most significant increase of any risk category from the prior survey, with an additional 15% of survey respondents including Cyber Risk as a top 5 risk.

GEOPOLITICAL RISKS HAVE ESCALATED TO BE THE SECOND MOST FREQUENTLY CITED RISK

- Geopolitical Risks, driven by elections in Europe in 2017 as well as uncertainties associated with implications of the UK's Exit from the EU "Brexit" and changes in the political leadership across the United States, received a spike in the number of respondents identifying Geopolitical Risk as a major concern and top 5 risk (52% of respondents vs. 38% in Q3 2016).

CONCERNS OVER IMPACT OF NEW REGULATIONS REMAINS PREVALENT

- Impact of New Regulations, particularly pronouncements from the Trump administration to modify financial regulation, remains a high concern among respondents. Impact (and consequences) of New Regulations was the third most frequently cited risk with 40% of respondents identifying it as a top 5 risk.
- Financial services firms have made significant investments and changes to their operating models in order to comply with regulatory requirements over the previous years; efforts to roll back or modify these requirements introduces additional uncertainty to market participants.

TOP RISKS EXHIBIT BROAD DIVERGENCES BY JOB FUNCTIONS

- Risk professionals were more concerned about Interconnectedness Risk, Geopolitical Risk, and Disruption / Failure of a Key Market Participant as compared to other respondents.
- Risk professionals were less concerned with US Federal Reserve Monetary Policy, US Economic Slowdown, and the threat of a European Economic Slowdown.

REGIONAL DIFFERENCES

- North American respondents increasingly cited concerns over Major Compliance / Governance Events, Cyber Risk, and Disruption / Failure of a Key Market Participant versus international respondents.
- Inversely, international respondents were significantly more concerned about Brexit, Central Bank Monetary Policy, and Disinflation / Deflation.

EXPECTATIONS OF A HIGH IMPACT EVENT DESTABILIZING THE FINANCIAL SYSTEM REMAIN UNFAZED

- Despite concerns attributed to geopolitical risks (including limitations in the ability to predict and forecast outcomes) the probability of a high-impact event destabilizing the global financial system in the next twelve months remains relatively unchanged from previous surveys – as markets have functioned resiliently and orderly following unpredictable events in 2016.

TOP SYSTEMIC RISKS



CYBER RISK

34% OF RESPONDENTS
CITED CYBER RISK AS
THE TOP OVERALL RISK



BROAD GEOPOLITICAL RISKS

68% OF RESPONDENTS
IDENTIFIED EITHER
GEOPOLITICAL RISK
OR BREXIT AS
A TOP 5 RISK

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 Chief
Security Officer,
on:

Cyber Risk



“Cyber threats against financial services institutions continue to evolve and are only increasing in their complexity, sophistication and persistence. As such, it is essential for firms to stay vigilant, continue to make investments and exchange information to increase transparency and promote best practices.”

MARK WETJEN

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

Geopolitical Risk & Impact of New Regulations



“Geopolitical risks dominated 2016 highlighting that there are limitations in the ability to forecast outcomes of geopolitical events and estimate market impact. As the events translate into policy directives (in the form of new regulations or changes to existing regulations), the broader impact has the potential to re-shape the global landscape, influencing future elections and shaping emerging flash points.”

ANDREW DOUGLAS

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

Brexit



“Brexit has created and continues to create economic, political and social uncertainty. It is a challenge, without any precedent, for all market participants to prepare for it successfully.”

MICHAEL LEIBROCK

DTCC Managing Director
and Chief Systemic Risk
Officer, on:

Sudden Dislocation in Financial Markets



“Respondent concerns around sudden dislocation across markets provide further evidence that risks that rapidly materialize in one pocket of the financial system can quickly propagate risk and transmit shocks due to an increasingly interconnected financial system.”

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

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

Survey Overview and Utilization

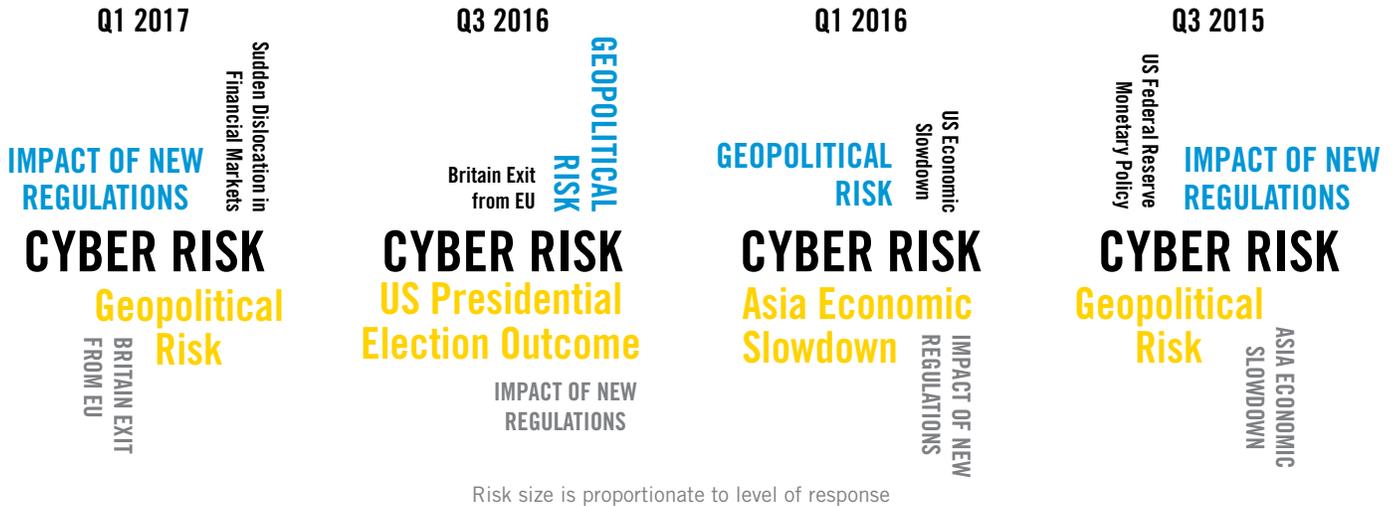


“DTCC initiated the Systemic Risk Barometer Survey in 2013 to serve as semi-annual pulse check to monitor emerging trends on significant risks that may impact the safety, resiliency and stability of the global financial system. DTCC utilizes the survey results to benchmark and focus our risk management framework and initiatives vs. the concerns that have been prioritized by our member firms. These survey results are a critical component of DTCC's member outreach initiatives and corresponds with DTCC's mandate to provide thought leadership and promote transparency across the financial services industry to mitigate against the impact of a broader systemic event.”

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 RISKS AND IMPACT OF NEW REGULATIONS AMONG THE MOST FREQUENTLY CITED RISKS

HISTORICAL LOOK BACK ON TOP 5 RISKS

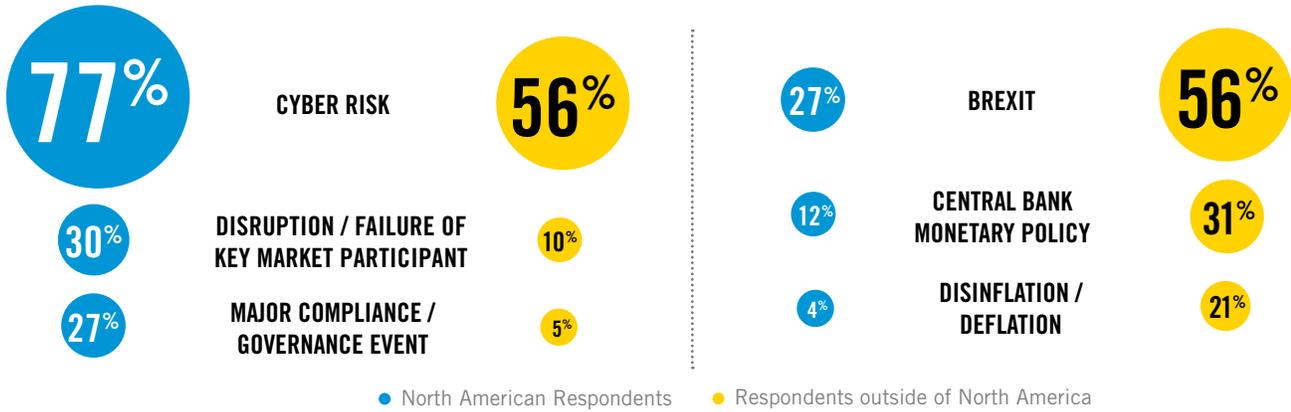


REGIONAL DIFFERENCES

COMPARED TO THE REST OF THE WORLD, NORTH AMERICAN RESPONDENTS ARE:

MORE CONCERNED ABOUT CYBER RISK, DISRUPTION / FAILURE OF KEY MARKET PARTICIPANT, AND A MAJOR COMPLIANCE / GOVERNANCE EVENT

LESS CONCERNED ABOUT BREXIT, CENTRAL BANK MONETARY POLICY, AND DISINFLATION / DEFLATION



FUNCTIONAL DIFFERENCES

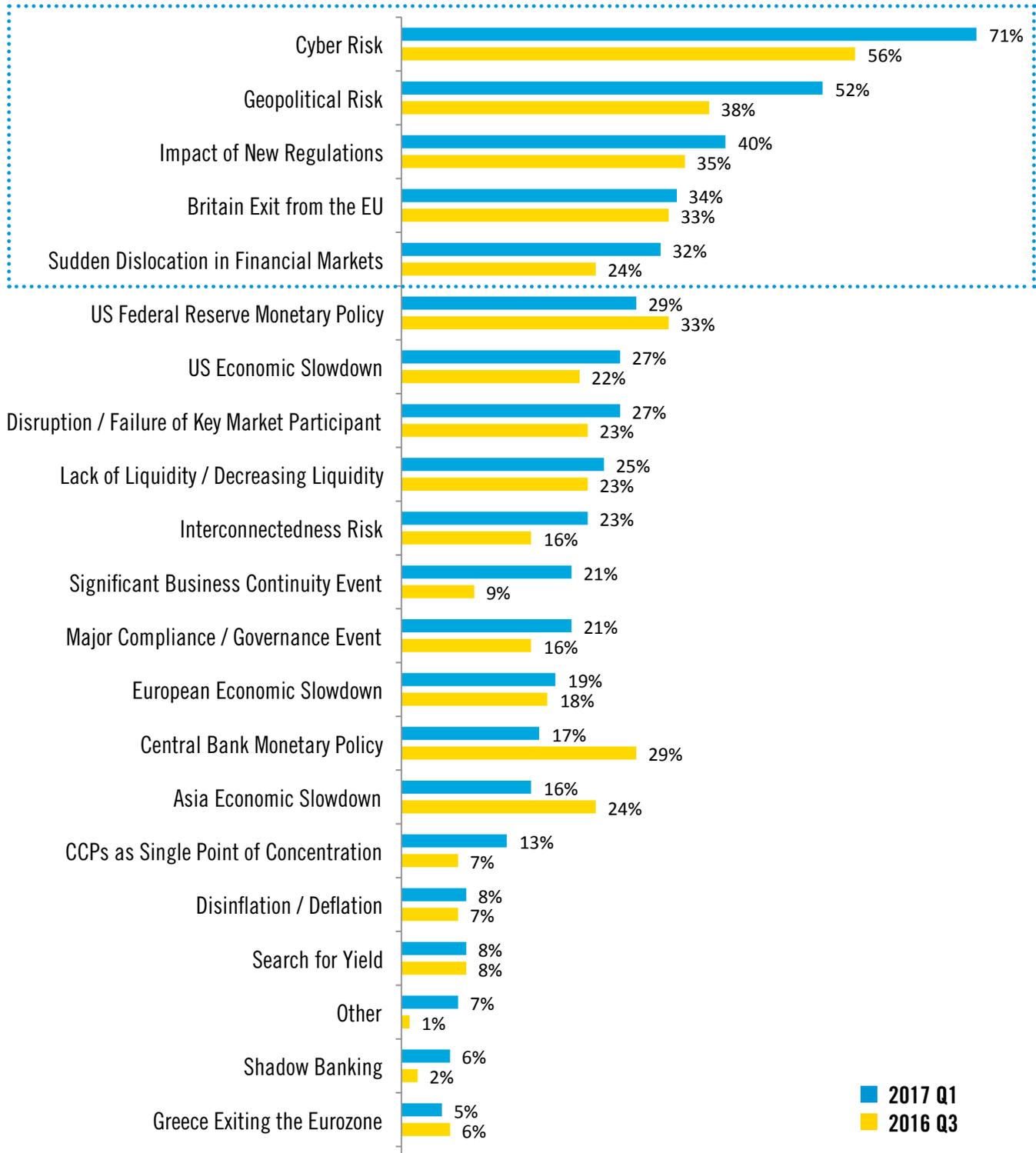
RISK MANAGERS ARE MORE CONCERNED ABOUT INTERCONNECTEDNESS RISK, GEOPOLITICAL RISK, AND DISRUPTION / FAILURE OF A KEY MARKET PARTICIPANT **WHILE NON-RISK PROFESSIONALS** ARE MORE FOCUSED ON US FEDERAL RESERVE MONETARY POLICY, US ECONOMIC SLOWDOWN, AND EUROPEAN ECONOMIC SLOWDOWN



TOP 5 RISKS IDENTIFIED

When asked to identify the top 5 systemic risks to the broader economy, most respondents cited Cyber Risk, Geopolitical Risk, Impact of New Regulations, Britain Exit from the EU, and Sudden Dislocation in Financial Markets. The results below reflect changes compared to 2016 Q3.

RISK TO BROADER ECONOMY



*US Presidential Election Outcome, Housing Market, High Frequency Trading, Shortage of High-Quality Collateral, Dark Pools, and Pro-cyclical Collateral Demands were removed as risk categories for the Q1 2017 DTCC Systemic Risk Barometer Survey.