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SIFMA Liquidity Forum

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Opening and Welcome Remarks

Kenneth E. Bentsen, Jr.

SIFMA President and CEO

Good morning and welcome. I'm Ken Bentsen, president and CEO of SIFMA. Thank you for joining us at this important event to review the state of financial market liquidity. Robust market liquidity is essential to efficient capital markets and facilitates capital formation, investor opportunity and economic growth.

Over the past five years, and really the past seven years, the financial services industry has undergone a significant transformation driven by an unprecedented amount of new regulation aimed at enhancing resiliency. While much of this change has been positive, it's important to ensure that taken together, these new rules strike the right balance of enhancing stability without compromising market making and the ability of markets to function efficiently.

Recently there have been increasing concerns raised from market participants and policymakers regarding the impact of regulation and changing market conditions on liquidity. These discussions are being held for example at the global level at the Bank for International Settlements and the International Organization of Securities Commissions, and at the regional level here in the U.S. as well as the UK and Australia.

That's why SIFMA's global affiliate, the Global Financial Markets Association, recently joined with the Institute for International Finance to commission an independent PwC analysis on the state of market liquidity. Importantly, PwC's study finds that a combination of several factors, including banks reducing risk following the introduction of new regulatory frameworks, have contributed to a measurable reduction in financial market liquidity across various asset classes.

PwC's analysis indicates an early warning that this withdrawal of dealer liquidity to date has had a muted impact as quantitative easing and monetary policy are reducing pressures, and because market participants are adapting by trading some instruments less frequently and in smaller sizes.

The report highlights the critical role of dealer market makers in providing sufficient liquidity to the capital markets and recommends a greater focus on the cumulative impact of regulation moving forward. Importantly, bank holdings of tradable assets has decreased by more than 40% between 2008 and 2015, and in the U.S., dealer inventory of corporate bonds has declined by almost 60% over the same period.

To be clear, the report does not call for a rollback of current regulation. Rather, the key takeaway is that it would be helpful for policymakers to engage in greater study of how reforms to date are cumulatively impacting liquidity and consider that as they finalize initiatives such as the Fundamental Review of the Trading Book, MiFID II, NSFR and TLAC to ensure they are properly calibrated and not counterproductive.

Adam Gilbert from PwC is here today to share more insight and details on PwC's findings, and I encourage all of you to review this report in your ongoing study and discussion on market liquidity and the future of the capital markets. PwC's report was released in August and is available to all via PwC's website.

Much like the PwC study, today's forum is meant to encourage greater dialogue and foster further review of market liquidity, so we appreciate that you all have taken the time to join us.

After our keynote, you'll hear from senior industry experts from both the buy and sell side who will discuss the factors impacting liquidity and how market participants are reacting.

Once again, thank you for joining us this morning, and thank you to our speakers for their time and expertise.

It is now my pleasure to introduce our keynote speaker, Bill Dudley, president and CEO of the Federal Reserve Bank of New York.

Bill became the 10th president and chief executive officer of the Federal Reserve Bank of New York in January 2009. In that capacity, he serves as the vice chairman and a permanent member of the Federal Open Market Committee. Previously, he served as executive vice president of the Markets Group at the New York Fed, which oversees domestic open market and foreign exchange trading operations and the provisions of account services to foreign central banks.

Prior to joining the Bank in 2007, he was a partner and managing director at Goldman Sachs and was the firm's chief U.S. economist for a decade. Prior to joining Goldman Sachs, he was a vice president at the former Morgan Guaranty Trust Company and served as an economist at the Federal Reserve Board.

In 2012, he was appointed chairman of the Committee on the Global Financial System of the Bank for International Settlements (BIS). Previously, he served as chairman of the BIS Committee on Payment and Settlement Systems. He is a member of the board of directors of the BIS and chairman of the Economic Club of New York.

Please join me in welcoming President Dudley.