SIFMA Operations Conference and Exhibition
Phoenix, AZ
May 8, 2018

Opening Remarks, as prepared for delivery
Kenneth E. Bentsen, Jr., SIFMA president and CEO

Good morning. It's my pleasure to welcome you to SIFMA's **45th Annual** Operations Conference and Exhibition. For more than four decades, this event has been the marquis summit for industry operations, technology and regulatory leaders to address issues that have shaped the evolution of US capital markets. Our markets are the most deep, liquid and resilient, which benefits both issuers and investors.

And this is important given the role markets play in the US –they are a critical source of capital and credit for business, individuals and governments, funding 65% of total economic activity in the U.S

In fact, they are also the largest in the world – with the US equity market nearly two and a half times the size of the European equity markets combined – and representing about 38% of the $85 trillion in equities around the globe. US fixed income markets comprise 43% of the $92 trillion securities outstanding across the globe. US markets are a tremendous contributor to our economy and the envy of the world.

Were it not for the advances that have been and continue to be made in industry and firm operations; from clearing and settlement to processing to electronic trading, it seems unlikely the US could have maintained its comparative advantage.

It is also an evolutionary process in terms of regulation, business practices and technology. We are on the back end of the most significant regulatory overhaul since the 1930's, while in the midst of groundbreaking new technologies that will transform the business and how we serve clients.

That's why this event is so important. Investment in new technology and operational efficiency drives innovation and growth. Industry operations are core to resilient and efficient markets that inspire investor confidence and drive economic growth.

The work done by member firms through SIFMA's Operations and Technology division is key to our advocacy efforts to promote a strong U.S. capital market system that works for issuers and investors. I'd like to thank the Operations and Technology Steering Committee, and its chair, Joe Guardino of Bank of America Merrill Lynch, as well as the many member company personnel who participate in SIFMA's activities, for their invaluable leadership on key operations issues.

That leadership was particularly evident last year, when the industry, through SIFMA and our partners at the Investment Company Institute and DTCC, led and implemented one of the biggest changes to US market structure in nearly two decades – the shortening of the settlement cycle. T-2 reduces risk, increases operational and capital efficiencies, and aligns the U.S. with major markets around the globe. This was an important step forward that would not have been successfully implemented were it not for the work of so many here today and across the industry. The level and detail of the planning and preparation resulted in seamless execution that was appropriately lauded by regulators and industry observers and serves as a model for future industry-wide initiatives.

Looking ahead, SIFMA and its members confront a robust agenda of legislative, regulatory and operational issues. I would like to address a few priorities for you today.

As many know, the Treasury Department has undertaken a holistic review of the US financial regulatory framework. We believe this appropriate given both the volume and breadth of new regulation imposed under the Dodd-Frank Act supplementing the pre-existing robust financial services regulatory framework. This is also consistent with efforts by other jurisdictions, most notably Europe and Japan, which have undertaken similar reviews. To date, the Treasury has issued four reports suggesting many material revisions to regulation of banking, capital markets, asset management and insurance. We expect the Department to issue a fifth report on non-banks and financial innovation in the near future. The Department also issued a report suggesting revisions to Dodd-Frank's orderly liquidation authority (OLA) for systemically important banks, while importantly maintaining the OLA in the regulators' tool box. SIFMA and our members have provided several recommendations where rules could be recalibrated or updated, many of which the Treasury reports to date embrace.

Specifically, SIFMA has advocated for prudential regulators to recalibrate several of the post-crisis measures addressing capital and liquidity for banks and bank affiliates including the comprehensive capital analysis and review (CCAR), supplemental leverage ratio (SLR), liquidity coverage ratio (LCR), net stable funding ratio (NSRF) and fundamental review of the trading book (FRTB). As implemented or proposed, these provisions inappropriately establish a binding constraint which unnecessarily impedes capital and credit allocation. Recently, the Federal Reserve and Comptroller of the Currency have proposed changes to the SLR and CCAR regimes, and SIFMA is working with our members and fellow trades on responding to those proposals.

We have also argued for a streamlining of the Volcker Rule. While we have long believed the Volcker Rule was a solution in search of a problem, we now see that the rule as implemented has had the unintended consequence of negating market liquidity across multiple asset classes. Further, its construct of having five different regulators interpret and enforce has created unnecessary confusion. Based on public comments, we believe US regulators will soon propose meaningful revisions. SIFMA and its members previously commented on a request for information by the OCC on ways to simplify the Volcker Rule and we hope that our comments will provide a basis for regulators if and when they propose changes. Further, the US House of Representatives recently approved a bill, H.R 4790 sponsored by Congressman French Hill of Arkansas, to streamline the regulatory oversight function. We hope the Senate will take up the legislation in short order.

We also expect more rulemaking and revisions to the new derivatives or swaps regime under Title VII of Dodd-Frank. While the CFTC has completed most of its rulemaking mandate, the SEC has a lot left to do. We believe there are number areas for clean-up, many of which CFTC Chairman Giancarlo has suggested such as with respect to data collection, swap execution facilities and made available to trade rules. Further, as the SEC moves to complete its portion of the Title VII rules, there is an opportunity to improve the coordination with the CFTC. Finally, we are advocating for the US prudential regulators to appropriately align their rules with respect to margin on uncleared swaps with that of the CFTC and regulators in other jurisdictions.

The establishment of a best interest standard for retail brokers remains a key priority for SIFMA. We have long supported the creation of a heightened best interest standard for broker-dealers providing personalized investment advice that builds upon the existing, robust, broker-dealer regulatory regime. We are pleased that the SEC, as the preeminent markets regulator, has initiated the formal rulemaking process to create a heightened best interest standard for broker-dealers while also providing interpretive guidance on the investment adviser practice. We are examining the details of the SEC proposal and look forward to sharing our views during the comment process.

Fixed income market structure is also a priority as the marketplace evolves due to regulation and technological innovation. Fixed income market liquidity and price discovery continue to be key areas of focus for our members. As the marketplace continues to evolve and adapt in a host of ways, such as the proliferation of ETFs and the use of algorithmic trading, we will continue to promote constructive dialogue with the regulatory community.

In that regard, we were pleased to see the recently established SEC Fixed Income Market Advisory Council (FIMSAC) put forth a recommendation for a pilot program to study the market implications of changing reporting requirements for corporate bond block trades, and we look forward to engaging with the FIMSAC, the SEC, and FINRA on this proposal.

Enhancing equity market structure is another focus for SIFMA. As Securities and Exchange Commissioner Hester Peirce stated at SIFMA's recent Equity Market Structure Conference, "a national market system is not a goal to be achieved; it needs to be agile enough to change to investor and issuer needs."

Further, we welcome SEC Chairman Jay Clayton’s upcoming roundtables on low-volume securities, access to markets and market data, and combatting retail fraud. We urge the SEC to carefully consider whether there are changes in equity market structure that could improve capital formation. And if there are structural changes to accomplish that goal, we should explore them.

We were happy to see the SEC propose a transaction fee pilot in March. SIFMA has supported lowering the current cap on access fees, and the pilot would be a constructive way to gather evidence for the most optimal steps for reform in this area. We are examining the proposal and will be submitting comments to the SEC.

SIFMA continues to advocate for governance reform in NMS Plans to include direct voting representation by industry representatives. The NMS Plan structure is used to operate important market initiatives, such as the Consolidated Audit Trail (CAT) and the public market data processors. However, NMS Plans are operated solely by the self-regulatory organizations (SROs) with no official representation from other industry participants, such as broker-dealers and asset managers. These important issues operated by NMS Plans should not be regulated by one group of market competitors -- the exchanges – over another – the broker-dealer industry. We also believe that the role of exchanges as the SROs needs to be modernized given the business and policy changes over that last 10 years.

The need for greater industry involvement with NMS plans is underscored by initiatives such as the Consolidated Audit Trail. SIFMA believes that a workable, secure CAT could bring great value to regulators, benefitting the industry and increasing investor protection. However, the current CAT development plan raises serious concerns around data protection and the ability to confidently secure the critical investor information it will contain. SIFMA is also concerned that the current implementation timeline does not allow for sufficient systems development and testing to effectively implement the CAT. It is simply not feasible to set implementation deadlines before the technical specifications are even completed, which is where broker-dealers find themselves today with a deadline of November 15, 2018. SIFMA will continue to request more clarity from the SRO's and the Commission on the pending deadlines and other issues.

In addition to CAT, our agenda includes other critical operations and market structure issues including DTCC's bulk data transfer proposal, alternatives to LIBOR, data privacy and cyber security and resiliency.

SIFMA is working closely with our members to help shape the DTCC/Bulk Data transfer program and hopefully ensure consistency with the industry's Sheltered Harbor program. SIFMA is an active member of the Federal Reserve's Alternative Reference Rate Committee and we are working closely with our fellow trade associations ISDA, AFME, and ICMA on the transition from LIBOR globally. Advances in financial technology continue to create new opportunities and benefits for our industry's customers, but along with it, increased risk. We are working closely with our members to help education customers of their rights and responsibilities and our next speaker will address that important topic.

Finally, one of the most important and overarching initiatives at SIFMA is cybersecurity. I know I'm preaching to the choir when I say there is likely no greater threat to financial stability than a large-scale cyber-attack. Cyber-crime is now a bigger criminal enterprise than the global narcotics trade.

The industry is constantly working to improve cyber defenses, resiliency and recovery through massive monetary investment in technology and personnel, regular training, best practices development, and industry tests, including annual business continuity and Reg SCI testing, and our bi-annual Quantum Dawn systemic cyber-attack simulations. The continued integration of technology and cyber into every day industry operations for both individual and institutional clients underscores the need to remain vigilent. Just as we need to focus on protecting systems and infrastructure, we must provide equal weight to protecting our customers' data.

We are working close with our government partners and believe robust public private partnerships are the most effective way to manage threats. We support the NIST cybersecurity framework and efforts to align cybersecurity policy with these guidelines. To better protect investors, SIFMA is also advocating for enhanced harmonization of regulatory standards and supervision to improve the efficient use of critical cyber resources.

Further, as I just noted, data security for our customers is an issue that has been prioritized by our next speaker and current SIFMA chair, Lisa Kidd Hunt. Our industry deals in realms of sensitive client data and shares a responsibility for keeping it safe. Critical to the protection of personal data is ensuring that third-parties have cyber defenses at least as good or better than the institutions they serve. Furthermore, our regulators collect tremendous amounts of sensitive client data through their examination and supervision responsibilities and we are engaged with them on how best to protect that data. We also know that over 25% of data breaches are caused by employees or consultants, either unintentionally by clicking on a bad link or by bad actors who aim to harm the institution. And so we must continue to strengthen our Insider Threat programs – we have a panel of experts here this week to discuss those threats in more detail.

That is just a quick review of the many priorities and issues SIFMA and its members are pursuing to promote fair, effective and efficient markets to help the economy grow.

Before I formally introduce our next speaker, I'd like to take this opportunity to sincerely thank our sponsors for their generous contributions, which have made this event possible.

It is now my pleasure to introduce Lisa Kidd Hunt. Lisa is executive vice president, international services and special business development at Charles Schwab. I've had the pleasure of working with Lisa through SIFMA's board of directors, and we're lucky to have her as our current chair.

Lisa has worked in the securities industry for 26 years, including the past 20 with Schwab. Prior to her current role within Schwab, she served as head of Schwab's branch network and acquisition delivery and led Schwab Investor Development, among other roles.

Please join me in welcoming Lisa Kidd Hunt.