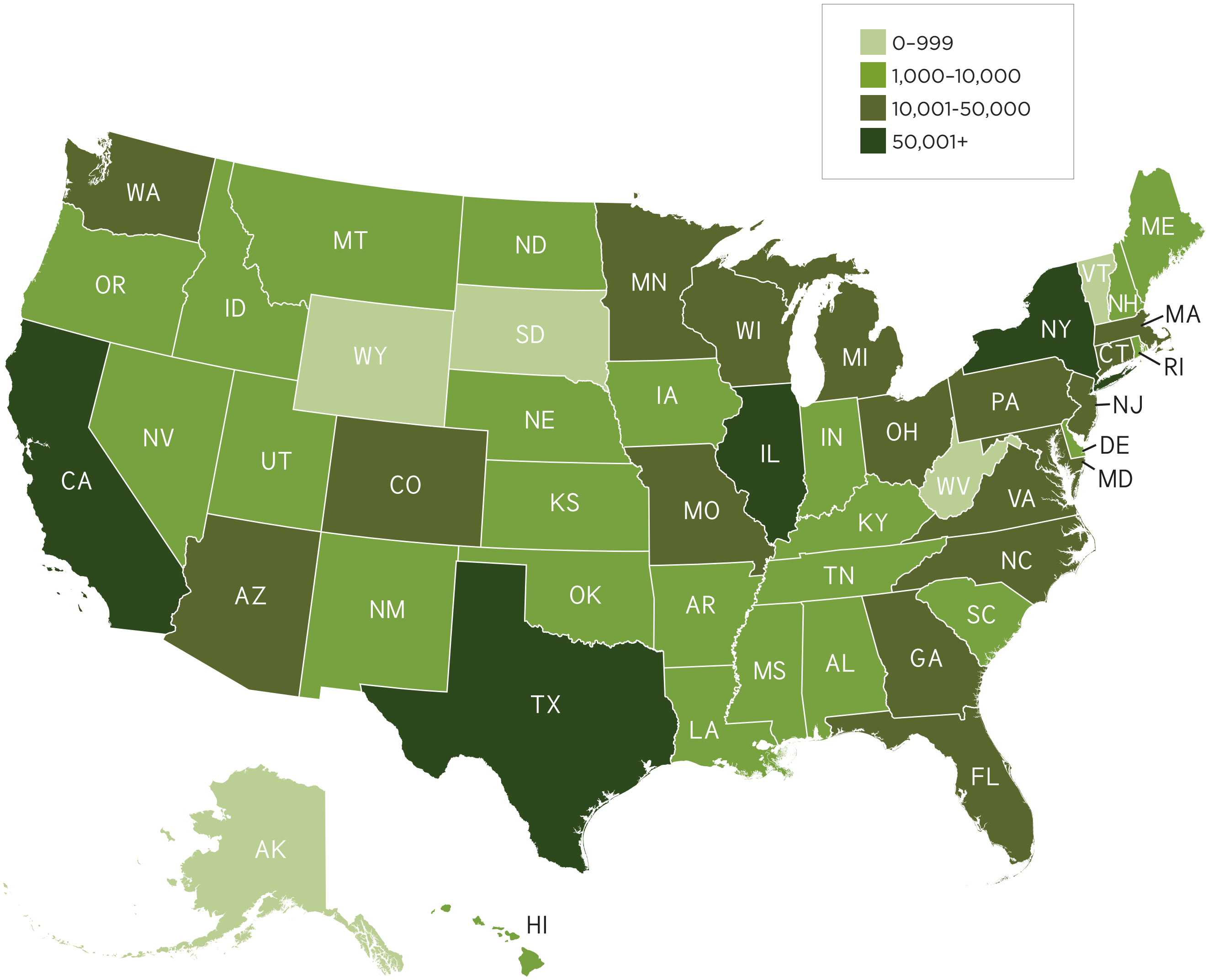
sifma

2018 OUTLOOK

Through the Looking Glass

Trends in the Capital Markets

Securities Industry Employees by State



Note: As of 2016

Source: Bureau of Economic Analysis, Bureau of Labor Statistics

Welcome

SIFMA is the voice of the U.S. securities industry. We are a member-driven organization that advocates for effective and efficient capital markets.

We represent the broker-dealers, banks and asset managers whose nearly 1 million employees provide access to the capital markets, raising over $2.5 trillion for businesses and municipalities in the U.S., serving clients with over $18.5 trillion in assets and managing more than $67 trillion in assets for individual and institutional clients including mutual funds and retirement plans. Our members represent 75% of the U.S. broker-dealer sector by revenue and 50% of the asset management sector by assets under management. We convene more than 13,000 financial professionals on approximately 100 committees and societies, as well as countless task forces and working groups. Together, we are invested in America.

This report contains our insights into the markets, the industry's viewpoints on critical policy issues and several helpful resources.

With best regards,

TIMOTHY C. SCHEVE
President and CEO
Janney Montgomery Scott
2017 Chair
SIFMA Board of Directors

LISA KIDD HUNT
Executive Vice President,
Business Initiatives
Charles Schwab & Co., Inc.
2018 Chair
SIFMA Board of Directors

KENNETH E. BENTSEN, JR.
President and CEO
SIFMA

Market Insights

The capital markets fuel the U.S. economy, providing 65% of funding for economic activity. Today, GDP growth is slowly starting to pick up and the financial system is strong.

And yet, the U.S. economy has experienced the slowest economic recovery of the post-war period. Real gross domestic product stands at only 112% of the 2007 level, and the economy has been stuck in low gear.

The financial system has absorbed hundreds of new regulations in the decade since the financial crisis. While many of those regulations have made the financial system safer and more resilient, they are not without cost. To meet these requirements, financial institutions have built up excess capital and liquidity. Liquidity[1] is up 4x for the CCAR[2] banks since 2006. This is exaggerated for the G-SIBs[3], those exposed to a longer list of regulations given their increased complexity and size, with liquidity up almost 5x. This is excess liquidity that remains trapped in the system. We wonder how much stronger the economy could be if financial institutions had the flexibility to release more of this excess capital and liquidity into the economy.

[1] Liquidity = (cash + deposits at banks) / total assets.

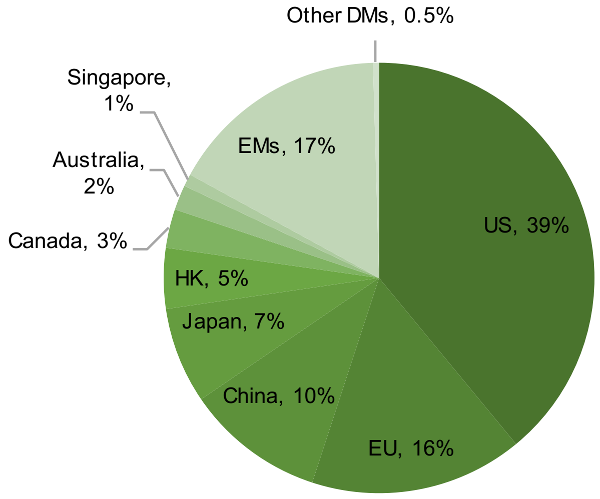
[2] Comprehensive Capital Analysis and Review (CCAR) firms:
https://www.federalreserve.gov/newsevents/pressreleases/fles/bcreg20170203a4.pdf

[3] Global Systemically Important Banks (G-SIBs):
http://www.fsb.org/wp-content/uploads/P211117-1.pdf

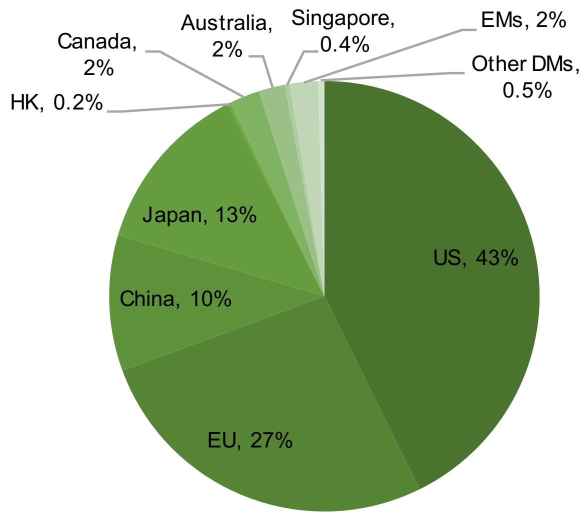
US Capital Markets are the Largest in the World

The U.S. equities market is 2.4x and the U.S. bond markets are 1.6x the size of the EU, the #2 player globally for each segment. U.S. capital markets enable debt issuance – a more efficient, stable and less restrictive form of borrowing for corporations – to fuel growth, while bank lending is more prevalent in other regions (80%/20% in the U.S., reversed in other markets). U.S. capital markets provide 65% of total funding for economic activity and are multiples of U.S. GDP, thereby driving economic growth for the country (Japan's GDP is around one-fourth that of the U.S., skewing its result in the chart on the next page).

Global Equity Markets ($70T)



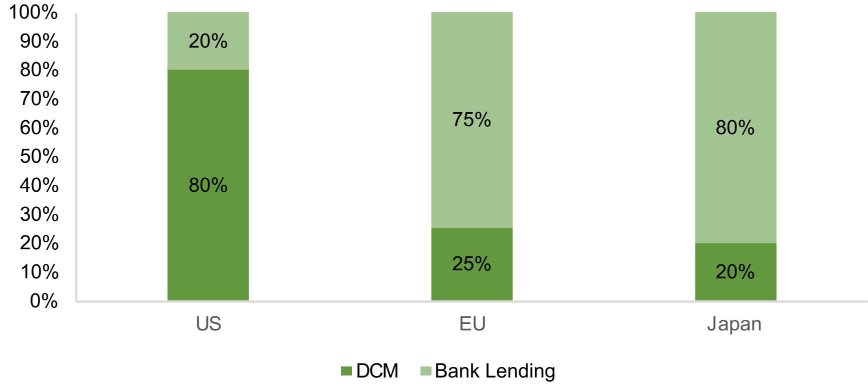
Global Bond Markets ($92T)



Note: As of 2016; DM=Developed Markets; EM=Emerging Markets; HK=Hong Kong

Source: World Federation of Exchanges, Bank of International Settlements

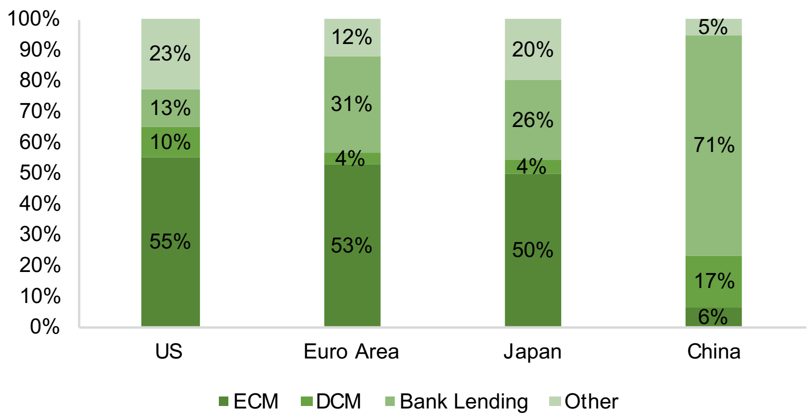
Debt Capital Markets Dominate Over Bank Lending in the US



Note: As of 2016; DCM=Debt Capital Markets

Source: Federal Reserve, ECB, Bank of Japan

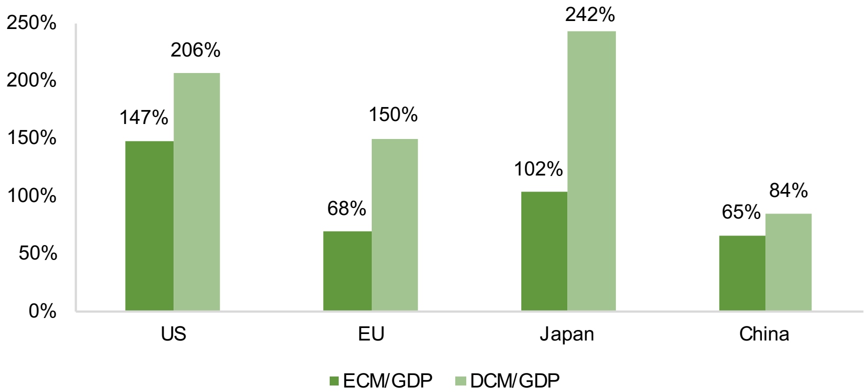
Capital Markets Fund 65% of US Economic Activity



Note: As of 2016; China 2014. ECM=Equity Capital Markets

Source: OECD, ECB, Bank of Japan, National Bureau of Statistics of China

US Capital Markets Multiples of GDP



Note: As of 2016

Source: World Federation of Exchanges, Bank of International Settlements, Bureau of Economic Analysis

Intersection of Financial Technologies & Traditional Business Models

New financial technologies (fintech) present both opportunities and threats to financial institutions. Some fintech firms are becoming new competitors, while others present collaborative opportunities. Fintech also provides the ability to increase efficiencies and decrease costs.

A recent EY survey[1] asked about the key disruptive forces impacting their sector. 27% noted digital technology and 26% indicated changing customer behaviors, which we view as going hand-in-hand with fintech decisions.

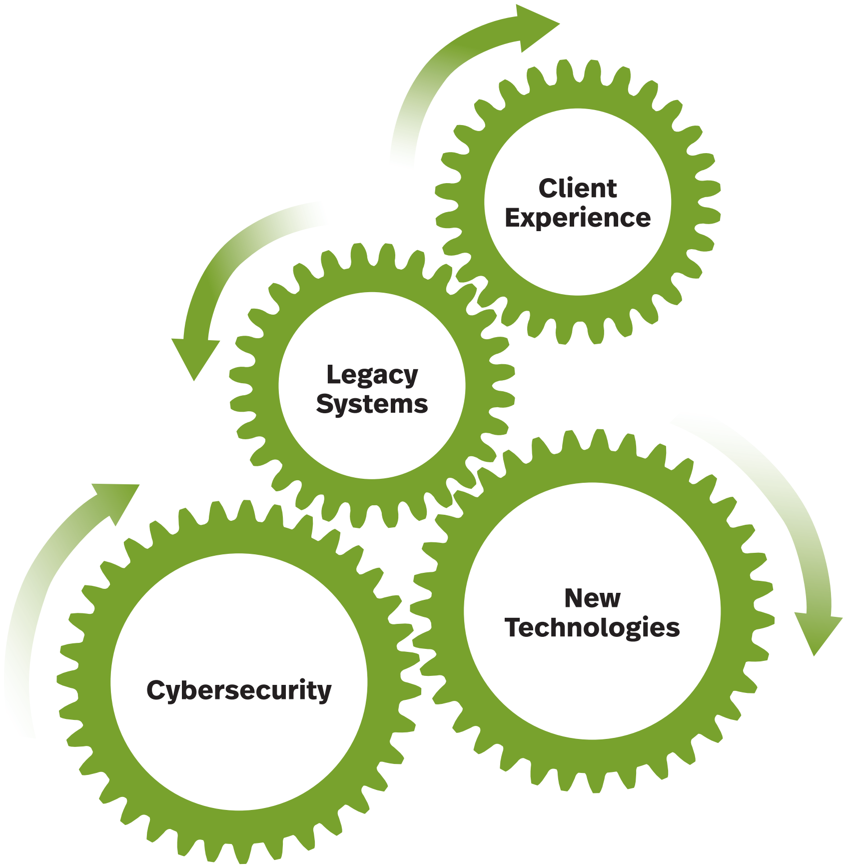
Whatever the use case or challenge to solve may be, financial institutions across the spectrum – banks, broker-dealers, asset managers, etc. – are reviewing and analyzing fintech options in their strategic planning decisions. These discussions include using fintech to: update legacy systems, adopt new technologies, invest in cybersecurity and improve the client experience.

A Confluence survey[2] indicated 49% of asset managers surveyed identified technology innovation as a factor that will cause fundamental change in their operating model over the next 24 months.

While financial institutions cannot ignore what is happening in fintech, adoption of new technologies may not be as simple as strategic funding and implementation decisions. New technologies may face regulatory constraints. As many fintech offerings are new to the firms looking to utilize them, they are new to regulators as well. Regulators are assessing potential risks arising from usage of fintech contributions.

[1] The 2017 EY Global Capital Confidence Barometer surveyed 3,000 executives in 43 countries across 14 sectors, including financial services.

[2] The 4Q17 Confluence Trend Survey included 125 online interviews with asset managers and third-party administrators.



As financial institutions make strategic decisions, IT expenditures are considered to:

1. **Update legacy systems:** Many financial institutions maintain legacy technology which is not as cost efficient as modern platforms, and opportunities exist to update back office systems. For example, moving to automated systems and away from reliance on manual processes can reduce errors and minimize risks.

2. **Adopt new technologies:** As firms look to upgrade systems, it is natural to assess new fintech options. For example, regulatory technology (regtech) offerings can help firms keep up with new reporting requirements in a more efficient manner. Distributed ledger technology can help automate bookkeeping processes. Or, artificial intelligence and big data applications can be used to improve customer service and monitor portfolios. Accenture estimates investment banks could save $8 billion per annum by utilizing blockchain technology, on a $30 billion cost base (27% of total).

3. **Invest in cybersecurity:** Firms are also increasing investments in cybersecurity. A 2017 Duff & Phelps survey (of 183 senior financial service professionals) indicated 86% of financial services firms plan to increase spending and resources on cybersecurity this year, up from <60% last year. This is essentially not an optional spend bucket – companies must protect their clients from system breaches, which present serious reputational risks (and potential regulatory or legal action).

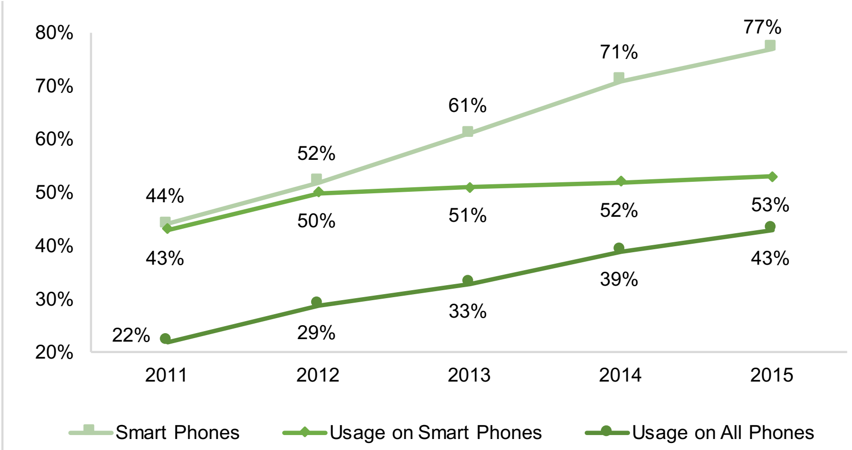
4. **Improve client experience:** Please see the case study on the next page.

Case Study: Improving the Customer Experience

As new technologies emerge, client behavior changes. Many clients now prefer to do simple transactions – deposit checks, monitor 401K balances or even trade stocks – on mobile devices. We note that branches remain to serve the big decisions, such as advanced financial planning around major life events, where clients still prefer the human touch.

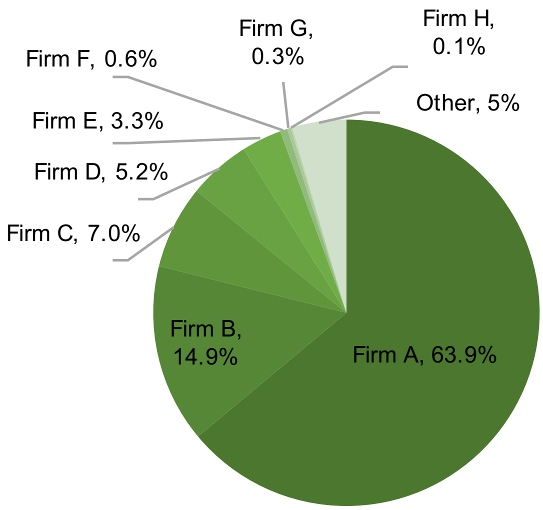
77% of Americans now own a smart phone, and mobile usage for financial transactions, while lagging, is moving directionally in line (53% in 2015, +10 pps since 2011). One area firms are adopting technology to meet shifting client behavior is robo advising, where the top five firms represent around 95% of AUM (based on a July 2017 report by Barron's).

Mobile Usage is on the Rise



Source: Federal Reserve

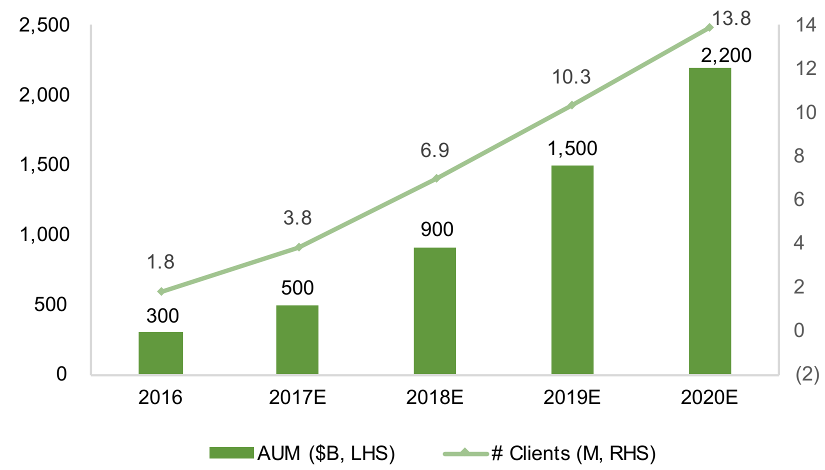
Robo Advising AUM



Source: Barron's, BackendBenchmarking, SIFMA estimates

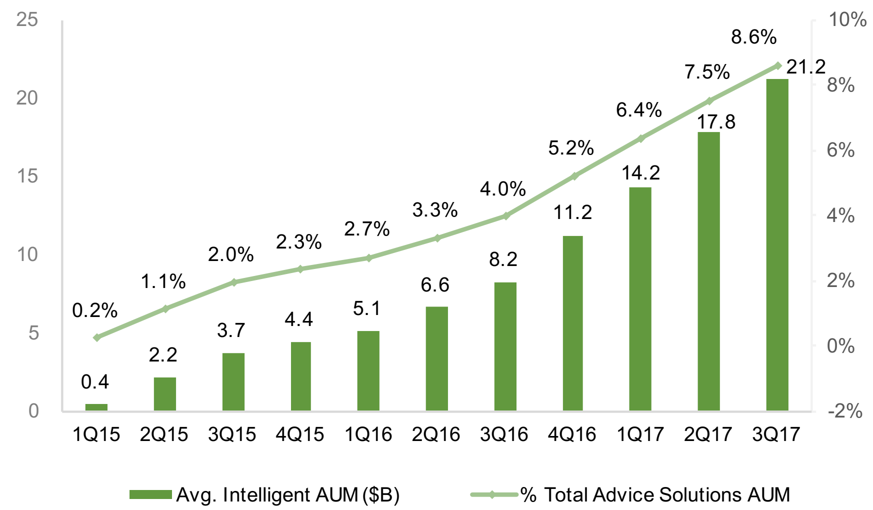
Robo advising, which allows wealth managers to expand their services to a broader client-base, is projected to grow in the U.S. to $2.2T by 2020 from $300B in 2016, a 49% CAGR. Many firms have invested to varying degrees in robo advice platforms to enhance their customers' financial advice experience, blending technology enhancements with their firm's investment portfolio management expertise. AUM in Intelligent Portfolios, Schwab's robo segment, now represents 8.6% of total Advice Solutions AUM, up 8.4 pps since its start in 2015.

Solid Growth Forecasted for Robo Advice in the US



Source: Aite, Statista, SIFMA estimates

Schwab Intelligent Portfolios AUM Growing as a % of Total

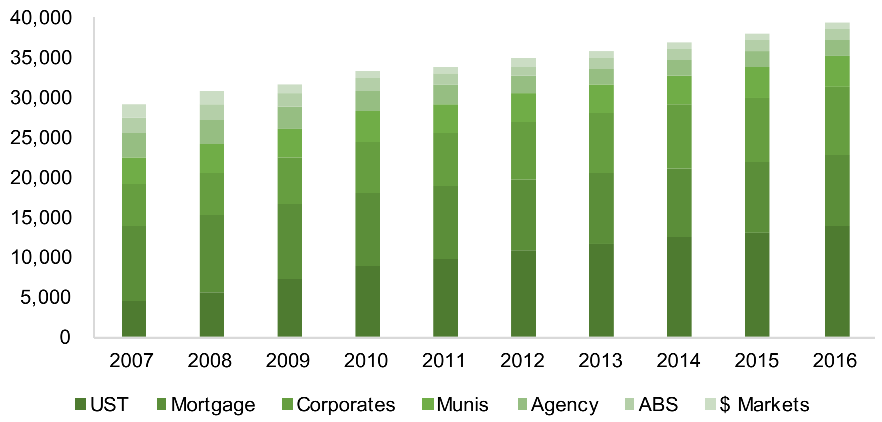


Source: Company reports, SIFMA estimates

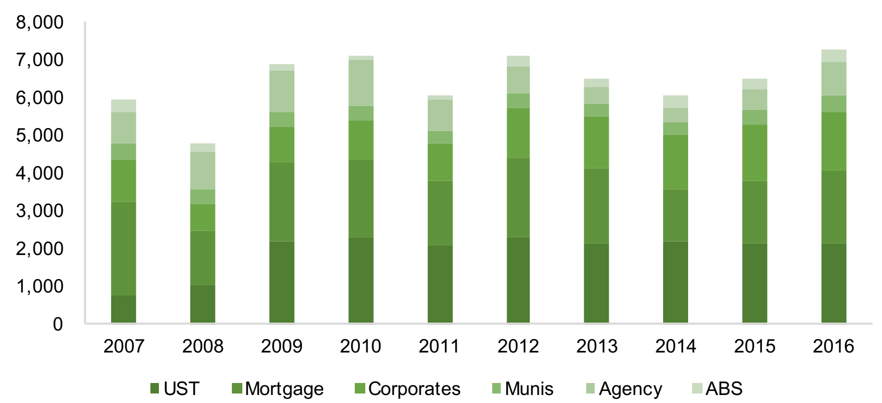
Total Fixed Income Outstanding +3.4% YOY, Total Issuance +11.8% YOY

Around 80% of total fixed income markets outstanding consists of UST, Mortgage and Corporates (35%, 23% and 22% of total outstanding respectively). Mortgage issuance was +13.5% YOY, and Munis, representing 9.7% of the market, saw a 10.6% increase in issuance. UST and Corporates issuances were up only +2.2% and +2.4% respectively, as market structure issues continue to weigh on these segments (discussed later in this report).

US Fixed Income Markets Outstanding ($B)



US Fixed Income Markets Issuance ($B)



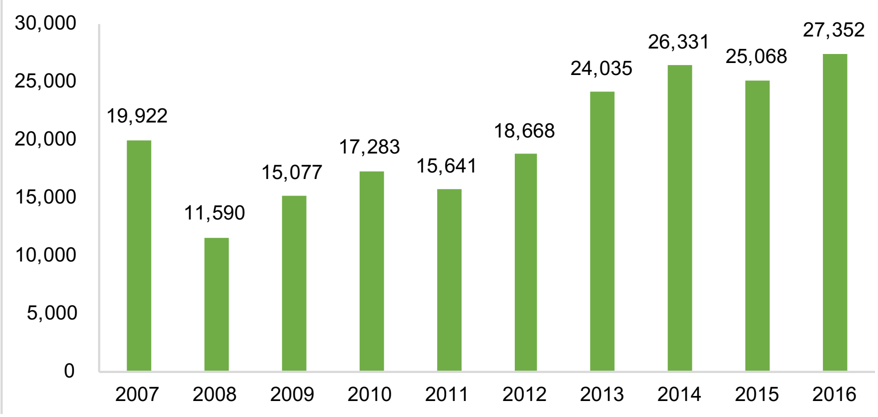
Note: Issuance is long-term instruments only

Source: SIFMA

Total Listed Equities Market Cap +9.1% YOY, Total Issuance -23.0% YOY

Total listed equities market capitalization continues to climb (+10.0% CAGR since the 2008 bottom) as markets move higher: market cap +136% vs. Dow Jones +125%, S&P500 +148% and Nasdaq +241% since 2008. Yet, issuance is not keeping pace: -1.0% CAGR since 2008, decreasing on average 20% each year for the last two years. We discuss the negative impact of regulatory burdens on IPOs and the corresponding costs to public companies later in this report.

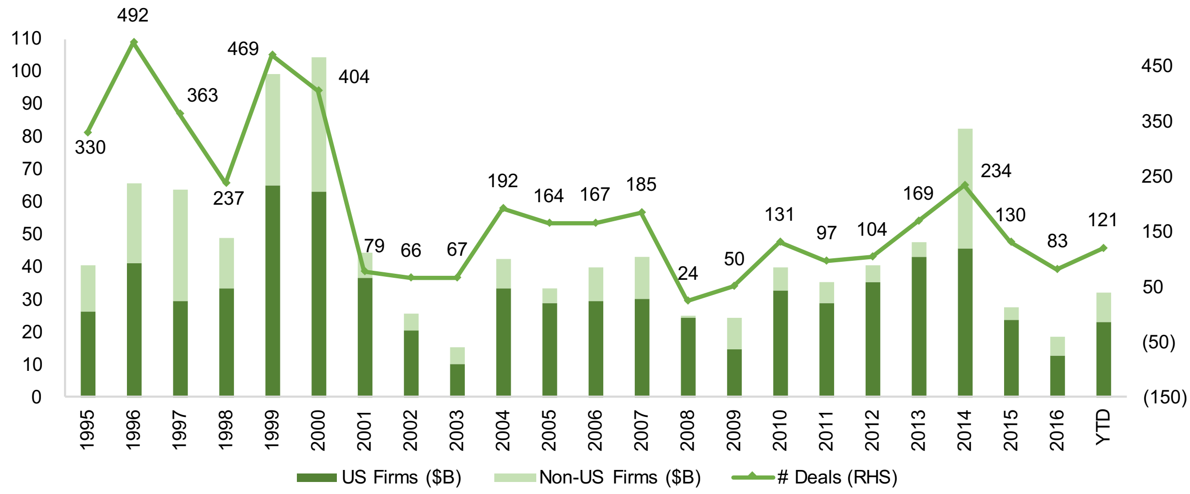
US Equity Market Capitalization ($B)



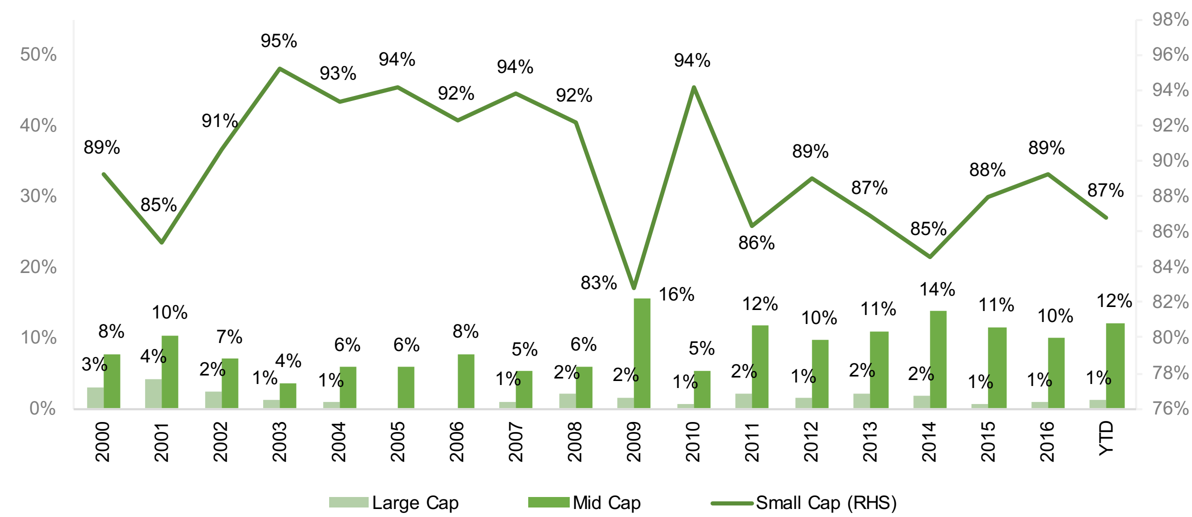
US Equity Market Issuance ($B)

Source: SIFMA

Regulatory Environment Leads to Decline in IPO Deal Value and # of Deals



Number of Small Cap IPOs (as a % of Total) Declined Post Crisis



Note: As of November 2017; Large cap = >$10B; mid cap = $2B - $10B; small cap = <$2B
Source: Dealogic

Regulations Hindering Capital Formation

The increased regulatory burden and corresponding costs of becoming and remaining a public company are a few of the factors that continue to hinder capital formation in the U.S. Looking at the number of IPOs (number as opposed to value prevents skewing of results for large deals, such as Alibaba in 2014), while averaging 177 per annum from 2004 to 2007, the IPO count is only 111 on average over the last three years. The IPO count recovered somewhat YTD to 121, yet remains 48% below the recent 2014 peak. 2014 saw 234 IPOs, as companies rushed to list to take advantage of a long-awaited surge in investor confidence (after the crisis) and capture the benefits of rising stock markets.

The U.S. represented only 14% of total global IPOs in 2016, despite averaging 62% in the late 1990s (dropping to 35% in the early 2000s). Also on the decline is the number of small cap IPOs as a percent of total U.S. IPOs. This figure remains in the mid- to high-80% range since the financial crisis, down from the low- to mid-90% range pre-crisis.

Small cap IPOs represent the dream made possible by the capital markets. An individual or family creates a product or company, works hard to develop the concept and then monetizes their investment. The decline in the number of small cap IPOs implies fewer innovative American companies see the benefit of going public in today's regulatory environment.

The JOBS Act Five Years Later

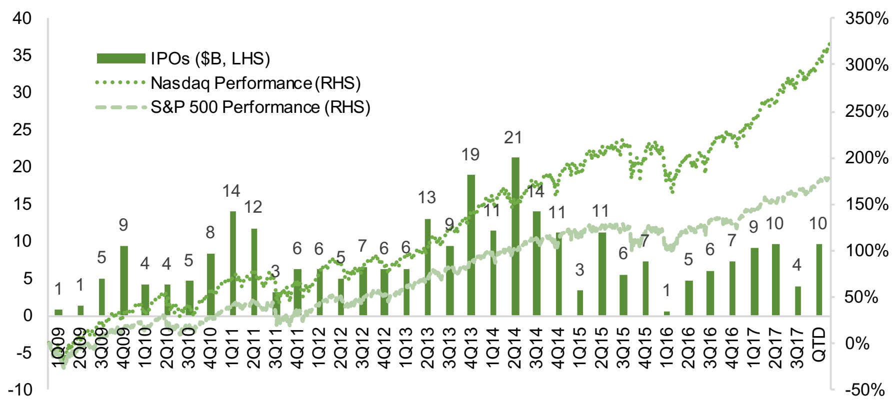
While it is difficult to separate market factors from the passing of the JOBS Act in 2012 as the driver of IPOs, the number of IPOs did increase from 2012 to 2014. According to the U.S. Treasury's report on capital markets, 87% of IPO filings since 2012 filed under the JOBS Act as EGCs (emerging growth companies with <$1B annual revenue and publicly traded shares <$700M). A SEC staff report noted small IPOs (firms seeking proceeds up to $30M) were 22% of all IPOs from 2012-2016, up from 17% from 2007-2011.

However, IPO activity has been relatively muted since 2014, and additional regulatory changes may be needed to improve capital formation.

Number of US Public Companies -46% Since 1996 Levels

Despite the significant market runup since 2013, IPOs are not keeping pace. The number of public companies also continues to decline as regulatory costs climb. Companies instead are remaining in (or returning to) the private markets.

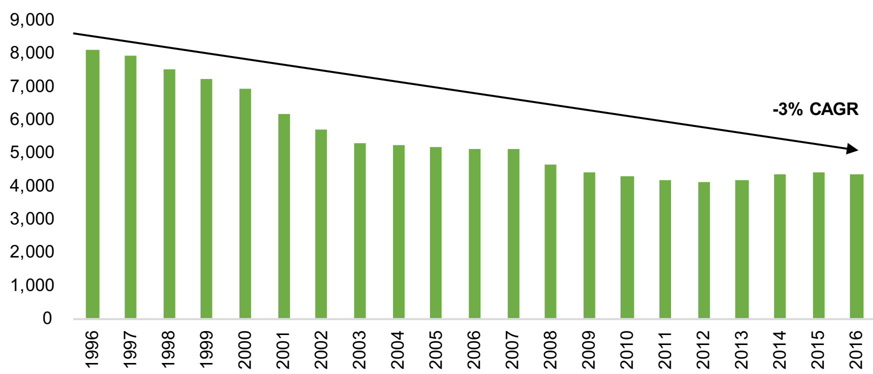
IPOs Not Keeping Pace with Stock Market Run



Note: As of November 2017; Performance indexed to 1Q09; Large deals removed to normalize data: 4Q09 $7.5B Santander; 4Q10 $18.1B GM; 2Q12 $16.0B Facebook; 3Q14 $25.0B Alibaba

Source: Bloomberg, Dealogic

Public Companies -46% Since 1996, a -3% CAGR



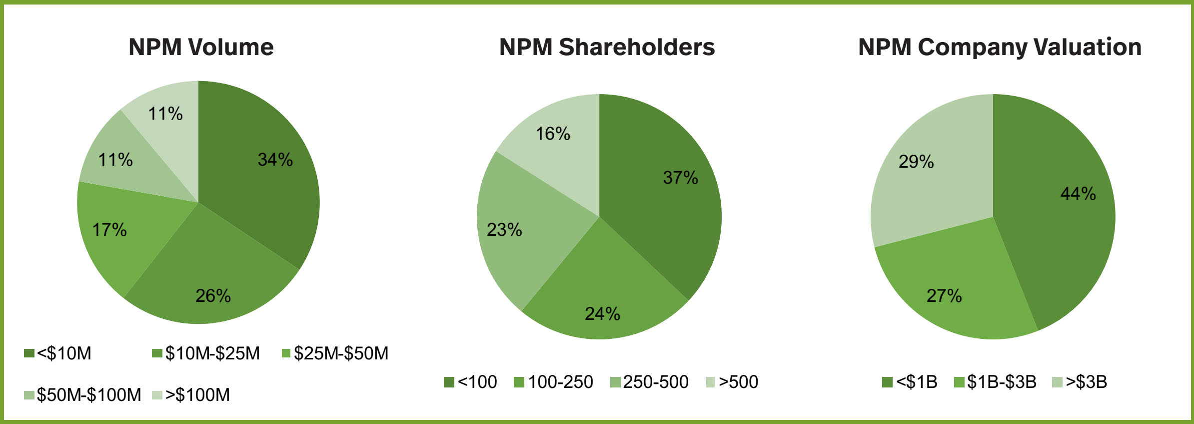
Note: Listed domestic companies in the U.S.

Source: World Bank

Case Study: Private Market Access

As discussed, smaller companies continue to face difficulties accessing the public listing markets. An IPO, however, provides an opportunity for employees to monetize vested shares. As companies choose to stay private longer, they can find it difficult to continue to incentivize employees without liquidity opportunities. In March 2013, to bridge this gap, Nasdaq and SharesPost announced the Nasdaq Private Market (NPM) joint venture to establish a marketplace providing liquidity programs from institutional sources to private growth companies. NPM has grown to $6.1 billion in total volume since its inception.

Unfortunately, private markets are generally only available to institutional and accredited investors, meaning the vast majority of retail investors continue to be blocked from investing in these companies. Many of the companies utilizing NPM programs are technology companies, the innovators in today's society, often representing the future way of doing business in many sectors. Yet, most retail investors remain barred from this avenue of wealth creation.



Note: Cumulative since 2013
Source: Company reports

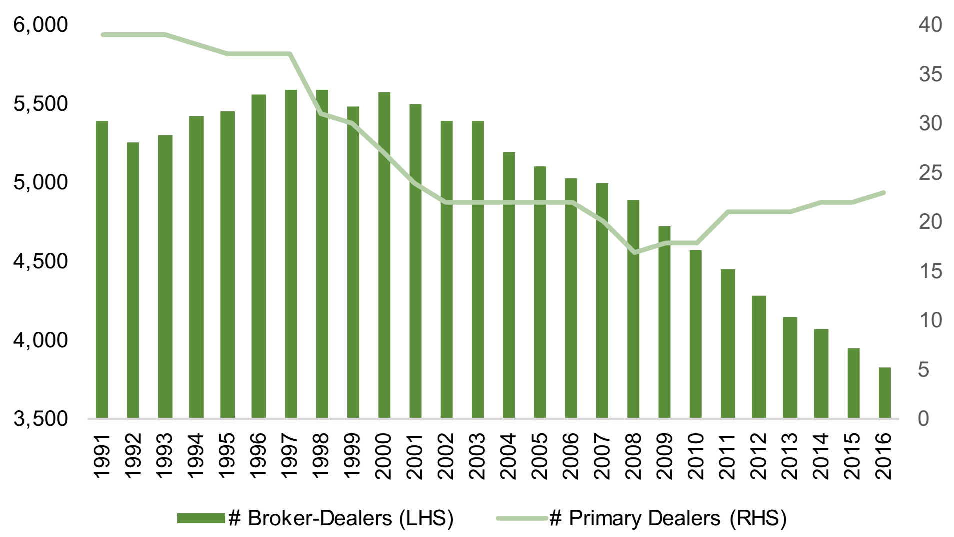
Number of Dealers Declines

The number of registered U.S. broker-dealers is down 31% from the 1997 peak to 3,835, after averaging 5,449 in the 1990s. The number of primary dealers – vital market participants in maintaining efficient UST markets – has also declined. While averaging 38 in the 1990s, this number settled in the low 20s after rebounding from only 17 in 2008.

While some of the pre-crisis decline in the number of broker-dealers can be attributed to normal industry consolidation to gain scale, the current number of firms is down 23% since 2007 (-3% CAGR). We infer the recent decrease in numbers is at least partially attributable to an increase in compliance costs from the hundreds of new post-crisis regulations to which financial institutions are now subject.

The increase in compliance costs, which potentially forced some broker-dealers out of the business, can also divert the focus and resources of active broker-dealers. Firms, particularly smaller ones whose overall compliance costs represent a larger percentage of total expenses, may have to shift or delay spending on innovation, enhancing the customer experience or improving technologies for cybersecurity to compliance resources. This leaves investors with fewer choices of firms and potentially less (or slower to market) innovation.

Number of Dealers Declines



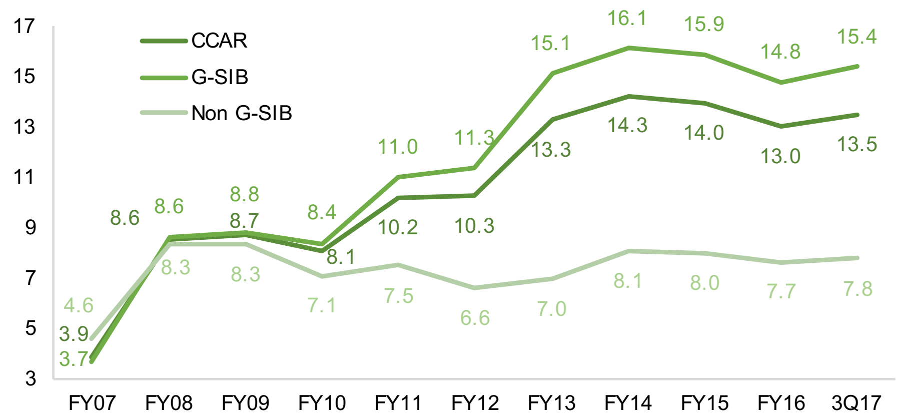
Note: FINRA-registered broker-dealers only

Source: Federal Reserve, FINRA

Excess Capital and Balance Sheet Liquidity Remain Trapped in the System

Despite the increased health of the U.S. financial system – CCAR banks 550 bps above the 7% CET1 capital requirement, G-SIB banks 400 bps above the international SLR (leverage) standard – the regulatory burden on financial institutions remains. Adherence to all of the new requirements, some of which are duplicative and force firms to hold double the reserve for the same risk mitigant, has created a buildup of excess capital and balance sheet liquidity (CCAR firms' liquidity +9.6 pps since 2007, G-SIBs +11.7 pps). This is preventing investment in new plant, equipment and software. Additionally, loan growth is not keeping pace with GDP growth, despite loan growth historically being multiples of GDP growth (2x greater on average from 2000-2007, barely keeping pace since 2010).

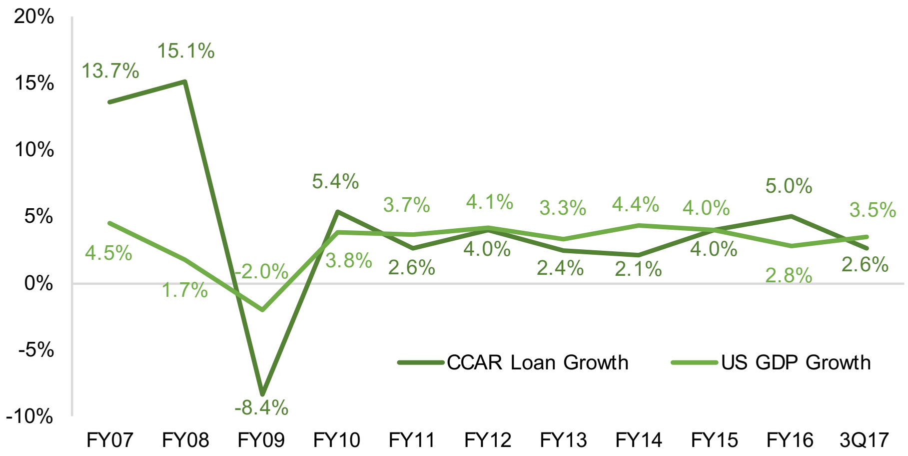
Excess Liquidity Trapped in the System



Note: Liquidity = (cash + deposits at banks) / total assets

Source: Company reports, CreditSights, Bloomberg, SIFMA estimates

CCAR Banks Loan Growth Less Than US GDP Growth



Source: Company reports, CreditSights, Bloomberg, Bureau of Economic Analysis, SIFMA estimates

Industry Viewpoints

The U.S. capital markets are deep and mature, and the financial industry that provides access to them is subject to robust and ever-growing regulatory oversight. In response to the Presidential Executive Order on Core Principles for Regulating the United States Financial System, the U.S. Department of the Treasury has undertaken a comprehensive review of this complex regulatory infrastructure - including prudential and capital markets frameworks - to ensure policies promote growth, job creation, investment and financial stability.

With over a 100-year history of substantive contributions to the policymaking and regulatory process, SIFMA works on issues critical to the industry's ability to facilitate the development of and access to the capital markets. These Industry Viewpoints are the consensus views of more than 13,000 on-the ground personnel from several hundred SIFMA member firms. In 2017, our work has included over 130 comment letters to federal, state and industry regulators; 9 testimonies before federal and state legislatures; 16 amicus briefs in court cases addressing key legal issues facing our industry; nearly 100 conferences and events; and countless roundtables to exchange industry best practices. SIFMA also led several initiatives related to critical industry operations including the successful conversion to the shortened T+2 settlement cycle and multiple efforts around cybersecurity and business continuity planning.

CYBERSECURITY

www.sifma.org/cybersecurity

"There is likely no greater threat to financial stability than a large-scale cyber event."

Kenneth E. Bentsen, Jr., President and CEO, SIFMA
Testimony before the House Financial Services Committee Subcommittee on Financial Institutions and Consumer Credit, November 2017

Cybersecurity is a top priority in the financial industry to ensure the security of customer assets and information and the efficient, reliable execution of transactions within markets.

The financial industry is committed to furthering the development of industry-wide cybersecurity initiatives that protect our clients and critical business infrastructure, improve data sharing between public and private entities and safeguard customer information. An effective and efficient cybersecurity policy is achieved most easily through harmonized, risk-based global standards that leverage extensive investments already made. The NIST Cybersecurity Framework represents a potential global standard.

SIFMA is actively engaged in coordinating the effort to support a safe, secure information infrastructure, which provides security of customer information and efficient, reliable execution of transactions. We continually work with industry and government leaders to identify and communicate cybersecurity best practices for firms of all sizes and capabilities, and educate the industry on evolving threats and appropriate responses.

SIFMA Completes Quantum Dawn IV Cybersecurity Exercise

www.sifma.org/cybersecurity-resources

On November 7–8, more than 900 participants from over 50 financial institutions, government agencies and regulators participated in an industry-wide simulation of a large-scale cyberattack on the financial markets. "A clear takeaway from the exercise is the importance of a robust partnership between the industry and government grounded in information sharing. No single actor – not the federal government, nor any individual firm – has the resources to protect markets from cyber threats on their own," said Kenneth E. Bentsen, Jr.

PERSONAL DATA AGGREGATION

www.sifma.org/personal-data-aggregation

> “As we continue to grow this digital economy, it’s become apparent that the most important currency is an individual’s personal information. As an industry we have an obligation and a responsibility to protect it.”
>
> Lisa Kidd Hunt, Executive Vice President, International Services and Special Business Development, Charles Schwab & Co., Inc. and Chair, 2017-2018 SIFMA Board of Directors
> 2017 SIFMA Annual Meeting, October 2017

The ability to gain data through technology has created opportunities for financial firms to better engage with clients and build environments where investors can access the information they need to make informed decisions. An individual’s personal information is invaluable, and its protection is of paramount importance.

The financial industry is committed to ensuring the safety of the clients we serve at every turn. SIFMA is coordinating a broad-based industry effort to protect a customer’s financial information, with a focus on investors' right to access their own data. We are creating a set of industry-wide principles for protecting, sharing and aggregating customer financial information. We will look at standard contracts and other ways that we may promote transparency, efficiency and trust in the marketplace.

With the financial services industry a top target, facing tens of thousands of cyberattacks each day, the exercise underscored the critical need for an effective allocation of cybersecurity resources at financial institutions. Large financial institutions report that approximately 40 percent of corporate cybersecurity activities are compliance-oriented rather than security-oriented. Enhanced harmonization of regulatory standards and supervision to reduce the amount of duplicative or redundant rules would help enable firms to devote more resources to security and better protect investors.

CONSOLIDATED AUDIT TRAIL (CAT)

www.sifma.org/consolidated-audit-trail

> “The CAT would be the world’s largest data repository for securities transactions… In light of increasing cyber risk, we urge regulators to study the costs and benefits to determine if the collection, storage, and use of personally-identifiable information (PII) is necessary.”
>
> Randy Snook, Executive Vice President, SIFMA
> Press Release: SIFMA Requests Delay in CAT in Light of Ongoing Concerns, November 2017

In response to the “flash crash” in 2010, the Securities and Exchange Commission (SEC) has directed self-regulatory organizations (SROs), comprising securities exchanges and the Financial Industry Regulatory Authority (FINRA), to develop and implement a Consolidated Audit Trail (CAT) that will enable regulators to efficiently and accurately track all activity throughout the U.S. for equities and listed options. Thesys Technologies LLC was selected by the SROs in January 2017 to build the CAT.

The design of this system will allow regulators to link every order through its entire life cycle, including cancellations, modifications and executions. When developed, the CAT will be a single comprehensive database that will link all orders with the account holder or person who has trading discretion over the account, thereby enabling regulators to conduct cross-market analysis while obtaining and merging together large volumes of disparate data from different entities.

SIFMA advocates for a secure CAT system that expedites the retirement of duplicative systems, while promoting an inclusive governance structure and equitable funding model. As development continues to support this major initiative, SIFMA is engaged with the SEC, the SROs and Thesys on data security and implementation issues.

Industry Shortens Settlement Cycle

www.sifma.org/shortened-settlement-cycle

Following a multi-year broad-based industry initiative, on September 5, 2017 the financial services industry successfully transitioned to a shortened standard settlement time frame of trade date plus two days (T+2) for in-scope securities. A fundamental change to settlement practices and the most significant operation change in two decades, the new two-day settlement cycle reduces risk and enhances U.S. market structure while improving market safety and providing efficiency for investors.

MARKET STRUCTURE

www.sifma.org/market-structure

> "Reg NMS has also contributed to a highly complex stock market with a significant focus on the speed of execution."
>
> T.R. Lazo, Managing Director and Associate General Counsel, SIFMA
> Future of Reg NMS is a Top Issue, June 2017

The structure of our financial markets must be continually evaluated to ensure regulation evolves with the dynamic marketplace. It's important to recognize the clear distinctions between the equity and fixed income markets; while there is an optimal market structure for each, there is no one-size-fits-all solution.

The adoption of Regulation NMS in 2005 has had a tremendous impact on the equities market. More than a decade later, the time is right to consider changes to modernize Regulation NMS and increase its effectiveness. SIFMA has proposed a series of actionable recommendations that encourage an overhaul of the market data system and a complete rethinking of the role of SROs and the NMS Plans they control. Our ultimate goal is to improve market resilience while ensuring the market continues to benefit investors and play an essential role in capital formation.

Equity market policies must not and cannot be transposed to fixed income, a group of unique marketplaces where change is happening in both its infrastructure and market participant profile. As new regulations are contemplated, they must keep pace with an increasingly connected and technology-driven marketplace that provides access to capital in an extremely efficient manner (in 2016 alone, over 1,300 companies raised $1.5 trillion in the corporate bond markets to fund their operations and growth). SIFMA is working to shed light on the uniqueness, importance and diversity of the Treasury market as rulemakings are considered; increase awareness of developments in electronic bond trading for corporate and municipal securities; and promote liquidity and transparency with market-based solutions.

Previously, the securities industry settled equities, corporate and municipal bonds, unit investment trusts, and financial instruments comprising these products on the third business day after a trade is executed (T+3). Shortening the U.S. settlement cycle provides several benefits, including reducing operational, systemic and counterparty risk and lowering liquidity needs, while aligning the U.S. with other T+2 settlement markets across the globe. A shorter settlement cycle enhances market structure by improving safety and efficiency for investors. SIFMA, as co-chair of the T+2 Industry Steering Committee together with the Investment Company Institute and The Depository Trust & Clearing Corporation (DTCC), coordinated efforts to assess the scope, requirements, and changes needed to facilitate the implementation of T+2 and ensure a successful transition.

CAPITAL FORMATION

www.sifma.org/capital-formation

> "Clients are concluding that the public market source of capital is unattractive relative to M&A or private equity."
>
> Ronald J. Kruszewski, Chairman and CEO, Stifel Financial Corp.
> 2017 SIFMA Annual Meeting, October 2017

U.S. capital markets are a critical source of financing for businesses and governments, particularly small and mid-sized businesses. Unfortunately, the impact of many new financial regulations has reduced the efficient allocation of credit and capital which has dampened the potential for economic growth and job creation. Congress and the SEC should address this concerning trend by reassessing regulations to allow more businesses to readily access U.S. capital markets.

While the U.S. financial system is significantly stronger, better capitalized and more resilient than it was in 2008, the economy has performed subpar as compared to prior post-recession periods. Small and mid-sized businesses, in particular, are a great source of economic growth and job creation, and financial regulation should be better tailored to support their access to capital. A continued decline in the number of public companies and a decline in the number of initial public offerings (IPOs) raises concerns that regulatory burdens are unduly hampering capital formation generally and may reduce small investors' ready access to investment opportunities.

Many opportunities exist to reduce regulatory burdens for issuers and enhance capital while maintaining important protections for investors. We believe our proposals will serve to enhance access to financing, providing the opportunity for greater economic growth and job creation: several Jumpstart Our Business Startups Act (JOBS Act) accommodations that are currently available for Emerging Growth Companies (EGCs) should be extended to all issuers of public securities; certain existing regulations should be reformed and revised to reduce the burdens on issuers accessing public markets, such as amending the "smaller reporting company" definition and expanding the Rule 139 safe harbors on continuing research coverage; private investment and secondary market trading in restricted securities should be promoted by amending the definition of accredited investor and revising certain provisions of Reg D; and greater liquidity in secondary market public resales should be encouraged by making several amendments to Rule 144.

BEST INTEREST STANDARD

www.sifma.org/fiduciary

> "The Department of Labor's fiduciary rule has not yet fully taken effect, and already retirement savers are feeling the burden."
>
> Kenneth E. Bentsen, Jr., President and CEO, SIFMA
> Oped for The Hill: Retirement Savers Are at Risk Under Labor's Financial Advisor Rule, September 2017

SIFMA strongly supports enhancing investor protections by establishing a heightened and more stringent broker-dealer best interest standard. The SEC should take the lead in coordination with the DOL to develop such a principles-based standard of conduct for the benefit of investors.

Unfortunately, the Department of Labor's fiduciary standard of conduct rule for brokers and registered investment advisors serving people with Individual Retirement Accounts (IRAs) and 401K plans is a misguided rule that makes saving for retirement more difficult for the very same savers it seeks to protect. Since early 2009, SIFMA has consistently advocated for the establishment of a best interest standard for financial professionals when providing retirement advice. We continue to support such a standard under the industry's primary regulator, the U.S. Securities and Exchange Commission (SEC). Specifically, the standard should: apply across all securities recommendations made to retail customers in all broker-dealer accounts, not just to IRA accounts; fit within the existing and long-standing securities regulatory regime for broker-dealers; and require rigorous examination, oversight and enforcement by the SEC, FINRA and state securities regulators.

SIFMA Proposes Revisions to Prudential Regulations

www.sifma.org/prudential-regulation

With the adoption of complex, conservative, prudential regulatory requirements, banks are now subject to multiple risk-based capital ratios, leverage ratios, capital buffers and TLAC ratios. As a result, banks hold excessive levels of capital and liquidity that are increasingly disconnected from the level of risk they incur. Although these levels have undoubtedly increased resiliency, they come at a cost: the more capital required, the less deployed into the economy.

TAX POLICY AND REFORM

www.sifma.org/tax-policy-and-reform

> "Modernizing the Internal Revenue Code is critical to all Americans and has the potential to unleash unprecedented economic growth."
>
> Kenneth E. Bentsen, Jr., President and CEO, SIFMA
> Press Statement on Tax Reform Announcement, July 2017

SIFMA supports tax reform that enhances economic opportunities for individual Americans, promotes savings and encourages investment, and lowers the tax rate for American businesses that compete in a global marketplace where the U.S. tax rate is an outlier and the U.S. international tax system is out of step with our global competitors. SIFMA supports movement to a territorial tax system that recognizes the unique characteristics of the financial services industry, a transition to such a system that is fair and equitable for U.S. financial services companies and investors, and tax rules for inbound investment that encourages foreign investment in the U.S. and does not discriminate against non-U.S. financial services companies seeking to compete in U.S. markets.

INFRASTRUCTURE FINANCE

www.sifma.org/infrastructure-finance

> "With heightened recognition across the country, our leaders and citizens, why is infrastructure still in crisis?"
>
> Michael Decker, Managing Director and Co-Head of Municipal Securities, SIFMA
> America's Infrastructure: The Time to Build is Now, May 2017

After decades of underinvestment, we face an extreme infrastructure deficit in the United States. In order to bring our infrastructure into the 21st century and support a growing economy, we need to invest more in essential projects including highways, water and sewer systems, bridges, airports and more. The Trump Administration has identified infrastructure as one of the top priorities of the President's agenda, but its fate is tied to tax reform.

The problem we face is not a lack of capital, but rather the ability to identify reliable funding sources to support debt service, return on capital and maintenance costs. At SIFMA, we recommend fully preserving the tax exemption for municipal bonds; expanding Public-Private Partnerships (P3s), including the use of Private Activity Bonds (PABs); promoting private investment in public projects; applying design-build strategies; and reviving direct-pay bonds. In order to bring our infrastructure into the 21st century, we need to invest more without imposing burdens that can weigh down our economy.

INTERNATIONAL ISSUES

www.sifma.org/cross-border-policy-and-advocacy

> "It is in our own national interest to ensure American financial services firms can continue to compete in overseas markets."
>
> Peter Matheson, Managing Director, International Policy and Advocacy, SIFMA
> Op ed for *The Hill*: "Modern-Day NAFTA Must Account for Modern Financial Services Firms", July 2017

The environment for capital formation and investment can be enhanced by opening global markets, strengthening investment and regulatory climates in all markets, and promoting consistent regulation and legislation globally. Working in close coordination with SIFMA's global affiliate, the Global Financial Markets Association (GFMA), SIFMA advocates for consistent and coordinated regulation globally ranging from, for example, prudential requirements and the regulation of OTC derivatives to the facilitation of cross-border implementation of MiFID II's research provisions.

SIFMA also believes free- and fair-trade agreements promote U.S. economic growth and job creation by expanding opportunities for financial services firms to compete in overseas markets and better serve their clients. Trade agreements are most beneficial to the real economy when they are comprehensive, so SIFMA continues to work with policymakers to ensure financial services are fully included in them. We strongly support a modernized North American Free Trade Agreement (NAFTA); continue to advocate for a level playing field between domestic and foreign financial services firms in China; and coordinate closely with GFMA to help the UK and EU to deliver Brexit in a way that protects global financial stability.

The GFMA Partnership

www.gfma.org

The Global Financial Markets Association (GFMA) is an extension of its regional association members: the Association for Financial Markets in Europe (AFME) in London and Brussels, the Asia Securities Industry & Financial Markets Association (ASIFMA) in Hong Kong and SIFMA in New York and Washington are, respectively, the European, Asian and North American members of GFMA. GFMA's mission is to provide a forum for global systemically important banks to develop policies and strategies on issues of global concern within the regulatory environment.

Community and Resources

Our society has an extreme need for financial literacy, an issue that has broad implications for our communities and the larger economy. At SIFMA, we are committed to tackle this issue from the ground up, empowering the next generation with an understanding of the market economy and teaching good financial habits that when taught young can last a lifetime.

The SIFMA Foundation

www.sifma.org/foundation

This year, the SIFMA Foundation celebrates its 40th anniversary of success strengthening economic opportunities for individuals of all backgrounds and increasing their understanding of the benefits of the global marketplace. Through a robust portfolio of dynamic, rigorous online educational programs that emphasize asset allocation, long-term planning, diversification and problem solving, the SIFMA Foundation has advanced financial capability for 17 million young people across the country.

Year after year, SIFMA member firms' critical support enables the SIFMA Foundation to equip elementary through high school teachers to teach their students first-hand about personal finance and the capital markets, prepare them for college and the workplace, and motivate them to explore jobs and careers in the financial sector. The SIFMA Foundation promotes best practices and thought leadership through key partnerships, including engaging 6,000 industry professionals as volunteers and every single member of Congress in advancing financial capability for 600,000 students each year.

An independent study by Learning Point Associates found SMG students scored significantly higher on mathematics and financial literacy tests than their non-SMG peers. They also found that SMG teachers reported the program motivated them to better plan for their future and to engage in financial planning, research, and use of investment products and services.

The SIFMA Foundation offers a variety of volunteer and community engagement activities in person and online. From visiting classrooms to judging student essays, the SIFMA Foundation has a volunteer opportunity just right for you. Sign up today and discover specific ways you can bring your passion and expertise into classrooms and youth-serving nonprofits.

> "Students who played The Stock Market Game™ scored significantly higher on mathematics and financial literacy tests than their peers that did not play."
>
> Learning Point Associates

Accompanied by students, teachers, and parents from P.S. 174 in Queens County, New York, Melanie Mortimer, president of the SIFMA Foundation and Joan Steinberg, Chair of the SIFMA Foundation Board of Directors from 2014-17, and Morgan Stanley Managing Director & Global Head of Philanthropy, rang the Nasdaq opening bell.

"Financial literacy is so much more than stocks and bonds. Thank you so much for this great opportunity for our school and our students. Please know that we appreciate all that the SIFMA Foundation programs contribute to our curriculum."

Karin Kelly, Principal, P.S. 174

2017–2018

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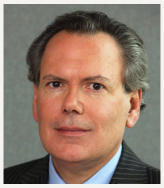

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President & CEO
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Terms to Know

AI	Artificial Intelligence
BCP	Business Continuity Planning
DLT	Distributed Ledger Technology*
Fintech	Financial Technology
NIST	National Institute of Standards and Technology
PII	Personally Identifiable Information
Regtech	Regulatory Technology

CAT	Consolidated Audit Trail
EGC	Emerging Growth Company
IPO	Initial Public Offering
NMS	National Market System
SRO	Self Regulatory Organization

DCM	Debt Capital Markets
ECM	Equity Capital Markets
FICC	Fixed Income, Currencies and Commodities

CCAR	Comprehensive Capital Analysis and Review
CET1	Common Equity Tier 1
FRTB	Fundamental Review of the Trading Book
G-SIB	Global Systemically Important Bank
HQLA	High Quality Liquid Assets
LCR	Liquidity Coverage Ratio
NSFR	Net Stable Funding Ratio
SLR	Supplemental Leverage Ratio
TLAC	Total Loss-Absorbing Capacity

AUM	Assets Under Management
BPS	Basis Points
CAGR	Compound Annual Growth Rate
PPS	Percentage Points
SALT	State and Local Tax
UST	US Treasuries

** Blockchain is one type of DLT*

Our History

1912

SIFMA's first predecessor trade group, the Investment Bankers Association of America (IBA), was founded to be the voice of the investment banking industry.

1913

The Association of American Stock Exchange Firms (ASEF) was formed to represent the interest of the -financial markets. An eventual merger in 1971 between the ASEF and IBA was a natural fit.

1914

The IBA creates our very first committee, the Education Committee. Our current organization is structured through approximately 100 such committees.

SIFMA Committees

SIFMA's unique strength has always been the deep engagement of our members throughout our broad committee infrastructure. More than 13,000 professionals from hundreds of firms participate on approximately 100 product, policy, functional and enterprise Committees and countless working groups. These entities develop policies and practices affecting every aspect of the capital markets, across business divisions and through operations, risk, compliance and more.

Public Policy & Advocacy

Federal Policy

International Policy

State Government Relations

Business Policies & Practices

Asset Management Group (AMG)

Capital Markets Group (CMG)[1]

Private Client Group (PCG)

Office of the General Counsel

General Counsel

Compliance & Legal

Amicus Program

Infrastructure

Operations, Technology and BCP

Communications & Marketing

Research and Surveys

[1] CMG includes: (1) Derivatives = OTC Derivatives; (2) Equity = Equity Capital Markets and Listed Option; and (3) FICC = Commodities (via GFMA), Credit Markets, Foreign Exchange (via GFMA), Municipal Securities, Rates and Funding and Securitization

1971

IBA and ASEF merged to form the Securities Industry Association (SIA), as the industry recognized the need to formally combine efforts and establish one association representing all of Wall Street.

1976

IBA's Municipal Securities and Government Bonds Committees (established in 1918) incorporated as an independent organization, forming the Public Securities Association (PSA).

1997

PSA expanded over the years and changed its name to The Bond Market Association (TBMA) to reflect the organization's growing representation of the debt markets.

2007 – Present

Starting a new chapter but building on our shared history, the Securities Industry and Financial Markets Association (SIFMA) was created through the merger of SIA and TBMA.

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2018 Conferences & Events

www.sifma.org/events

FIA SIFMA AMG Asset Management Derivatives Forum
February 7–9
The Ritz-Carlton, Laguna Niguel
Dana Point, CA

Anti-Money Laundering & Financial Crimes Conference (AML)
February 12–13
New York Marriott Marquis
New York, NY

Social Media & Digital Marketing Seminar
February 22
The Schwab Conference Center
San Francisco, CA

Insurance- & Risk- Linked Securities Conference (IRLS)
March 4–6
Eden Roc, Miami Beach, FL

Securities Industry Institute (SII)
March 4–9
Wharton School of the University of Pennsylvania
Philadelphia, PA

C&L Annual Seminar
March 18–21
JW Marriott Orlando, Grande Lakes
Orlando, FL

Private Client Conference
April 11–13
The Ritz-Carlton, Naples, FL

Equity Market Structure Conference
April 18
India House Club, New York, NY

Operations Conference & Exhibition (OPS)
May 7–10
JW Marriott Phoenix Desert Ridge
Phoenix, AZ

Prudential Regulation Conference
June 19
National Press Club, Washington, DC

SIFMA Annual Meeting: The Capital Markets Conference
October 1–2
Mandarin Oriental, Washington DC
Washington, DC

2018 US Holiday Schedule

www.sifma.org/holiday-schedule

All SIFMA holiday recommendations apply to the trading of U.S. dollar-denominated government securities, mortgage- and asset-backed securities, over-the-counter investment-grade and high-yield corporate bonds, municipal bonds and secondary money market trading in bankers' acceptances, commercial paper and Yankee and Euro certificates of deposit. Previously scheduled SIFMA early close recommendations do not affect the closing time for settlements.

Holiday	Recommended Early Close (2:00 p.m. Eastern Time)	Recommended Close
New Year's Day 2018	Friday, December 29, 2017	Monday, January 1, 2018
Martin Luther King Day	None	Monday, January 15, 2018
Presidents Day	None	Monday, February 19, 2018
Good Friday	Thursday, March 29, 2018	Friday, March 30, 2018
Memorial Day	Friday, May 25, 2018	Monday, May 28, 2018
U.S. Independence Day	Tuesday, July 3, 2018	Wednesday, July 4, 2018
Labor Day	None	Monday, September 3, 2018
Columbus Day	None	Monday, October 8, 2018
Veterans Day	None	Monday, November 12, 2018
Thanksgiving Day	Friday, November 23, 2018	Thursday, November 22, 2018
Christmas Day	Monday, December 24, 2018	Tuesday, December 25, 2018
New Year's Day 2018/2019	Monday, December 31, 2018	Tuesday, January 1, 2019

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