Delivering Innovation, Ensuring Global Market Stability

Opening Remarks
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Welcome

Good afternoon, thank you all for joining us today.

It's a pleasure to be here in Gibson Hall, a beautiful and historic banking hall here in London, for our 3rd European client forum. This is our largest gathering yet, and we're very excited for an afternoon of discussion on a topic that's top of mind for me and I'm sure for many of you also - "Balancing Stability and Innovation in Global Markets."

We cannot let stability and innovation be mutually exclusive. They must be strongly connected. And we must be mindful of this as the industry pursues an innovation agenda because we can't sacrifice one for the other - especially in an environment that is as fast moving as the one in which we operate today.

As an industry, we need to foster an environment that promotes innovation, while at the same time, ensuring those innovations don't introduce new risks into the marketplace.

For DTCC, we must continue to innovate to best serve our clients. It's what we've done for more than 40 years. And today, we're still innovating by using the latest tools - like DLT, robotics, AI and cloud computing to name a few - to modernize and improve the post-trade process.

Our goal: to create greater value for our clients by further driving down costs and risks.

Central to our success is looking at innovation as a holistic effort - not through the lens of a specific product or service. Innovation begins with client needs and weaves its way through all of our processes.

With that as a backdrop, I'd like to set the context for today's program by focusing on three topics:

- One, the importance of grounding innovations in client needs - what I call client-centered innovation…
- Two, why innovation and collaboration must go hand-in-hand
- And three, how regulators are approaching the fintech revolution and what we need to do to support them

Client-Centered Innovation

Let me begin with the issue of client-centered innovation because it's fundamental to the discussion today.

When you strip away the overheated rhetoric and screaming headlines that often accompany new technologies, we are left with a basic truth - that innovation is – and always has to be – about enhancing client value.

At DTCC, we have a heritage of reducing costs and risks and enhancing efficiencies by driving innovation through the use of technology. If you go all the way back to our founding in the 1970s, we used technology to replace the physical delivery of securities certificates and checks with a computerized system that allowed us to centralize and de-materialize these assets.

Over the years, we've continued to drive innovation in post-trade processing by applying this same approach to other asset classes.

Along the way, we've learned a lot of lessons. One of the most important is that it's never about the technology. The technology is a means to an end - and the end is innovating what we do to create a stronger value proposition for our clients.

Technology for the sake of technology is a losing proposition.

Innovation Doesn't Require New Technology

Sometimes, in fact, innovation isn't about technology at all. Just look at Amazon. They're recognized as one of the most innovative organizations in the world today. Their emergence has all but eliminated brick and mortar bookstores, and as the company has expanded to new markets, they've had the same impact on stores in those sectors as well.

However, Amazon is now building physical stores - book stores, convenience stores and stores on college campuses. With only 10% of all global retail spending occurring online, Amazon knows it needs a physical presence to complement their online one - and old fashioned brick and mortar gives them a stronger foothold to grow their business.

The layout, design and product selection and placement in Amazon's physical book stores are very different from traditional ones - therein lies their innovation - but their underlying goals are to better serve their customers and drive client value.

T+2

We have a similar story at DTCC - the recent change in the US settlement cycle to T+2, which occurred this past September. We used existing technology to shorten the cycle and align our processes with the European markets.

The driver of this initiative was client value - capital efficiency, risk reduction and a globally harmonized settlement cycle. The fact that we used the same technology that we've employed for many years to achieve this was a benefit to our clients, who didn't need to rip and replace their existing systems.

The lesson - don't conflate improved process with new technology.

Even when you consider the hottest, newest technologies in financial services today, such as distributed ledgers, the initial predictions of dramatic transformation have since been right-sized because the business cases have not been compelling enough to move forward.

That is likely to change in the future, but I tend to believe that, at least for the short-term, the value proposition of DLT lies in addressing industry pain points in targeted areas that remain highly manual and with relatively low volumes.

Shifting Client Expectations

However, because the economic and regulatory environments remain challenging, client expectations have shifted. The pace of business has sped up and our clients need solutions today - not five years from now.

So we must use the tools, resources and technology available to us to meet those needs. In some cases, the industry can improve post-trade processes using existing technology. At other times, fintech will be the right answer. Regardless, client value should guide the decision-making.

While we must remain focused on what clients need today, we also have to keep our eye on their future needs as well.

So, we're continually looking for opportunities to improve post-trade processing through investment in R&D, evaluating how we can better apply existing technology or leverage newer ones to help our clients achieve their business objectives.

As we do this, however, we're also balancing the potential benefits of these changes with the potential risks - and we're obsessive about making sure that reliability and stability remain our primary goals. For us, integrating new technology into future solutions while increasing client value and meeting client priorities is our holy grail.

To achieve this, we know collaboration is essential.

Collaboration, Innovation, and Market Protection

So let me turn to my second point and talk about industry collaboration.

This is a topic I speak about often, and it's a behavior that's deeply embedded into our culture at DTCC. I'm proud to say that we have a nearly 45-year track record to prove its value.

Unfortunately, collaboration doesn't always come naturally in the financial sector because our industry thrives on competition - and rightfully so. But when it comes to leveraging new technologies, particularly distributed ledgers, we can't "go it alone."

We need to work together to create the building blocks for future solutions - and we also need to reach consensus on critical matters like standard and governance.

This is essential to balancing innovation with market stability.

TIW Initiative

Let me share with you a story about collaboration at DTCC. As many of you know, we are re-platforming our Trade Information Warehouse using DLT and the cloud.

Last year, we selected IBM, Axoni and R3 to provide the technology framework to build our solution for post-trade processing of OTC derivatives. This partnership is key to us for a few reasons.

One, it allows us to leverage the expertise of more than one firm to execute one of the largest DLT initiatives under development today.

Two, we can draw on the combined experience of our partners to develop, test, and experiment on the most effective way to seamlessly replace a critical industry-wide mainframe application.

Underpinning all this are two goals - increasing client value and protecting market stability.

Standards and Governance

The same can be said of our pursuit of developing standards for DLT solutions. With so many firms advancing use cases with a wide range of technology providers, the industry needs to be mindful that all these ledgers will one day need to integrate not only with other ledgers but with legacy infrastructure.

If we don't have standards, we will likely find ourselves in the future with a new disconnected maze of applications and systems - essentially what we have today only built on newer technology.

We've been a vocal proponent for establishing standards because we know standards underpin market stability.

Similarly, governance that sets controls on things like permissioning into the network, allowing nodes onto the network, verifying the code of smart contracts and controlling the kill switch to stop the potentially disastrous results of an error in code is essential.

Can you imagine the chaos and potential risks that would result without proper governance?

We know from experience that governance cannot be outsourced to each individual chain creator or fintech developer. That's a recipe for disaster. But creating the standards and governance framework will require collaboration across the many players in financial services.

While this is still very much a work in progress, we're hopeful that the industry coalesces around a common set of standards and strong governance.

Regulatory Environment

Another important element of bringing innovations to the marketplace is gaining the support of the regulatory community, especially when new solutions are being developed using cutting edge and often unfamiliar technologies.

So let me turn to my third and final point - the need for all of us to work together with regulators to define how new technologies will fit into the existing regulatory framework and where that framework will need to evolve as new solutions are implemented.

Fortunately, many regulatory bodies globally have taken an early and active interest in this. For example, The Financial Conduct Authority's Project Innovate and Innovation Hub in the UK and the Monetary Authority of Singapore's FinTech Innovation Lab are just two examples of how regulators are creating an environment for the experimentation and growth of fintech.

Regulatory Actions

I've been particularly impressed with the work of the FCA, which is currently exploring the potential for a model-driven, machine-readable regulatory environment.

The agency just kicked off a two-week TechSprint with the goal of enabling firms to map their regulatory requirements directly to the data they hold. If this proves successful, it may help facilitate creating automated, straight-through-processing of regulatory returns. I'm looking forward to seeing the results.

In the U.S., Christopher Giancarlo, Chairman of the CFTC, 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. He has also called on regulators around the world to follow the Hippocratic Oath when it comes to fintech development - "first, do no harm."

Regulators are excited by the potential of fintech because they recognize that future solutions can benefit them by enhancing their oversight of the markets and giving them a deeper understanding of market activity and financial risks.

But we are also aware that regulators face a delicate balancing act.

On one hand, rules need to support technological experimentation, advancement and innovation. But those goals can't take precedence over important policy objectives like risk mitigation, investor protection, market resiliency and transparency.

Given the challenging work ahead, it is crucial that the industry maintains its engagement and dialogue with policymakers, supervisors and other key stakeholders. Much like I said about collaboration among industry players being a necessity for the development of new solutions, "going it alone" is not an effective regulatory strategy.

The more we share information and knowledge with our supervisors, the easier the path will be to fostering innovation and protecting market integrity.

Conclusion

There are many other issues related to this topic, but let me conclude here by reinforcing three main points:

One, innovation needs to be grounded in client value and support business objectives and goals. Technology is a means to an end - not the end itself. And at the end of the day, client value must drive innovation.

Two, collaboration between all the various players - from our colleagues in the industry to our regulators and others - is essential to developing integrated solutions and creating standards and strong governance. These items are all critical to market stability.

Three, our regulators are partners on this journey, and we must work with them to ensure the environment supports innovation and also protects the safety of the marketplace.

I'm looking forward to today's program and the discussions it generates.

Thank you.