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Remarks

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Kenneth E. Bentsen, Jr.,
President and CEO of SIFMA

Good morning. I'm Ken Bentsen, president and CEO of SIFMA. Thank you for joining us at our 42th Annual Operations Conference & Exhibition.

Over the years, the SIFMA Ops conference has evolved into the marquee event where operations professionals, regulators, policymakers and solution providers can come together to share expertise and best practices for promoting a resilient and efficient marketplace.

I'd like to thank all of the SIFMA team members who have made this event a success over the years, including the members of the Operations and Technology Steering Committee led by Lisa Dolly of Pershing, as well as our Operations team led by Tom Price, and our conferences & events team led by Sal Chiarelli. I'd also like to thank our speakers for joining us in San Diego to share their time and insights, as well as the numerous sponsors whose support has helped to make this event possible.

As operations professionals, you have a view into the workings of our industry many of your colleagues rarely see, and perhaps fail to fully appreciate. I can assure you that when I was a young investment banker structuring transactions, I failed to grasp the importance, but given my perspective today, I understand it far better.

As we consider the state of the industry today, more than six years past the crisis and five years since the adoption of sweeping new legal and regulatory mandates, it is important to take stock of what this means to the actual functioning of an investment bank, bank holding company or fund company. What with the new compliance and risk management requirements involving new systems and metrics by way of Volcker and other provisions of Dodd-Frank, the new accounting standards and methodologies required to meet capital, liquidity and margin requirements, record keeping, trade reporting, and central clearing, to mention but a few, are having a substantial impact on how firms conduct their normal business of sales, trading, underwriting, asset

management, custody and banking. Then there is the effort to establish a global legal entity identifier (LEI), something we at SIFMA and our colleague organizations abroad strongly support, but will be no easy task. Add to that new focus on the sustainability of central clearing parties, shortened settlement cycle, which we will hear about from the next panel, and the Consolidated Audit Trail. And, of course, the increasing mandates whereby the industry must act on behalf of the government such as with cost basis, FATCA, and AML. And then of course there is cyber security, which I will touch on shortly.

The efforts by regulators either to reduce or contain risk and combat tax evasion and money laundering, while certainly appropriate, do have profound consequences not just for the structure of firms, but the systems and regimes they need to operate. It is critical that we appreciate the impact these rules and their operational, risk management and compliance regimes will have on the firms' ability to conduct business on behalf of clients. It is equally important that there is dialogue and collaboration between the regulators who are charged with implementing and enforcing the law, and the industry firms who must develop, build, train and operate the compliance and reporting systems to comply with the law. That's no easy task, and as such it should not and cannot be a one-way discussion.

With the multi-headed functional regulatory apparatus we have in the United States, and the increasingly global nature of the business, and the emerging global nature of regulatory initiatives, it is even more imperative that regulators improve collaboration amongst themselves, both domestically and internationally. It is critical that there is sufficient dialogue and collaboration across the various disciplines of functional regulators, particularly when it comes to crafting new rules for capital markets structure, practices and functions. Regulators must consider costs, and duplication, and when proposing new rules, whether some older rules may be outdated or subsumed. And, it is equally important that regulators communicate as clearly, and when possible, with one voice to the industry.

Further, regulators and policy makers must acknowledge that many of these changes may have negative consequences not just for the firms, but more importantly for the clients, such as the increasing concerns regarding liquidity or the dearth of it in certain product markets. Perhaps that is the intended outcome, but if so, it must be an acknowledged outcome, and if not, policymakers must be willing to recalibrate to address such outcomes.

With the rapid pace of technological innovation permeating society, the industry and regulation we are witnessing some good and not so good outcomes. It is hard to argue that US equity markets are not more efficient today, in terms of access, price and execution, particularly for retail investors, than ever before. And yet this evolution through a combination of regulatory initiatives and technology, has also led to increased fragmentation, complexity and investor skepticism that left unabated could undermine many of the benefits reaped.

Likewise, the growth of social media that has upended many established protocols (for instance land line telephones, long distance calling and the media business) brings opportunities and challenges to our industry, both on the business and compliance side. While our client base, particularly in the retail space, seems to be increasingly moving toward mobile, social media based communication as the method of choice, many of our rules are based on mid-twentieth century technology. We at SIFMA have been working to bring the lawyers and technologists together to understand how the rules apply to the social media as it is today, and consider how the rules might be better drawn to catch up with technology and society's use of it, while ensuring appropriate investor protection.

Further, the insatiable appetite to use big data is playing an increasing role in the work and processes of both industry and the government. All sectors increasingly are looking to "Big Data" as a means to better understand markets and consumers, and regulators are looking to it to enhance their supervision and examination capabilities. With its growing presence, Big Data brings an array of benefits, as well as a brand new set of challenges. We must, however, remain mindful of balancing the risks and rewards presented by technology and Big Data. We want neither to be Luddites nor technophiles. Regulators must avoid this temptation because new systems are costly to design, implement and maintain. It's also important that our regulators are careful not to require duplicative or concurrent programs, and as with the private sector, regulators must weigh the impact on privacy and the protection of customer data. In the age of increasing cyber threats, we must be careful not to compromise personal or sensitive data in our quest to reap the benefits of technology.

It is hard to believe that Big Data and technology can be a substitute for human insight and observation. Technology should be a tool that complements the work of operations and compliance officials and the regulator, not replace it. We cannot allow our regulators to become robocops, as isolated data is too impersonal. At the very core, compliance must incorporate the individual interactions of regulators and the persons they regulate. They need to see and understand each other. A regulator needs to know a firm's business, the evolution of that business and the personality of the firm's personnel, including the compliance personnel. Data alone does not account for these necessary elements of a functional regulatory regime.

Finally, we must be prepared to take a leadership role and respond to emerging threats, as well as trends that create new industry issues. One that I would note is cyber security, which has been a central focus of this conference and the industry. As I mentioned last year, our industry and its leaders view the threat posed by cyber criminals, hacktivists, nation-states and terrorists as the most serious facing the industry. And the industry, as a whole, and in collaboration with the government, is working diligently to improve its defenses and coordination. Defenses include the development and adoption of standards applicable to our sector, and enhancing our information sharing capabilities through universal adoption by all industry participants. Further, we are taking steps to standardize verification of standards adoption by third party vendors, enhance cooperation protocols with the government to shorten incident

response time, improve access to insurance for smaller firms and improve both ours' and the government's understanding of our readiness to defend and recover, through unprecedented communication and collaboration. Cyber security is not something that can be regulated away, rather it must be an iterative and ongoing process and partnership among all participants, including the regulator and regulated. Further, Congress should act, now, to improve the industry's capability to share information. No one cares more about protecting customer information than we do, and concerns along those lines should not be an impediment to getting legislation done.

As evident from what I've just detailed, we have seen a lot of changes over the last decade, from the onslaught of regulations, a greater integration of technology into our roles, and heightened public scrutiny. This increased recognition of the importance of the operations function underscores the fact that your role is more important today than ever before, and that your participation with SIFMA is mission critical in our job to serve as the voice of the industry and help promote rules and best practices that work in the marketplace today.

So much of what comes out of Dodd-Frank and other reform initiatives is landing at your doorstep, and it's our goal here at SIFMA to help you stay connected and be prepared for these responsibilities.

We have been through tremendous evolution since the financial crisis, and many things have changed. But at the same time, some things have not, such as our industry's ability to fuel growth and create jobs, and that is a good thing. Before introducing our next panel, I want to close by leaving you with a couple of recent observations conveyed to me by people outside the US that I think are indicative of the value our sector brings to the general economy.

I recently met with the CEO of the Shanghai Stock Exchange who explained to me how they are trying to develop their markets and grow their investor base in order to enhance China's growth potential. His message to me was, what can we learn from you to make our markets successful like yours.

And just a few weeks ago, SIFMA had the opportunity to host the EU's new Commissioner for Financial Stability and Financial Markets at our offices, to discuss the Commission's Capital Markets Union initiative. If you read the Commission's green paper on the Capital Markets Union you will note that the Europeans are looking to the United States, and our capital markets system, as a way to grow Europe, just as we have helped to grow the US economy. This is something that I think all of us, those in the industry, and our friends in the regulatory system, should be very proud of.