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Opening Remarks – April 29, 2014
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 41st Annual Operations Conference & Exhibit. SIFMA is pleased to provide this forum where our members, regulators and solution providers can come together with the shared goal of improving both the operating efficiency and resiliency of financial markets and the industry.

Our industry continues to be in a period of transformation. The rapid pace of change presents unique challenges and opportunities for operations professionals. Over the past five years, we've seen a massive regulatory overhaul that is driving this change.

Banks have more capital, more liquidity and less leverage which increases stability and enhances trust and confidence in the financial system.

This has required our industry to build out and incorporate new and complex systems and technologies, and rely more heavily on outside solution providers. Sometimes it can seem like we're playing whac-a-mole in that as soon as we adopt one new change or mandate, there's another to take its place – much of it well beyond the scope of the Dodd-Frank rule making.

I want to encourage you to try and answer one of the fundamental questions. How can we make the financial system more resilient as we navigate the new financial services landscape? Sound operations are essential for safe and resilient markets that in turn drive investor confidence. Only with that confidence can our industry to do its job of facilitating capital formation, provide investor opportunity and economic growth.

As SIFMA members work to implement the new rules and adapt business models and practices, we add increased complexity. We know that every systems revamp or process change adds an element of risk. How do we ensure that while we make these changes, we improve resiliency?

Over the next few days, our expert speakers will discuss how to best address the key issues facing operations professionals through the lens of market resiliency.

SIFMA is committed to being your partner in this effort. We have taken the lead on many key issues that impact the stability of our industry. Our goal is to provide regulators with the insight they need to craft smart rules and to provide a forum for members to develop best practices that continue to enhance operations and market resiliency.

The Dodd-Frank Act continues to drive significant operational challenges. We're just over halfway through the rule-writing process, and questions remain regarding how key provisions will be put into practice.

For instance, the Volcker Rule creates an entirely new compliance regime that will require firms to build new systems and processes in order to report all the required metrics. The design of these new processes is complicated by the fact that the Rule itself has five different regulators which could lead to varying interpretations of what constitutes compliance.

In addition to Volcker, the new derivatives regime continues to present serious operational considerations. The Dodd-Frank Act established an entirely new regulatory structure to oversee these markets. It creates data reporting, central clearing, trading platforms and execution facilities for these products that previously never existed.

While much progress has been made, the lack of clarity and conflicting guidance regarding the scope of these new requirements is confusing market participants. We're still smoothing out the technical kinks with the regulations.

Beyond Dodd-Frank, we are seeing regulators impose large-scale rules that will require tremendous resources from our members and operations professionals in particular. SIFMA is actively working to make sure your voice is heard and considered early in the process before these initiatives are cast in stone.

For instance, we are just beginning the long and complicated process for building the Consolidated Audit Trail, or CAT.

This is a massive undertaking as it will establish a system to track the full lifecycle of trades. SIFMA supports the CAT concept as regulators need the data to make better judgments.

However, in order for the CAT to be truly rationalized, we must ensure that we see the elimination of older systems that become redundant. It needs to be cost efficient for both the regulators and the regulated.

Recently, FINRA has proposed a new concept called CARDs, which calls for the development of a new system to collect on a regular basis sensitive client information regarding retail customer brokerage accounts – including customer profile, account activity, and account balances and holdings, among other data.

SIFMA believes CARDS would be a massive and invasive regulatory intrusion with serious privacy and security implications for the general public. This is in addition to the added technology costs and operational burdens for the financial industry.

This is one initiative that we cannot support until we see more details on how these risks are addressed.

Regulation is just one of the catalysts driving change in our industry. As I mentioned earlier, SIFMA has been leading an industry-wide push to enhance risk management and the resiliency of the financial system.

For example, processes and systems focused on cybersecurity are a top priority for the industry and its many partners as we work to address this growing threat.

While cybersecurity and risk are getting a lot of attention lately and will continue to get our focus, this is not a new issue for SIFMA. In fact, tomorrow you'll hear more about this issue from Mike McConnell, who is now Vice Chairman at Booz Allen Hamilton.

Just a few weeks ago, SIFMA announced its support for a shortening of the settlement cycle from T3 to T2 for U.S equities, corporate bonds and municipal bonds.

We recognize that shortening the settlement cycle on a timeframe that is workable for all market participants could lead to a meaningful reduction in operational risk. It would also enable more efficient allocation of industry capital, and streamline the clearing and settlement process.

But, the move to T2 is a significant change that must be implemented carefully to avoid any operational disruptions that could negatively impact investors, especially individual investors. SIFMA is committed to working with all market participants to ensure a deliberate, thoughtful plan that address key building blocks that are required of shortening the settlement cycle.

SIFMA has also been actively promoting the broad adoption of the legal entity identifier standard, or LEI, here in the United States and around the world. The FSB is working to establish a global LEI system that would be a game-changer in how regulators and firms can better evaluate system-wide risks, manage risk exposures and streamline operations.

The CFTC has already mandated the use of LEIs in certain derivatives reporting, and our advocacy strongly encourages other U.S. regulators follow suit. Equity market structure will be an area of increased focus as we address the question of market resiliency.

The current equity market structure has developed through a series of regulatory initiatives and technical innovations which has resulted in much more complexity and fragmentation. SIFMA has repeatedly called for a comprehensive and holistic review of equity market structure, and resiliency should be a key component of this review.

Finally, SIFMA serves as a central coordinating body to help the industry prepare for and respond to disaster situations.

We hold annual, industry-wide backup systems testing and conduct simulation drills, and we have protocols for coordinating a sector-wide response to an actual systemic emergency. The success of these initiatives depends largely on your participation, so I encourage you to stay engaged with SIFMA.

Before I introduce our first speaker, I'd like to take this opportunity to thank all of our sponsors.

Their generous support has made today possible and I encourage you to review their materials over the course of this event.

I'd also like to sincerely thank our speakers who have made this year's program so robust, and to recognize those of you who volunteer your time on SIFMA's operations committees and working groups. Your participation is vital to the success of SIFMA's advocacy efforts, and we encourage all of you to get involved.

It is now my great pleasure to introduce our opening speaker, Bill Johnstone.

Bill is SIFMA's vice chairman and he is president and chief executive officer of Davidson Companies. Bill's dedication and leadership has been invaluable to SIFMA as we look to shape the future of our industry and enhance the resiliency of the financial system.

Bill has been president and chief executive officer of Davidson Companies since 2004 and joined D.A. Davidson & Co. as President in August 2000.

Previously, he was managing partner at Dorsey & Whitney LLP, where he began his career as an attorney. Before returning to law at Dorsey, Mr. Johnstone was vice chairman of Dain Rauscher Inc. and president and CEO of Rauscher, Pierce & Refsnes Inc., a subsidiary of Dain Rauscher.

We're so pleased Bill could be here today to share his unique perspective on the state of the industry and the role of investor confidence in sound market operations. Please join me in welcoming Bill Johnstone.