

DTCC Fintech Symposium 2017

“Balancing Innovation and Market Integrity”

Opening Remarks by Michael Bodson, DTCC President & CEO

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Welcome

Good morning thank you all for joining us.

Just about a year ago, we hosted a Symposium on blockchain during great hype about how it was about to sweep through financial services with revolutionary and disruptive change.

Since then, we've seen a lot of change in financial technology, and that includes the industry's approach to fintech.

What a difference a year makes.

Today, the discussion has moderated. The hype of revolutionary change has been replaced by the practical work of developing realistic business models that integrate distributed ledgers into the post-trade environment. We can see that shift in approach in reports that blockchain funding has decreased 54% since the beginning of last year.

I'm proud to say that DTCC, once the target of disruption from many of the new players in the field, is now recognized as a leader in this area. In fact, many of these same firms now want to engage with us on initiatives.

More broadly, there's also been a shift in focus among financial firms to explore the potential of a wider range of fintech innovations – such as cloud computing, robotics, cryptography, machine learning and data analytics. The impact of these new technologies on the post-trade environment could have far-reaching implications on market structure, regulation and the management of risk.

Because market infrastructures play a critical role in protecting the stability and integrity of the global financial system, there are unique issues and considerations that must be taken into account.

The fundamental question underpinning this debate is – How do we balance innovation and the security of the marketplace?

Three Topics

Today, I want to focus on three key issues that we need to consider when answering this question:

First, I'll give an overview of the evolution of the fintech landscape to provide context for the larger issues around what regulatory community and the industry need to do to implement new technologies.

Second, I'll discuss the regulatory imperative of balancing technological advancements with market integrity.

And third, I'll talk about five imperatives that the industry must address during these early stages of development.

Point #1: Fintech Landscape

Let me begin with my first point on the evolution of the fintech landscape. As I mentioned a moment ago, we are in the midst of great technological change.

While our industry has a long history of transforming in response to technological advancements, change seems to be coming at us more rapidly and pronounced than at any other time I can remember.

For those of you who've been around as long as I have, finance today looks nothing like it did just a few decades ago mostly due to the rise of new technology. Think back to the 1970s and 80s and the army of couriers roaming up and down Wall Street carrying certificates and checks in leather bags and briefcases. That system was replaced by technology that dematerialized and centralized assets within DTCC.

The same thing happened to trading. Long gone are the old paper tickets that littered the floors of exchanges, which have been shuttered in response to the emergence of electronic and algorithmic trading.

This same trend can be seen in the transformative impacts of massive data storage and Big Data, the rise of the Internet and the ubiquity of mobile payment systems. And today, a new wave of technology and innovation are pushing us into the future.

Market Infrastructures Leading Fintech Development

From where we stand at DTCC, market infrastructures have an important role to play in shaping the future of these technologies because many of them are targeted at improving the post-trade process.

Make no mistake – we see fintech as the disruptive force it is. But we see our role as bringing disruptive technology to our clients in the most beneficial and transformative way possible while ensuring unparalleled risk management.

As we'll hear today, the industry is making good progress in a number of fintech areas.

The most obvious place to start is DLT. From Euroclear, CME and the Royal Mint in London working on various gold settlement platforms, or Nasdaq in its private placement market, to our own efforts with IBM, along with Axoni and R3, to replatform our Trade Information Warehouse, and our continuing progress with Digital Asset on a solution for the repo market.

We are moving on from the initial hype to concrete actions to make use of DLT today, and I expect to see many more innovative solutions coming to fruition in 2017.

Cloud Computing

While many financial firms were reluctant to use the cloud for years, attitudes are shifting. The industry's use of cloud technology has reached a tipping point, and I believe it could have a greater impact on the industry's cost and applications base than any other current technology, including distributed ledgers.

A survey by the Tabb Group last month found that 59% of firms are open to the idea of acquiring a cloud-based market data service to run their businesses, and in a sign of the changing attitudes, 45% of firms said reliability is a core reason to migrate.

Beyond this, robotics and machine learning hold great potential as well. Just imagine how we can improve risk management by applying machine learning to the massive stores of data that we've accumulated and made digitally accessible over the past several years.

In such a dynamic environment, the industry should embrace these innovations to modernize the post-trade environment. As the saying goes, you can't stop the waves, but you can learn to surf.

Point #2: Regulatory Imperative

The same holds true for the regulatory community. Fintech is not going away so it is encouraging that regulators around the world are taking up the fintech banner.

So let me turn to my second point about the regulatory imperative – the need to balance technological advancements with market integrity.

This is not an easy task because regulators face a delicate balancing act. On one hand, rules must facilitate and support tech-

nological advancement. But on the other hand, those goals should not overtake other important policy objectives, such as risk mitigation, investor protection, resiliency and transparency.

Regulatory efforts to understand the technology and help find that balance are underway across the globe. The Financial Conduct Authority's Project Innovate and Innovation Hub in the UK and the Monetary Authority of Singapore's FinTech Innovation Lab are key examples of how regulators are supporting the development of strategies and regulation around the growing use of technology in financial services.

Here in the US, FINRA issued a paper in January on the implications of DLT in the securities industry and is now receiving comments. Meanwhile, the new Acting Chairman of the CFTC, Christopher Giancarlo, has said the regulatory framework must catch up to 21st century digital markets and cited the FCA's hub as an example to be followed.

Chairman Giancarlo has been an outspoken proponent of fintech, and as he did here a year ago, he continues to call on regulators to follow the Hippocratic Oath and "first, do no harm."

Importance of Engagement

The ultimate aim is to continue enhancing the safety, soundness and efficiency of the markets by using technology to improve the underlying infrastructure. As I said, this is a difficult challenge, but it will be made easier through ongoing engagement and dialogue between regulators, the industry and providers of fintech.

The more we share information and knowledge, the easier the path will be to balancing innovation with market integrity.

Point #3: Industry Imperative

As regulators go about addressing these imperatives, the industry has a lot of work to do to realize the full potential of fintech while maintaining the integrity and stability of the system.

Let me turn to my next point and discuss five industry imperatives that we need to tackle in the coming years.

First, the industry needs to narrow its focus on innovations that deliver the biggest benefit to the largest number of users. Too many competing priorities will make us scattered and overly tactical in rolling out solutions.

Second, we have to implement new technologies at scale and do it flawlessly. Every change to the core infrastructure necessitates corresponding systems changes within the firms that use the technology. If we don't all share similar priorities, the industry will struggle financially and operationally to keep pace.

Third, we need to avoid duplicative approaches to similar industry challenges. Senior leaders in finance need to demonstrate vision and courage to look beyond the short-term benefits of first movers and the courage to work in partnership with their competitors.

We must understand that the industry and, most importantly, our clients will be the beneficiaries of an improved and less fragmented financial infrastructure, if we go about it in a coordinated and organized manner and not simply trying to solve a narrow issue.

Fourth, as we rearchitect key aspects of post-trade environment, the industry and regulators need to determine who will establish and govern the standards that will guide us. Without standards, we face a greater likelihood of fragmented solutions.

And fifth, we need to place a greater emphasis on developing future talent. In a pair of studies conducted over the past month, an overwhelming 89% of industry executives said DLT will be in regular use in financial services by 2026. One of the surveys went further, revealing that 70% of those executives said their organization did not have enough capable talent to implement the technology.

The graduates of the Class of 2026 that we will be competing to hire will be starting High School this fall. Our imperative, therefore, is to do all we can to support STEM education to ensure we have the computer scientists, engineers and mathematicians we need for waves of innovation to come.

Conclusion

As I conclude, let me reiterate that new technologies are coming at us faster than ever before and this is not going to subside anytime soon.

Regulators face several imperatives, most critically balancing technological advancements with market integrity.

The industry faces its own set of priorities – from narrowing its focus to determining who will govern standards to training our future leaders.

These are very big questions, and we won't answer all them in a day or a week or a month. But we can work through all these issues if we maintain an ongoing dialogue with all key stakeholders and by sharing ideas and information at events like today's Symposium.

I'm very glad you took the time to join us today for this debate and exchange. I'm looking forward to the discussion.

Thank you.

Let me turn this over to Rob Palatnick, DTCC Chief Technology Architect...