# CEO to CEO: *Interview with DTCC's Michael Bodson*

*By Walt Lukken*

On April 23, the Depository Trust & Clearing Corporation announced the election of Michael Bodson as the company's next president and chief executive officer. Bodson joined DTCC in 2007 after 20 years at Morgan Stanley and most recently served as the company's chief operating officer. He succeeded Donald Donohue, who retired at the end of July 2012.

In this interview, Walt Lukken, the new president and chief executive officer of the FIA, talks to Bodson about his priorities as head of the DTCC. This is one of a pair of CEO-to-CEO interviews in this issue of *Futures Industry*.

**LUKKEN:** Mike, you took over as the new chief executive officer of DTCC on July 1. What is your vision for the company and what are your immediate strategic priorities?

**BODSON:** I've been working very closely with Don for the last five years in terms of sculpting and shaping the strategy of DTCC. So there will be a lot of continuity in terms of the strategy that has been articulated up to now.

DTCC is focused on two core businesses, which are first, the clearing and settlement services that we provide to the financial markets, and second, the global data repository services that build on our product expertise and our network of connectivity in these markets. Both of those businesses were in existence long before I showed up on the scene, and as CEO my top priority is to ensure continued execution on those two fronts.

As an organization, our highest priority will always be ensuring that the financial markets continue to function the way they should. We have such a critically important role in the market infrastructure that we don't have the luxury of ever missing a day. So risk management has to be our number one priority at all times.

Our second priority is to help the industry meet the requirements of regulatory reform through initiatives such as global data repositories across various asset classes and legal entity identifiers. Both of those projects have some very significant deliverables and some highly aggressive deadlines. It's a big challenge designing a system and a process that will meet the requirements of global regulators under some very tight time constraints, getting industry support and completing users acceptance testing. So getting those two projects up and running are really where we will be heavily focused for the rest of this year.

Longer term, I think our strategy is not that dissimilar from what it is now. The industry has created this wonderful asset in DTCC. It combines some amazing processing capabilities and an outstanding network of connectivity in the U.S., and now, because of the global trade repository, we are operating more and more on a global basis. I think the more that firms re-examine market structure and how they undertake their business operations, the more demand they will seek to partner with us and leverage DTCC in ways that will lower their costs and lower the overall risk profile of the industry.

**LUKKEN:** How did the financial crisis of 2008 change your view of the world?

**BODSON:** There are a variety of lessons learned from that experience, but I'm going to focus about one in particular---the change in how people look at risk management.

Going into 2008, I think the industry at large looked at risk very much within a standard deviation approach. We all knew the bell curve and we focused on that big center and managing the risk within that center. I think the crisis woke us to the reality that the risk outside of that center--the fat tail, the black swan, whatever you want to call it--truly is what creates disproportionate risk.

So, I think lesson one was expect the unexpected. In other words, look beyond the standard deviation. It's the unknown risk, or the risk that you think you have managed but in reality haven't, that really brings you great levels of harm.

That doesn't mean we don't excel at risk management. We got through Bear Stearns, Lehman Brothers, and Madoff very effectively. We never missed a day of processing. That wasn't just by luck…that was by design. But I think the lesson we learned is that the game has changed. What was an acceptable level of risk management in 2007 and 2008 is no longer acceptable going forward. We have to rethink the way we approach risk management, improve the ways we define and identify risk, and demonstrate that we are even more effectively mitigating risk.

**LUKKEN:** Some people say that there has been an over-reliance on risk models, such as Value-at-Risk, as a risk management tool. In fact, some people say that an over-reliance on models was one of the reasons why the banks lost so much money during the financial crisis. Has DTCC changed its reliance on models and how you use that tool in thinking about risk?

**BODSON:** Well, I think you're using the right terms. VaR is not the answer. It's a tool to arrive at an answer. It's a tool to measure sensitivity to a change in market conditions. So VaR is not going to save you. VaR is going to give you a warning signal. And you can choose to act on that signal, or you can choose to ignore it and do so at your own peril.

**LUKKEN:** Let's talk about DTCC's business model. Historically, you have been a user controlled utility, which is a pretty common model on the securities side of the industry. But you're now starting to enter into joint ventures that are run as for-profit businesses. Philosophically, how do all of these things hang together under the DTCC umbrella?

**BODSON:** There are two factors that we look at. First, whatever endeavor we're undertaking must help our clients, our participants and the marketplace reduce cost or risk or capital usage. Secondly, we don't always have all the skills or expertise or technology needed to provide that value. In the case of New York Portfolio Clearing, for instance, while we obviously had the risk management and the securities inventory, what made the one pot possible was partnering with somebody who brought the futures portfolio and the expertise in futures clearing. It's that partnering of capabilities that makes it a unique product offering.

When we look at all our joint ventures, be it Omgeo, MarkitServ or NYPC, we look to partner with firms that are focused on delivering the same value proposition as we are. So, with eNYPC, it was the capital savings of one pot margining. As for MarkitServ, it was providing a uniform platform for the affirmation and confirmation of over-the-counter derivatives. In the case of Omgeo, what the industry was looking for is how you apply this affirmation process in the most expedient way possible.

I think the recipe for success in this type of partnership is having a very strong and active board membership with corporate values that are very much aligned as to the business purpose of the entity and to the management and governance structures to

## About DTCC

- Industry-owned clearinghouse for cash securities, repos, treasuries, and agencies in U.S.
- Settled more than $1.7 quadrillion in securities transactions across asset classes in 2011. Joint venture owner of New York Portfolio Clearing with NYSE Euronext, DTCC's first venture in futures clearing aimed at portfolio margining fixed income cash and futures products.

be put in place. In all three instances, we have boards that comprise not only representatives of the owners but also representatives of the industry. We can't just simply sit there and say we have a natural monopoly on certain business, and therefore we can maximize the profit. That runs against both our creed as well as the market participants' board members' responsibility.

**LUKKEN:** Looking at NYPC in particular, can you give us a quick update on its progress to date?

**BODSON:** I think it's off to a good start. Any new undertaking obviously has a period of fits and starts. But I think the value proposition of margin savings has been proven repeatedly. We've got strong active participation by the major dealers. We have really exciting products coming out—be it adding options to the list of clearable products or the general collateral finance (GCF) futures contract or the "one-pot" offering to market professional customers. So by combining the strengths with our partner in this effort, we're working to be innovative and creative and respond to what the market needs.

**LUKKEN:** Now with the Project Trinity announcement in March, you have LCH. Clearnet coming in, adding swaps to the one pot margining solution offered by NYPC. This will be the first clearinghouse to have portfolio margining for futures, cash and swaps. How is that project going, and what's the timeline?

**BODSON:** It's going well. We're trying to get this up and running towards the end of this year or the early part of 2013. That said, this is innovative, so we have to make sure that the regulators are comfortable with how the risk management is going to take place and how we're going to ensure that we're not creating some sort of potential risk that has not been seen before. So we have to go through the appropriate oversight process and make sure that our stakeholders are comfortable that we are doing the right thing.

**LUKKEN:** Turning to data reporting, I know DTCC has been designated by the International Swap Dealers Association as the swap data repository for a variety of different asset classes. Can you give us an update on where you stand with that project?

**BODSON:** We have an application to be one of the U.S. SDRs pending now at CFTC, so we're under the review process. At the same time, we are continuing to move ahead on all fronts. The industry is very focused on reporting credit and rates and meeting the regulatory deadline, as well as getting things up and running as quickly as possible. Equities, commodities, and foreign exchange have compliance dates in October. So our timelines and our project plans are all driving toward getting the U.S. SDR up as quickly as possible.

We're also building a global network of data repositories, and doing those concurrently is quite a challenge. It's a massive undertaking, but the industry's been very, very supportive.

**LUKKEN:** Recently you announced that former CFTC Commissioner Mike Dunn had agreed to serve as chairman of the DTCC SDR board.

**BODSON:** We're thrilled to have Mike join us. We realized that we needed to raise our level of expertise when it came to regulatory matters. Having someone with Mike's experience and long knowledge of the marketplace who can advise us and guide us as we develop the SDRs and other businesses will be hugely beneficial.

It's also an indication that we take the regulatory obligations and market oversight very, very seriously. This is new ground for everybody. Having somebody who has sat at the table as these rules and regulations were being written and who understands the subtleties of what needs to get done will allow us to better serve our constituents, the marketplace and regulators. And he happens to be a heck of a nice guy, too, which is always nice to see.

**LUKKEN:** Looking five years down the road, there may be more than one SDR registered with the CFTC. How do you see this market developing?

**BODSON:** We have been fairly consistent in our views. What the marketplace would like to see, and what regulators need to see, is aggregated standardized data on a timely basis. That can't really be done by having fragmented data repository structures.

I was on a panel and somebody said, well, data standardization is easy. Sure, perhaps on day one when everybody agrees to a set of standards. But as time goes on, as standards starting to diverge and issues of duplication of trade entry and data cleansing start to rise, it makes it that much more difficult to get a true and complete picture of what's happening in the marketplace.

In times of stress, when that information is that much more valuable, having multiple repositories diminishes the effectiveness of what those tools were supposed to represent. Dodd-Frank does permit multiple

## About Mike Bodson

***The person you most admire?***
My father—he left school at 16 to work and became CFO of a company. He was a self-made man.

***The person who had the most influence on your career?***
Too many to list—I have been lucky to have great mentors, each of whom taught me something new.

***iPad, iPhone or BlackBerry?***
Two BlackBerrys and one iPad

***Favorite App?***
LOL—Pandora, iBooks and Bookworm

***Last book read?***
Business—*Demon of Their Own Design*, Fun—*The Buddha in the Attic*

***Favorite TV Show?***
Anything sports

***Where were you born?***
Montreal, Canada. I moved to the U.S. at age five.

***Favorite Vice?***
A good pinot noir is truly a wonderful vice.

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data repositories, and some market participants may want to use different repositories. We respect the law. We respect market participants. We just think that, intellectually, it makes much more sense to create a final, centralized repository for the data of each asset class.

Look at what happened when we first started reporting information about what the net exposure was on credit default swaps. Post Lehman, the market rumors were out there of net payments due of a hundred billion, two hundred billion, four hundred billion dollars. We knew from DTCC's centralized global data repository that the actual payment and the dues were around six billion dollars. When we started publicizing that, it took a lot of stress and anxiety out of the marketplace.

Roll the clock forward, and we have the dialogue about the size of the exposure to a Greece default. We start publicizing numbers that were between two and three billion euros, again, a very manageable number that reduced the anxiety that somehow a default would cause an immediate collapse on credit default swap exposure. So, it's a very powerful tool, but its power depends on people having confidence that it is complete and it's accurate, and it's harder to do that when you start getting fragmented information at multiple repositories.

**LUKKEN:** Just to wrap up, we've talked about your work priorities and what you're going to be doing after July 1st when you take over this new role. On a personal note, what gets your mind off of work? What is it you do to get away from it all, to relax and recharge your batteries, so to speak?

**BODSON:** Who says I ever relax? Look, I think I'm like everybody else. Going home, reading a good book, playing the piano, and spending time with friends, spending time working out—those are all different ways of letting go of the stress a little bit.

Earlier this year we lost two of our managing directors at DTCC. They both were absolutely great guys and their lives ended much too early. It's a stark reminder that even though what we do is very important and critical to the financial markets, life itself is always much more important. I'm never going to say that I'm not a workaholic and I'm not on 24/7. But there's more to life than just work. I'm lucky to have two great kids and I try to spend as much time with them as possible. And, otherwise, just try to enjoy life as much as I can.

**LUKKEN:** Amen. Thank you Mike and good luck in your new role.

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