SYSTEMIC RISK BAROMETER

2020 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

GEOPOLITICAL RISK HAS SURPASSED CYBER RISK AS THE TOP OVERALL RISK

- Geopolitical Risk & Trade Tensions was cited as the top risk by 23% of respondents (vs. Cyber Risk, which was cited as the top risk by 22% of respondents).
- Cyber Risk was previously identified as the top overall risk for each Survey since 2013.

CYBER RISK REMAINS THE MOST FREQUENTLY CITED TOP 5 RISK

- Cyber Risk was cited by 63% of survey respondents within the Top 5 risks, which is close to last year's result of 69%.

BREXIT CONCERNS CONTINUE TO PERSIST 3 YEARS AFTER THE UK REFERENDUM VOTE

- Brexit remains a top concern as 43% of respondents included it within their Top 5 risks.

FEARS OF A GLOBAL ECONOMIC SLOWDOWN ARE PROMINENT AND WIDESPREAD

- The results with respect to U.S. Economic Slowdown, Asia Economic Slowdown and a European Economic Slowdown show growing concerns of headwinds to economic growth worldwide.

FEDERAL RESERVE MONETARY POLICY WILL BE CLOSELY MONITORED IN 2020

- The monetary policy pursued by the Fed (and other central banks globally) was increasingly cited by respondents as a potential concern.

ENHANCING RESILIENCE IS A MAJOR FINANCIAL INDUSTRY FOCUS

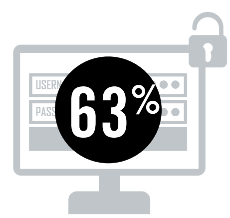
- Nearly 75% of respondents noted that their firms plan to increase resilience investments in 2020.

TOP SYSTEMIC RISKS

GEOPOLITICAL RISKS & TRADE TENSIONS

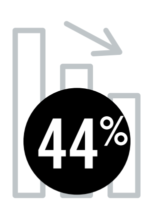
IDENTIFIED BY 23% OF RESPONDENTS AS THE **TOP OVERALL RISK**

TOP 5 RISKS



CYBER RISK

63% OF RESPONDENTS INCLUDED CYBER RISK AS A **TOP 5 RISK**



U.S. ECONOMIC SLOWDOWN

44% OF RESPONDENTS RANKED U.S. ECONOMIC SLOWDOWN 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

MICHAEL LEIBROCK

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

Geopolitical Risk & U.S. Economic Slowdown

"Political uncertainty around the world continues, including ongoing negotiations over Brexit, trade wars between the U.S. and China, and tensions in the Middle East. These geopolitical events are sparking heightened volatility in global markets and creating challenges for financial institutions to navigate given the unpredictable nature of potential outcomes. At the same time, while the U.S. continues one of its longest periods of economic growth, vulnerabilities are emerging domestically and abroad. The strong performance of the U.S. economy should not create complacency. Any reversal or slowdown within the U.S. economy could have a negative impact on global growth and possibly financial stability."

STEPHEN SCHARF

DTCC Managing Director and
Chief Security Officer, on:

Cyber Risk

"As the frequency and sophistication of cyberattacks continues to rise, resilience has become the new top priority on industry and regulator agendas – and rightly so. Emerging technologies continue to advance at a rapid pace and the continued growth of interconnectedness risk means cyber security risk isn't a national problem; it is a global problem with national implications, which requires a coordinated response across national borders. We must recognize that attackers are actively plotting to disrupt systems, therefore, we need to evolve our collective thinking to a resilience and recovery mindset. This will help minimize the impact to critical business services that could create market instability."

ANDREW DOUGLAS

Managing Director,
Government Relations EMEA / Asia, on:

Brexit

"Brexit has now been postponed three times – and a further extension beyond January 31st 2020 is a possibility. The lack of clarity around the withdrawal date, the length of a possible transition period and the future EU-UK trading relationship has caused firms to devote considerable resources to contingency plans based on unknown outcomes. The fact is the potential for disruption to financial markets remains unclear. It is widely acknowledged that the continued ambiguity is increasing the difficulty in making long-term business decisions. But one thing is clear – the parties involved must bring finality to the process so market participants can prepare appropriately."

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

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

Building Intelligent Resilience

"While resilience has always been a cornerstone of risk management in financial services, the focus has shifted considerably from an emphasis on business continuity and physical resilience after the 9/11 terrorist attacks, to financial resilience following the 2008 financial crisis. Today, the industry and regulators are placing a premium on operational resilience and continuity of critical business services as the nature of risk has evolved and the landscape has become more complex and challenging. Disruptions will occur and as a result, risk managers must approach resilience more holistically in order to gain a deeper understanding of their organization and its myriad of interdependencies."

CYBER RISK AND GEOPOLITICAL RISK HAVE CONSISTENTLY BEEN CITED AS TOP 5 RISKS SINCE DTCC LAUNCHED ITS SYSTEMIC RISK BAROMETER SURVEY

HOWEVER, THE REMAINDER OF THE TOP 5 RISKS HAVE FLUCTUATED WITH IMPACT OF NEW REGULATIONS, BREXIT AND CONCERNS OF AN ECONOMIC SLOWDOWN AMONG THE MOST FREQUENTLY CITED RISKS.

HISTORICAL LOOK BACK ON TOP 5 RISKS

2018 RISK FORECAST

Geopolitical Risk
U.S. Federal Reserve Monetary Policy
CYBER RISK
BRITAIN EXIT FROM THE EU
IMPACT OF NEW REGULATIONS

2019 RISK FORECAST

Geopolitical Risk and Trade Tensions
Impact of New Regulations
CYBER RISK
BRITAIN EXIT FROM THE EU
EXCESSIVE GLOBAL DEBT

2020 RISK FORECAST

Geopolitical Risk and Trade Tensions
CYBER RISK
BRITAIN EXIT FROM THE EU
U.S. ECONOMIC SLOWDOWN
Asia Economic Slowdown

Risk size is proportionate to level of response

REGIONAL DIFFERENCES

North American respondents are **more concerned** than respondents outside of North America about U.S. Federal Reserve monetary policy and funding liquidity

North American Respondents		Respondents outside of North America
30%	U.S. FEDERAL RESERVE MONETARY POLICY	5%
28%	FUNDING LIQUIDITY	5%

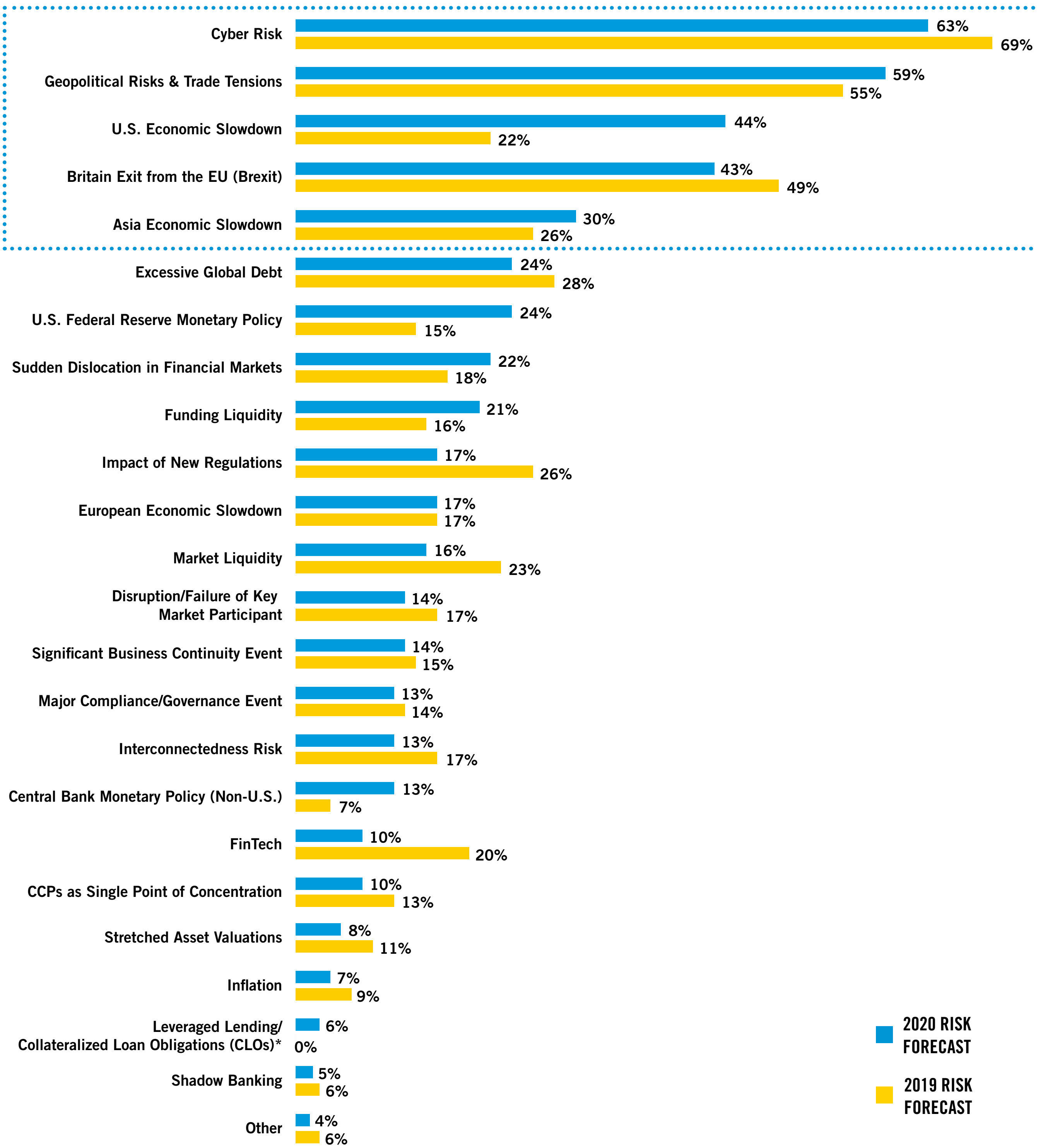
North American respondents are **less concerned** than respondents outside of North America about Brexit and an economic slowdown in Asia

North American Respondents		Respondents outside of North America
29%	BREXIT	70%
26%	ASIA ECONOMIC SLOWDOWN	40%

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, U.S. Economic Slowdown, Britain Exit from the EU (Brexit) and Asia Economic Slowdown. The graph compares results for the 2020 Risk Forecast (in blue) with results for the 2019 Risk Forecast (in yellow).

RISK TO BROADER ECONOMY



*Leveraged Lending / Collateralized Loan Obligations (CLOs) was added as a new risk category for the 2020 Risk Forecast.