



**2016 Operations Conference & Exhibit**  
**May 3, 2016**

**Opening Remarks**  
*As prepared for delivery*

**Randy Snook**  
**SIFMA Executive Vice President, Business Policies & Practices**

Good morning. I'm Randy Snook, executive vice president of business policies and practices at SIFMA. It's my pleasure to welcome you to our 43rd Annual Operations Conference. SIFMA is pleased to provide this forum for industry leaders, regulators and solution providers to address key issues impacting the capital markets, through the lens of the operations expert.

This event was first held back in 1973 – when the average cost of a new home was just under \$30,000, financial services were delivered by phone and newspaper, and I'm guessing some of you were not yet born. The average daily trading volume on U.S. stock exchanges was just 25.8 million shares, which regularly overwhelmed firms. It was commonplace for trades to fail, and the markets were inaccessible to many investors.

Fast forward to present day. The average daily trading volume on U.S. stock exchanges last year was 4.5 billion shares – that's an over 17,000% increase from 1973. We are operating in an online and mobile world where transaction costs are extremely low, nanoseconds matter and roboadvisors are part of the future.

Innovation, advances in technology and regulatory reform have brought changes and democratization to the capital markets. Yet they have also introduced new risks and massive new compliance responsibilities. Operations professionals are at the center of firm efforts to manage these risks and institute effective compliance controls, as they strive to innovate and meet the changing needs of clients.

As we look at the marketplace today, I want to address three broad areas where the expertise and leadership of operations professionals will be critical to shaping the future of the industry.

**First, we are in the midst of several seismic shifts that will fundamentally change the infrastructure of the financial system.** These changes include:

- 1) The shift to a T+2 Settlement Cycle:

The industry is working proactively to shorten the settlement cycle for trading in equities and fixed income securities from three days to two by September 5, 2017. A shorter settlement cycle will bring a number of benefits to investors and the broader financial system, including reducing operational, systemic and counterparty risks, while aligning the U.S. with other markets across the globe. Regulatory action, including specific rule changes, is essential to accomplishing this goal. SIFMA and ICI have been working with DTCC to lead this effort, and we encourage all of you to stay engaged to be prepared to trade T+2. (Visit the industry website.)

## 2) Development of the Consolidated Audit Trail (CAT)

The consolidated audit trail, or CAT, is another transformative initiative that will require the insight of operations experts. We are reviewing the recently proposed plan in detail. SIFMA and our members support the concept of a consolidated audit trail given its potential to enhance the quality of data provided to regulators and promote fair and equitable markets. A true collaboration among all market stakeholders will be vital to building an effective CAT.

It is essential that the CAT have robust protections for the massive volume of sensitive transaction data it will track and store. This includes personally identifiable information, or PII, such as social security numbers, for every person with a brokerage account. Additionally, the CAT must be developed from the outset to replace redundant and duplicative regulatory reporting systems. There must be a commitment to promptly eliminate systems such as FINRA's Order Audit Trail System (OATS), the Electronic Blue Sheet (EBS) system, and the Large Trader reporting requirements. We also call on the SEC to make sure that the funding model for the CAT is equitable among not only CAT reporters but also CAT users.

## 3) The Department of Labor's fiduciary rule

The Department of Labor's new fiduciary rule is likely to require significant changes to current business systems and processes. SIFMA has long supported a uniform fiduciary standard – or best interest standard – for brokers and advisers when providing personalized investment advice to retail clients. However, we remain concerned that the DOL's rule will harm investors, especially more modest investors, by limiting access to financial guidance, reducing choice and ultimately raising the cost of saving for retirement. In the short term, operations professionals will help their firms implement necessary changes to comply with the rule, such as compliance with the Best Interest Contract Exemption and providing detailed website disclosures. Firms are also planning for how the rule may drive evolution in their business and customer service model, including the potential for a greater role for digital investment advice.

**The second broad trend impacting the industry – and operations experts in particular – is the enhanced focus on resiliency.**

The delivery of financial services and products today is synonymous with technology. Resilient markets give investors the needed confidence to participate in the markets and put their capital at

risk. That's why the role of the operations expert to promote resilient infrastructure is more important than ever.

SIFMA and our members have been actively working on initiatives to enhance resiliency: For example, we have been leading efforts to enhance business continuity planning practices at the sector level. We are continuously refining protocols for addressing the opening and closing of financial markets to ensure order in case of emergency. This includes an annual test of backup systems, and the establishment of SIFMA's Emergency Command Center. Operations professionals are the backbone of this effort.

We are also working with our members to successfully implement and ensure coordination regarding new resiliency requirements under Regulation SCI. Reg SCI will help ensure that key exchanges and market utilities have resilient operations and technology. We are leading the effort to coordinate our members' response to Reg SCI so they can meet their testing requirements and demonstrate that they are ready to keep working with market infrastructure providers through any technical or other disruption.

**Finally, a third area where operations professionals must focus is on risks and future opportunities.**

Operations experts must keep a close eye on innovation to stay ahead of the curve. A few of these include:

1) Cybersecurity

One of the most important risks facing the industry today and moving forward is the threat of cyber attacks. The industry is dedicating tremendous resources to protect client information and ensure that the infrastructure is secure. Operations professionals have a vital role in this effort. SIFMA members have been focused on a range of initiatives aimed at enhancing the financial services sector's readiness to protect against attacks, and when necessary, recover. Industry, regulators and all market participants are aligned in this goal. Cyber threats are continuously escalating, and for that reason, we must continuously improve and be vigilant. As regulators consider guidance in this space, it must be coordinated across agencies and across borders to be truly effective.

2) Blockchain

Blockchain technology is another new opportunity that looks like it will be needed in the tool box. Blockchain is an interesting and provocative new technology, offering a new way of sharing and tracking information between diverse market participants. Firms, technology providers, and SIFMA are looking at how distributed ledgers could be applied to maintain records and other information, handle processing, or potentially trade products in new ways.

3) Roboadvisors

Roboadvicing is no doubt a new service that we have all heard a lot about, with the potential to help firms reach and engage their customers in new ways. As more firms offer roboadvice as a new product, operations experts need to take a 360 degree view of what's needed to support the product. This is everything – from regulatory requirements, to resiliency controls, to the underlying roboadvice technology and its integration with mobile and other platforms, to new business processes and systems.

Over the next three days, you'll hear from a variety of expert speakers who will dive deeper into key risk and resiliency issues facing operations professionals. Before we get started, I'd like to take this opportunity to thank all of you for joining us in Miami and for your continued engagement with SIFMA. Your expertise and input are critical to SIFMA's mission of promoting balanced regulation and a robust marketplace that facilitates capital formation and investment opportunity.

I'd also like to thank all of our speakers for making time to share their insight, and all of our sponsors, whose support has helped to make this event possible. [ Slide will show.] We encourage you to make time to meet with our sponsors and exhibitors, and learn more about how they can help you achieve your goals.

Now, I have the privilege of introducing today's opening speaker, Phil Davies. Phil is Global Head of Operations for Morgan Stanley, responsible for all Operations activities supporting the Institutional Securities, Wealth Management and Investment Management businesses. He is also a member of the Firm's Management Committee.

He is a member of the DTCC board of directors and is Co-Vice Chair of SIFMA's Operations & Technology Steering Committee. Until April 2013, he was global head of Institutional Securities Product Operations, managing the Operations groups supporting the Sales and Trading businesses across all asset classes. Mr. Davies joined Morgan Stanley in 2009 from Goldman Sachs in London. During his time at Goldman Sachs, he had held various positions within Operations and served on the board of EuroCCP and on the Advisory Group for the Target 2 for Securities project.

I know we're all looking forward to his unique insights on the evolving role of the operations professional. Please join me in welcoming Phil Davies.