



## **2015 Operations Conference & Exhibit**

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### **Remarks**

*As prepared for delivery*

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Good morning. I'm Randy Snook, executive vice president of business policies and practices at SIFMA. It is my pleasure to welcome you to our 42nd Annual Operations Conference & Exhibit. We are pleased to provide this forum where member firms, regulators and solution providers can come together to advance our shared goal of promoting efficiency and resiliency.

There's no question that our industry continues to be in a period of significant evolution and transformation, and this change is clearly impacting the role of the operations professional. Over the past five years, we've seen a massive regulatory overhaul brought forth by the Dodd-Frank Act and other game changing national and global regulatory initiatives.

Dodd-Frank alone produced over 2,300 pages of legislation – compare that to Sarbanes Oxley, Gramm-Leach-Bliley and Glass Steagall, which combined were only 243 pages. In addition to regulatory activity, the industry itself continues to push for and champion a proactive effort to develop best practices that seek to both enhance risk management and promote investor confidence. Not to mention, all of this comes on top of continued technological innovation and advancement that has and continues to alter the fundamentals of how our industry operates.

As you'll learn from leading experts over the next three days, the role of the operations professional has evolved and continues to adapt to the changing demands of today's marketplace. Operations professionals have long played an integral role in ensuring firms' day-to-day activities go off without a hitch: seeing trades through to settlement, identifying processes and procedures that improve efficiency, and maintaining a robust infrastructure to support the work of your firm.

Now, on top of that already demanding day job of keeping the financial system humming smoothly, the ops professional has new responsibility and accountability for implementing and ensuring compliance.

As operations professionals, firms are turning to you as leaders and problem solvers who can shine a guiding light on the best path forward for managing this change. Not only are you tasked with instituting the incredibly intricate process and technology changes required to implement new rules— now, you must show evidence that you have developed and are enforcing robust processes to ensure your firm, and outside solution providers, are complying with these new requirements. This is a weighty new supervision and control function that gives the ops expert a powerful voice in firms today while adding a new responsibility for compliance.

Budget decisions are no longer “should we” spend on this compliance and risk operations function... now it’s “how much and where” should that money go.

For example, as we’ve seen over the past year, now your job is not just making sure that trade can settle without any glitches...now it’s also making sure your firm has the right procedures for centralized clearing of derivatives, or ensuring compliance with any number of new rules while anticipating what’s needed for the next regulatory deadline.

The job description of a successful operations professional today is different from what it was in the past. Expectations are high – the ops professional still needs to understand the processes and infrastructure that support the industry, yet you also need to know the avalanche of new rules governing the industry, how to effectively manage relationships with third party solution providers, and the technology that underpins our industry – all through the lens of ensuring compliance.

Indeed, sound industry operations are essential to ensure safe and resilient markets that drive investor confidence and enable our industry to do its job of facilitating capital formation, providing investor opportunity and fueling economic growth.

The reality is that we are operating and adapting to change in a complex and interconnected world where the threat of a technology glitch can at times be significantly more concerning than human error. The bar has been raised – there is an expectation of zero defects. The pace at which we must move feels like wind sprints to stay ahead of the onslaught of new regulatory requirements and adds an element of risk that previously didn’t exist. Because we are all connected, we are all dependent on each other as an industry to ensure efficient and resilient markets.

At SIFMA, our goal is to help you share and develop best practices for addressing this change and keep you apprised of what’s on the horizon so you can stay ahead of the curve, and on top of what you need to do to ensure compliance.

And all know it's the industry that has been leading much of the change that is transforming financial services. Now, as we look ahead, we know that the shift to a T2 settlement cycle will be a big commitment for the industry. Shortening the settlement cycle could lead to important reductions in operational risk, more efficient allocation of industry capital, and streamline the clearing and settlement process. SIFMA's Tom Price is the co-chair of DTCC's Industry Steering Committee, to ensure your views are represented. I encourage you to check out a new website that is keeping track of the shift to T2 – the web address is [www.UST2.com](http://www.UST2.com).

SIFMA's leadership and members continue to prioritize the industry's cybersecurity and BCP efforts. Cybersecurity has quickly become a top 5 issue for the C-suite across the country and accordingly is a key risk that operations professionals must work to mitigate. Cyber threats continue to impact all sectors of the economy – in fact, a 2014 survey commissioned by HP found that the average cost of cyber crime for a U.S. company is \$12.7 million dollars per year, with a range from \$1.6 million to \$61 million each year per company. That's double what the same study found in 2010.

SIFMA provides a forum for firms to test their cyber response procedures and develop protocols around information sharing and response. We are also promoting adoption of the NIST cyber framework, developing best practices for firms to help mitigate cyber threats, and advocating for Congressional action to enhance a firms' ability to work with its government partners.

We firmly believe that a robust partnership between the public and private sector is the most effective way to mitigate cyber threats – That means working closely with our government partners to help promote coordination and other practices that strengthen the collective response and defense effort.

On the regulatory front, it's been five years and implementation of Dodd-Frank still is not completed and continues to demand resources. Many questions remain regarding key components of this legislation. I'd like to highlight the Volcker Rule in particular. Compliance with this rule is going to require a significant effort across different business areas and functions within our member firms. In fact, the Volcker Rule requires firms to report seven different metrics for every trading desk to demonstrate that their market making practices and other permitted activities do not violate the ban on proprietary trading and other investment restrictions. The sheer volume of requirements is impacting operations professionals, compliance & legal teams, and many others across firms.

Dodd-Frank is just one component of regulatory change and is certainly not the only initiative that is and will require resources from operations professionals. Much of the

regulatory evolution that operations professionals need to stay ahead of is happening outside of Dodd-Frank. For example, the Consolidated Audit Trail, or CAT, will be one of the most transformational regulatory initiatives impacting the industry.

Looking ahead, the CAT will require tremendous resources from the industry as it will track the full lifecycle of all trading activities.

SIFMA supports the CAT concept as regulators need the data to enhance their efforts to reconstitute market dislocation and monitor insider trading and market manipulation. However, in order for the CAT to be truly efficient, we must see the elimination of older systems that become redundant and the system itself needs to be cost efficient for both the regulators and the regulated.

SIFMA continues to stay actively engaged as the CAT process moves forward. Our members are reviewing the proposed CAT NMS plan closely and will submit the industry's views on governance, funding, data security, plans for eliminating redundant systems, and a workable implementation schedule. This is certainly an area where the expertise of operations professionals will be needed to share their insight and help ensure a smooth transition from existing regulatory reporting systems to the CAT.

Continued implementation of the legal entity identifier (LEI) initiative is another foundational change that will dramatically enhance systemic risk management and will require processes and systems to support its use. SIFMA and its Global Financial Markets Association have long supported the use of LEIs and took the lead in developing a recommendation for a global LEI standard. Now, it is up to regulators around the world to mandate its use. We encourage regulators to make the LEI a regulatory reporting lynchpin. A uniform, globally consistent legal entity identifier standard will help regulators, supervisors, researchers and firms to better measure and monitor systemic risk. Overall, this standard will help support the shared objective of a more stable financial system.

Over the next three days, our expert speakers and panels will address these key industry issues and more through the unique viewpoint of the operations professional. We know that so much more is being asked of you every day. We know this massive weight of responsibility that is carried on your shoulders is constantly growing and shape shifting as the industry presses ahead in our new reality. That's why SIFMA is so committed to this event – we understand that your job focus is more than understanding processes and settling trades, you must also ensure compliance, be tech savvy, and stay ahead of a tremendous amount of regulation while managing all aspects of outsourcing, including risk management and maximizing the benefits of solution providers.

As we all work to navigate this new landscape of financial services, I encourage all of you to stay involved and on top of these key issues with SIFMA as your partner.

Before we get started, I'd like to take this opportunity to thank all of our speakers for joining us in San Diego. I'd also like to recognize our sponsors – their generous support is critical in making this event possible.

Now, it is my pleasure to introduce our first featured speaker. As Director of the Office of Financial Research, Dick Berner has a unique perspective on the state of the industry and efforts to enhance resiliency and efficiency. We're grateful he's here today to discuss the OFR's vision for analyzing risk to the financial system, developing and promoting standards for financial data, and filling data gaps.

Prior to his current role as Director of the OFR, he was a Co-Head of Global Economics at Morgan Stanley, Chief Economist at Mellon Bank and a Senior Economist for Morgan Stanley, Salomon Brothers, and Morgan Guaranty Trust Company. He also served as Director of the Washington, D.C., office of Wharton Econometrics. For seven years, he worked on the research staff of the Federal Reserve Board in Washington. He has also been an adjunct professor of economics at Carnegie-Mellon University and George Washington University.

Please join me in welcoming Dick Berner.