Remarks as Prepared for Delivery
Marie Chinnici-Everitt
Chief Marketing Officer and Regional Administrative Manager (Tampa)
BDUG Annual Meeting
September 24, 2018

Collaboration and Innovation Driving the DTCC Agenda

Introduction

Welcome and thank you. It's very excited to have the opportunity to be with you this morning.

Let me briefly tell you about myself. I joined DTCC 6 1/2 years ago as the Chief Marketing Officer and a few years later, I took on an expanded role as the Regional Administrative Manager of DTCC Tampa, which now has more than 1,100 staff. In these capacities, I have a unique perspective on client needs and how the innovative and exciting work going on at DTCC addresses the top pain points of the industry.

I love my job because it's truly a great time to work at DTCC – we're on the frontlines protecting the stability of the financial system and at the forefront of shaping the future of the global marketplace.

<u>Long-Standing Relationship with BDUG</u>

Before I begin, I want to thank Cindy Lawrence of Commerce Trust Company, who serves as the Chair of BDUG, and the entire BDUG leadership team for organizing this year's annual meeting and inviting me to speak. It looks like you've developed another excellent agenda.

DTCC has a long history of working collaboratively with BDUG, and we value the opportunity to attend your annual conference to share key insights on the work we're doing to support the industry and how we can better partner and collaborate with you to address your top priorities. Our relationship with BDUG is important because the feedback you share with us on the challenges your firms are facing helps inform product innovation and development at DTCC and shape our thinking on ways in which we can extend our level of support to you and your organizations.

<u>Three Topics</u>

Today I'd like to talk about three topics related to how collaboration and innovation are driving DTCC's strategy:

- One, how challenges in the external environment, such as regulation, geopolitical instability and the evolving nature of risk, are impacting the industry.

- Two, how DTCC is responding to these dynamics to help our clients more efficiently and cost effectively mitigate risk, enhance operating efficiencies and reduce costs.

- Three, an overview of the DTCC roadmap so you understand how we can help your firms grow and succeed in the future.

Topic #1: Impact of Current Environment on Clients
Let me begin with my first topic and talk about how the external environment is impacting the industry and our clients. Looking back just a few years, the global economy was mired in an extended period of low growth that left many corporations – and therefore, hundreds of millions of people around the world – still struggling in the aftermath of the 2008 financial crisis.

<u>Global Economic Growth</u>
Fast forward to today and the narrative has changed dramatically. Global economic growth is above 3%, and here in the United States the economy is roaring, with second quarter growth registering 4.1% -- its strongest pace in four years. Thanks to this, the standard of living is rising in many regions globally, workers are benefiting from higher wages and financial firms are recording in some instances record earnings. This translates into more opportunity for people to create a better life for themselves and their families.

However, the storm clouds have not dissipated entirely. While the economy is in its best shape in years, the environment for our industry is still very tough. There's no clearer sign of that than return on equity, which remains in the single digits or low teens for many banks globally – about half of what top-tier firms in the industry were seeing just a decade ago.

<u>A Sea of Challenges Facing the Industry</u>
In addition to this, we continue to navigate through a sea of challenges, including ongoing capital and cost pressures, relatively low (but rising) interest rates, growing regulatory demands, increasing complexity, geopolitical instability and the emergence of new types of risk. While the regulatory environment has stabilized, new rules and mandates, such as Basel III, liquidity ratios, EMIR and Dodd-Frank, have forced firms to scale back activities, close once-profitable business lines and dedicate increased funding to non-revenue generating areas, like risk management and compliance.

In fact, compliance costs have soared to levels never seen before – about $270 billion annually based on some estimates. And the future looks like it'll be more of the same. According to one survey of senior banking executives, they expect these costs to double over the next five years, consuming upwards of 10% of many banks' operating costs.

Another dynamic we're experiencing as an industry is the impact of heightened capital requirements, which have had the positive effect of making financial institutions safer and more resilient to a future crisis but is also creating a whole different set of business challenges for the industry.

If you add to this the geopolitical instability resulting from Brexit, brewing trade wars among allies, the rising trend of nationalism and the ongoing security threats posed by enemies and adversaries of the West, we face a very high degree of uncertainty that could send shock waves across the global markets in an instance.

The Evolving Risk Environment

All these challenges are compounded by a fast-moving and quickly-evolving risk environment that must be carefully managed to avoid or mitigate a future crisis. Today, the number one risk facing financial services is cyber-attack. It's registered as the most prominent threat to the industry in DTCC's annual Systemic Risk Barometer over the past several years.

Most organizations have been fortifying their defenses to protect against an attack, but this comes at a significant cost – just one more expense among many that are chipping away at the balance sheets our clients. Cyber is also a perfect example of another trend I mentioned – the evolving nature of risk. If you compare today's risk environment to the landscape just a decade ago when Lehman Brothers failed and the global financial system teetered on the brink of collapse, it barely registered on the radars of most banks.

The Next Crisis Will Be Different

This raises an important question for all of us – Despite all the new regulations and actions taken by the industry to protect against a future systemic shock, are we prepared for the next crisis? This is the question we posed in a new white paper we issued just two weeks ago. We titled it "The Next Crisis Will Be Different" because our experience tells us that solving for the last crisis won't prepare us for what may happen in the future.

In the paper, we identify opportunities to further strengthen financial stability through enhanced system-wide resilience, but the key takeaways for me are that, as an industry, we must maintain the highest level of vigilance and caution and take a forward-looking approach that anticipates and mitigates threats, including ones that may not have fully materialized just yet.

Topic #2: Solving Client Pain Points

This forward-looking mindset is at the heart of our risk management program at DTCC, but it's also infused into how we think about client needs and our role in helping address the top pain points facing the industry…so let me turn to my second topic and talk about how our strategy will help your firms grow and succeed now and in the future.

At the most fundamental level, our strategy can be articulated as: DTCC is committed to maximizing value for our clients by delivering the world's most resilient, secure and efficient post-trade infrastructure with a focus on superior execution, risk management, and innovation…

Strategic Priorities

Now let me break that down for you so you have greater insight into our Strategic Priorities and understand how they align with what you have told us are your top needs. We have four priorities:

- Our first is to strengthen the security and resiliency of the capital markets…

- Our second is to increase the value we deliver to you through continuous improvement in post-trade infrastructure…

- The third is to continue building upon our 45-year legacy of pioneering industry-wide, post-trade solutions…

- And the fourth priority is to strengthen industry partnerships and regulatory relationships by collaborating with all our stakeholders and sharing our insights and expertise with them.

<u>Holistic Solutions</u>
Those priorities were developed based on feedback from our clients, and when we overlaid your needs with our capabilities it was clear where we could make the biggest impact on your business:

- <u>Cash Securities Processing:</u> We want to create greater processing and capital efficiencies as well as reduce risk for the industry.

- <u>OTC Derivatives:</u> We want to deliver more value-added products based on the industry infrastructure investment in the Deriv/SERV infrastructure, which means looking beyond our current role in the reporting space and leveraging that investment to create greater value.

- <u>Crossover Opportunities:</u> We want to reduce friction and create value across asset classes in the post-trade ecosystem by stitching our products together and looking at them holistically.

That last point is an important one and is greatly influencing our approach to product innovation and development and our thinking around the services we provide. Let me explain to you what I mean. Earlier, I spoke about the external environment, the pressures that are keeping ROEs low and the challenges this is creating for the industry.

To address this, you've told us that you need integrated solutions that eliminate friction in the post-trade environment because friction creates inefficiencies that, when multiplied together, significantly increase your costs and the levels of risk you face.

We understand that it's no longer affordable or practical for you to buy and integrate different products and services into your own systems and make them interoperate with other solutions you use because it's too complex and negatively impacts your bottom line. You want a single entry point for services across the lifecycle.

You also want to work with providers who you trust and who have expertise and experience, but speed to market and execution are equally critical nowadays. We know you can't and won't wait three or four years for a new product. You need integrated solutions delivered quickly and in an iterative manner, and you expect to see value delivered along the way.

DTCC Through A Client Lens

So we're working to create greater cohesion among our products and services and integrating them so it's clear how you can leverage our solutions across the post-trade lifecycle. When we look at our distinct and robust capabilities stitched together to form a cohesive set of solutions and overlay this with the global post-trade environment, we're confident that we have the broad capabilities, deep experience and proven record of success to deliver the holistic solutions you want to address your top needs.

Topic #3: The DTCC Strategic Roadmap

So let me turn to my third topic and give you an overview of some of our most exciting initiatives at DTCC. You'll hear more about these over the next few days during the conference, but I want to preview a few of the projects we're advancing to support the industry today and in the future.

While each of these initiatives is unique, there are several common threads that tie them together. One is collaboration…another is innovation… a third is cost efficiency…and, of course, there's risk mitigation. This shouldn't come as a surprise because, as you know, DTCC's primary mission is to safeguard the stability and integrity of global financial markets. The initiatives I'm going to highlight all build on that strong legacy.

T+2 & Settlement Optimization

Let me begin with T+2 because it represents one of the most significant changes to U.S. market structure in decades and also served as the springboard for our current efforts to accelerate and optimize settlement. As you may know, over the Labor Day weekend last year, we seamlessly transitioned from T+3 to T+2, and since then, the industry has reaped the cost and risk benefits of this move.

Today, we're taking steps to further accelerate settlement and, at the same time, modernize the U.S. equity market's post-trade infrastructure. Earlier this year, we issued a white paper that outlined an innovative plan to achieve many of the benefits of a shorter settlement cycle without requiring the traditional calendar-day reductions – and we explained how we will do this while preserving all the benefits of centralized netting and robust risk management that you've come to expect from us.

We call this initiative Settlement Optimization, and when fully implemented with DTCC's optional T+1 accelerated settlement capabilities, we will effectively put the U.S. markets on a "T-plus-a-half" schedule, which will further reduce capital requirements, systemic risk and operational costs. This is a great example of how we're constantly innovating and sourcing ideas to improve how the markets operate without creating unnecessary burdens on our clients. Jack Manual of DTCC will share more information with you on this topic tomorrow.

Expanding Clearing Capabilities & Products

We also have several other important initiatives that are focused on expanding our clearing capabilities, especially to bring additional buy-side firms, custodians, prime brokers and hedge funds into clearing. One example of this is our Centrally Cleared Institutional Triparty service (CCIT), which gives eligible tri-party money lenders limited membership to our Government Securities Division.

This means institutional investors can participate directly in the clearinghouse and take advantage of our guarantee of trade completion for certain transactions. CCIT went live mid-year last year, with the first transactions executed between Citadel and Morgan Stanley.

Another example is our Sponsored DVP Repo Service, which will allow well-capitalized Bank Members to sponsor their eligible clients into GSD membership.

Institutional Trade Processing

Later this morning, Ana Lotharius of DTCC will host a session on Institutional Trade Processing and talk about initiatives like Global Custodian Direct, Match-2-Instruct and DTCC Exception Manager. Our efforts in this area are focused on developing an integrated, post-trade platform for global institutional securities trade processing.

We want to reduce the number of fails and exceptions resulting from breakdowns in the institutional trade processing chain, automate and standardize all stages of the trade lifecycle to mitigate operational risk and provide automated tools and integrated platforms to reduce operational cost. Our end-state vision is to enhance straight-through processing, with an ultimate goal of enabling "minimal touch" processing for these transactions.

GlobalCollateral

Another initiative I want to mention is our joint venture with Euroclear, known as GlobalCollateral. This service is timelier than ever because the initial margin rules that go live in 2019 and 2020 will spark a significant increase in margin calls and a corresponding liquidity crunch.

GlobalCollateral will automate and streamline post-trade margin and collateral processing of cash and securities globally for all market participants, including dealers, outsourcers, custodians and the buy-side. Amy Caruso of DTCC will be joining you tomorrow afternoon to update you on the progress we're making with our Margin Transit Utility.

Fintech

I want to conclude on the subject of fintech because it underpins so much of the work we're doing at DTCC right now and sits at the intersection of two of our core strengths – managing risk for the industry and leveraging technology to enhance the efficiency of post-trade processing.

While many fintech offerings are still in their early stages, the transformational benefits they can deliver over time are significant and, based on use cases we're pursuing, we remain excited by the potential of distributed ledger technology, cloud computing, artificial intelligence and robotic process automation. In time, we believe all these technologies can be game changers for the industry.

With regard to DLT, we've seen expectations shift over what can be achieved in the short-term due to the technology's current limitations in scale and processing power. Despite this, we continue to advocate for use cases in areas of the post-trade environment that remain highly manual and where volumes are small.

Toward that end, there are many instances where the technology can deliver immediate benefits, such as the re-platforming of our Trade Information Warehouse for credit derivatives using DLT and the cloud. This is one of the industry's largest and most complex DLT projects to date, and it's allowing us to gain deep experience in the digital transformation of the post-trade environment, which is helping to shape our fintech strategy and enhance our client service and product development. Gordie Sands will dive into this topic in more detail later today.

Conclusion

As you can see, DTCC is at the forefront of so many key industry initiatives, but our success will rest, in large part, on continuing to focus on collaboration, innovation and engagement. As I conclude my remarks today, I want to stress that, whether it's gathering input for an application's user interface or a major industry initiative, DTCC is committed to more actively engaging with you.

We know we've developed an ambitious agenda to help the industry overcome the challenges it faces today, but I also want to assure you that as we pursue this strategy, we will continue to focus on delivering high-quality products and services and soliciting your feedback and opinions throughout the lifecycle of a project. We consider it an honor to call you our clients, and we hope that appreciation is evident in the quality of our products, the level of our service and the depth of our outreach to you.

Thank you for your time today…I have a few minutes and would be happy to answer any questions you may have.