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Opening Remarks
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Executive Vice President, SIFMA

Good afternoon. I'm Randy Snook, executive vice president of business policies & practices at SIFMA. It's my pleasure to welcome you to the FIA - SIFMA Asset Management Derivatives Forum. Thank you for joining us at this important industry event as we review the most critical derivatives issues impacting the buy-side.

The financial crisis shed light on certain risks in the financial system that needed to be addressed through regulatory reform and a proactive industry response. Over the past five plus years, the financial services industry and its regulators and policymakers have been hyper focused on enhancing systemic risk management and promoting business practices that lead to a resilient financial system that investors can feel confident about.
From the top down, initiatives such as the Dodd-Frank Act and global G-20 regulatory standards have infused a large degree of safety and soundness into our financial system. Derivatives reform has been a key part of the global regulatory effort. Derivatives are a vital risk management tool as by design these instruments transfer risk and link parties across firms, sectors and global borders, so it's important that reforms protect the market without unnecessarily constricting the viability of these instruments.

Asset managers in particular have a vested interest in these efforts to strengthen the financial system and protect investors. The livelihood of the investment management business relies on protecting investors that have entrusted managers to help them achieve their financial goals – as well as the willingness of investors to participate in the capital markets. Indeed, asset managers have been working closely with market participants across the financial sector to support responsible reform and implement best practices that together will help ensure a strong and vibrant marketplace for investors and mitigate chaos in the face of a major market event.
There has certainly been significant progress on this front. With Dodd-Frank in the U.S., EMIR in Europe, and a global push to meet G-20 regulatory standards, the derivatives markets are in a state

of transformation. This new derivatives regulatory framework based on central clearing, exchange trading and reporting requirements is adding transparency and stability to these markets.
New rules for the derivatives marketplace have also meaningfully enhanced investor protections. For example, new requirements applicable to cleared swaps that require client assets to be legally separated while operationally comingled have added an important layer of protection for investors. In addition, the CFTC and NFA have rolled out other important measures to protect customer funds, including enhanced collateral recordkeeping and reporting and residual interest requirements for FCMs.

Ensuring that asset managers have the right infrastructure in place to facilitate a speedy recovery of client assets in times of distress is a critical objective and something we will focus on over the course of this program. We are all looking forward to the discussion with James Giddens, Trustee for MF Global, later this afternoon to identify lessons learned from past events and best practices for the future.

While there certainly has been positive change for investors, it is important that regulators do not swing the pendulum too far and impose rules that could constrict an asset manager from helping investors achieve their financial goals. For example, while capital rules and ratios are vitally important to the stability of banking entities, they should not be so punitive as to endanger the proper functioning of financial markets or run counter to other important regulatory objectives like encouraging the central clearing of derivatives. The Basel leverage ratio has emerged as a particular concern in failing to recognize the exposure reducing impact of segregated initial margin held by clearing banks on behalf of a client. This punitive treatment, combined with the increased cost to comply with other rules, has already led to some banks getting out of the derivatives clearing business. A result which benefits no one.

We believe that careful study of new rules is essential to ensure that we avoid negative consequences like constrained liquidity and stay ahead of new, unanticipated risks emanating from all of this change.

Another focus of policymakers in their effort to stay ahead of potential systemic risk is the resolution of systemic banking entities. In this effort, again, it is imperative to ensure that the pendulum does not swing too far. In that regard, an industry group, including both buy-side and sell-side participants, working together with policymakers and trade associations, including our industry partners at ISDA, developed a protocol to amend the standard ISDA derivatives contract to stay termination rights when a firm becomes subject to resolution. This important development will facilitate cross-border resolution efforts and address risks associated with the disorderly unwinding of derivatives portfolios. Asset managers have recognized that it is in investors' best interests to eliminate uncertainty and promote a marketplace that can withstand the shock of a financial firm in resolution, while also preserving important contractual rights to the fullest extent possible. Engaging in collaborative industry efforts like this together with policymakers has helped ensure that the financial system is fortified while not sacrificing too much in the way of investor protections.

We will be hearing much more about this initiative over the next couple days. We're thankful to have Andrew Gracie, Executive Director of Resolution for the Bank of England, here with us today to share his insight on the resolution stay initiative and the importance of a smooth cross-border resolution process in today's global marketplace.

We will also be hearing a lot about market risk, particularly potential risks relating to central clearinghouses, and swaps market structure over the next few days. For example, while ultimately the shift to central clearing is a positive for investors, we must consider the fact that a tremendous amount of risk has now been centralized. Today's esteemed panel of some of the most respected risk experts and industry professionals will dive deeper into this issue. In addition, as we approach the one-year anniversary of the SEF trading mandate in the U.S., we will focus on whether the SEF-related rules are creating vibrant trading markets or market fragmentation. With the backdrop of CFTC Commissioner Giancarlo having just released his white paper scrutinizing the SEF regulatory framework that has been created by the CFTC, we will examine what can be improved in the SEF landscape from the perspective of the buy-side, FCMs, the SEFs themselves and the CFTC, as well as exploring what the future holds for these trading venues.

Inherently, another key challenge that regulators and all market participants face is coordinating global requirements as different jurisdictions move forward on differing timetables. The U.S. has moved faster than other jurisdictions in implementing new rules, and many of the kinks of this new system still need to be worked out to ensure a well-functioning derivatives market. Derivatives, after all, are truly global transactions: policies and requirements in one jurisdiction will surely have a ripple effect across borders. Confusion and market disruption that can harm investors are inevitable when multiple regulators in multiple jurisdictions are working on rules for their own regions without fully accounting for the impact on the global marketplace or how their rules may coincide with those in other jurisdictions.

We strongly believe that moving forward, regulators should commit to harmonize efforts and agree to a policy of mutual recognition to ensure derivatives can work seamlessly for investors across borders. On Friday, the future of global regulatory issues will be explored in what will no doubt be an engaging discussion with Chris Cox, former SEC chairman and president of Morgan Lewis Consulting, and Walt Lukken, who as you all know is president & CEO of FIA and a former acting chairman of the CFTC. Throughout the course of the next few days we will delve into all of these issues, and other important priorities such as standardization, margin and the status of CPO and CTA regulation. Whether your background is in legal & compliance, operations, trading & risk, or global issues, we have developed tracks that are sure to appeal to you. In any case, we are confident that no matter what sessions you choose, you will leave here in a better position to accomplish your goals in helping your business, and in turn your clients, succeed.

Before I wrap up though, I would also like to spend a minute or two addressing one of the most concerning trends on the horizon for asset managers and their investor clients, which touches not only derivatives but the wide swath of asset management activities – and that is the possibility of prudential or bank-like regulations applying to asset managers or the funds that they manage. The Financial Stability Oversight Council or FSOC, as well as the Financial Stability Board and International Organization of Securities Commissions, set the tone from the top: they began by reviewing asset managers for designation as systemically important, and are evaluating whether to impose prudential-like regulations on asset managers, funds or aspects of the asset management industry. This is something we have adamantly opposed as being superfluous and raising the specter of serious negative consequences for both investors and broad financial markets. Encouragingly, FSOC and global regulators have begun to focus on activities and products after acknowledging that enhanced regulation of asset managers is not warranted. It's important to recognize that investment funds and asset managers operate differently than other types of financial entities, and do not create risks that could be considered systemic to the financial markets. Risk at an asset management firm means something entirely different than at a bank. Asset managers don't own the investment risks taken by their investor clients and do not back-stop investment losses – instead, risk is borne by the ultimate investors who hire the manager to properly deploy their funds in accordance with the desired risk-return profile. Investors understand risk is an inherent part of investing; without taking risks, there would be insufficient returns for investors saving for retirement, education and other needs. Further, risks are broadly disbursed in the investment industry and shift in response to investor preferences and other factors that impact all participants. Therefore, regulators should carefully consider the impact that bank-like rules could have on an asset manager's ability to help investors manage risk and achieve their objectives before introducing new requirements.

We are grateful that Patrick Pinschmidt, Deputy Assistant Secretary & Executive Director of FSOC will be joining us on Friday for a discussion with Tim Cameron, head of SIFMA's Asset Management Group to discuss these important concerns. We look forward to his insight on the future direction for asset management regulation, particularly in light of FSOC's recent notice requesting information on asset management products and activities.

Now, before we get started, I'd like to sincerely thank all of our speakers for sharing their insight with us over the next three days. These forums where the industry, regulators and solution providers can come together are very important as we all work to promote investor trust and confidence.

I'd also like to take this opportunity to recognize our partners and sponsors, whose generous support has made this event possible. Thank you to our partners, Credit Suisse, Morgan Stanley, RJO'Brien, and Societe Generale, as well as our platinum sponsor UBS. Thank you also to our gold sponsors, Interactive Data, ICE and Tradeweb, as well as our silver sponsors, Calypso, Covington, FIA Tech, IFM, and Stradley Ronon, and our patron sponsor, Willkie Farr & Gallagher LLP.

And, of course, I'd like to again thank all of you for joining us at this event. While much progress has been made in the effort to strengthen markets and protect investors, there is still a lot of work to be done. We all need to work together – banks and asset managers, industry and government – to ensure we continue to provide investors with a resilient marketplace to help them achieve their goals.

I now have the privilege of introducing our keynote speaker, Andrew Gracie. Andrew Gracie is Executive Director for Resolution at the Bank of England. He has responsibility for the resolution of banks and the other financial institutions subject to the UK Special Resolution Regime and for developing the Bank's policy in this area.

As part of this, Andrew represents the Bank of England in a number of international forums, such as the FSB Resolution Steering Group. He is also responsible for the operational resilience of the financial sector, including cyber risk.

He joined the Bank of England in 1988. In previous roles he has worked in Financial Stability, Markets and Banking Supervision.

As I mentioned earlier, I know we're all looking forward to his insightful comments regarding cross-border resolution and the recent resolution stay protocol. Please join me in welcoming Andrew Gracie.

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