SIFMA 2012 Annual Meeting
New York, NY
October 23, 2011

Opening Remarks
As prepared for delivery

Tim Ryan
President and Chief Executive Officer

I'd like to thank Gary Gensler for starting us off this morning during our breakfast session. Again, I'm Tim Ryan, President and CEO of SIFMA; to keep things moving on this very busy day, I'll take care of some official business.

I now declare the opening of SIFMA's formal annual business meeting for members.

Included in the notice of this member meeting was a report of the Nominating Committee for SIFMA directors and a proxy for use in voting. The Nominating Committee is careful to ensure that SIFMA's Board of Directors represents all of the major constituencies of the firms in our industry. The corporate secretary has received the required number of votes in accordance with the by-laws and the following new directors have been elected for three year terms (show slide):

Francois O. Barthelemy, Société Générale
Bernard B. Beal, M.R. Beal & Company
David Findlay, Nomura Holding America Inc.
Kim T. Fleming, Hefren-Tillotson, Inc.
Chet Helck, Raymond James Financial, Inc.
Lisa Kidd Hunt, Charles Schwab & Co.
Thomas M. Joyce, Knight Capital Group, Inc.
Edward J. Kelly, III, Citi
Michael Lyublinsky, Royal Bank of Scotland
Gerard McGraw, Fidelity Institutional
Timothy P. O'Hara, Credit Suisse Securities
Paul Purcell, Robert W. Baird & Co.
John F. W. Rogers, Goldman Sachs
Jim Rosenthal, Morgan Stanley
Timothy C. Scheve, Janney Montgomery Scott LLC
John G. Taft, Royal Bank of Canada
James A. Tricarico, Jr., Edward Jones
Yoshio Urata, Daiwa Capital Markets America Inc.

W. Rufus Yates, BB&T

I'd also like to thank our sponsors for their support of today's event. You can see them on the screen now (slide). We appreciate the continued partnership of our sponsors. If you plan on tweeting throughout today's conference, we encourage you to use the hashtag "SIFMA Impact" (slide), to join the online conversation.

SIFMA remains strongly supportive of comprehensive, balanced reform of financial regulation, both here in the U.S. and globally. We do not always agree with governments or regulators on all the details, but we share their conviction that major reforms, including many which have already been implemented, are needed in such important areas as: capital; liquidity; resolution of troubled firms; transparency; compensation practices; and protection of retail investors. These reforms are critical to restoring the trust and confidence that is so essential to our markets. We have also been upfront in objecting to provisions that we believe are, at best, extraneous and unrelated to the financial crisis, such as the Volcker Rule. But, we have *never* supported a complete repeal of Dodd-Frank, and do not support repeal now.

No one, however, can be happy about where the reform process stands. The problems began as a result of the political and bureaucratic constraints that produced a complex 2,300 page law, leaving the great majority of detailed decisions to the regulators. This complexity required 87 studies by regulators and will ultimately lead to an estimated 398 rules massing a projected 29,000 pages. Only one-third of the required rules have been finalized and while regulators have adopted some critical provisions related to non-bank SIFIs and Orderly Liquidation, many major rules, and their extraterritorial application, remain unresolved. Even the rules that have been issued do not always stand up in court, as evidenced by the overturning of the CFTC position limit rules.

Further, coordination among US regulators is lacking, resulting in likely conflict among rules and friction and fragmentation across markets. This is compounded by problems with cross-border application where the US, EU and Asia are moving in different directions on reform. In fact, there has been an unprecedented outcry from a number of G20 finance ministers and regulators about some rulemaking's extraterritorial impacts, especially the Volcker Rule and some of the derivatives reforms. The most pointed criticism has recently been aimed at the CFTC's cross border guidance that breaks from standards of international comity by giving US regulators unprecedented regulatory scope over activities taking place in Europe, Asia and other jurisdictions.

It's time to step back, review what we are trying to accomplish, and find a better approach to getting it done. Banking and securities activities are critical to economic growth. We cannot afford conflicting and overlapping rules proposals which produce extended uncertainty for everyone in the economy.

The recent financial crisis demonstrated vividly how badly the economy suffers when finance becomes unavailable at reasonable prices. A severe credit crunch crushed our economy and destroyed millions of jobs in the ensuing recession. This was not a fluke. Carmen Reinhart and Ken Rogoff use eight centuries of data to convincingly demonstrate that serious financial crises trigger severe recessions by choking off the ability of banks and other financial institutions to provide the necessary credit for the economy to function[1]. The IMF and many academics echo these findings.

The importance of finance for economic growth does not show up only in extreme circumstances. There is a very strong consensus among policy analysts that efficient finance is essential to maximizing growth and jobs in the good times and minimizing the damage when things turn ugly. This consensus extends across academics, central bankers, financial regulators, and researchers at the IMF and its counterparts. Official studies of the Basel III proposals, for example, aggregated dozens of economic models from central bankers and other officials around the world, concluding that growth slows when credit is more expensive and less available. The US capital markets are the broadest, deepest, most liquid markets in the world and we must work diligently to ensure they remain so.
We strongly support reforms to restore finance to its proper place as an efficient tool to augment the strength of the American and world economies. This is admittedly not just altruism; the financial industry cannot prosper for long if it does not serve its customers, and society at large, effectively. Even more obviously, we as an industry suffer terrible damage when mistakes we and others make trigger crises.

The industry has voluntarily made dramatic strides in remedying past problems. Banks raised capital levels sharply, starting well in advance of the formulation of the Basel III rules. Average Tier 1 capital ratios have increased 70% in just four years from 7.5% in 2007 to 12.7% in 2011 –substantially ahead of the initial Basel III requirements that will take effect in 2013. Liquidity, the second key safety buffer, is much more carefully managed now, with substantially greater cushions of liquid assets. Counterparty credit risk is being reduced by the use of central clearing houses, with the remaining bilateral exposures collateralized

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[1] *This Time Is Different: Eight Centuries of Financial Folly*, Carmen M. Reinhart & Kenneth S. Rogoff, 2011.

much more strongly than before. Our members have intelligently responded to the changed market environment and the lessons they painfully learned. Markets *work*, correcting for past errors and reflecting new information, and financial markets are no exception.

These and other reforms to improve the strength and depth of our markets are key to restoring and reinforcing investor trust and confidence. Confidence in our markets is the foundation for market efficiency, capital formation, economic growth and job creation.

Despite the many self-correction mechanisms underlying our financial markets, they also need solid regulation. We have consistently supported the core principles that underlie Dodd-Frank and Basel III; in particular:

- Establishing a systemic risk regulator with authority to impose enhanced prudential standards
- Identifying and monitoring systemic risk through a global legal entity identifier
- Substantially increasing the quantity and quality of capital
- Ensuring financial institutions have robust liquidity management regimes
- Creating a resolution regime that eliminates the need to consider any financial institutions to be too big to fail and expanding this to a global basis
- Tying compensation to true multi-year performance, with clawbacks and other reforms to eliminate incentives for excessive risk-taking
- Promoting the central clearing of standardized derivatives
- Instituting uniform standards of duty for brokers and advisers when providing personalized investment advice about securities to retail investors

SIFMA's principal concern has been to make clear our support for appropriate reform and to respectfully suggest improvements to regulatory proposals. But, it is time to admit that the reform process is not working effectively and consider improvements to its implementation.

Unrealistic deadlines enshrined in Dodd-Frank are encouraging flawed processes. Decisions that need to be made in a logical order are being made simultaneously or in the wrong order. A natural response to the multiple deadlines is to create separate working groups, but these too easily turn into "silos" producing overlapping or conflicting proposals. There is also a tendency towards over-reach as the writers of each proposal try to solve for more than the task assigned. Regulators must therefore take economic cost-benefit analyses seriously. This provides the best means for ensuring that improved safety is not bought at the price of seriously damaging economic growth and fostering unemployment. Finally, paralysis can result when regulators eventually come together to try to resolve the overlaps, conflicts, and flaws. For example, it has been nearly impossible to revive the private securitization market because of a lack of decisions on Qualified Residential Mortgage rules. Sometimes the paralysis is overcome only by pushing out rules that retain serious problems.

It is time to admit these implementation problems and create a strong coordinating mechanism to establish priorities. Dodd-Frank explicitly mandates the Financial Stability Oversight Council to be the body that coordinates comprehensive regulatory responses. We think that carries an obligation to take charge and sort out the current unruly mess, set priorities and move forward.

First, the FSOC must agree that radical intervention is necessary and establish priorities reflecting the overall objective: sharply reducing systemic risk so that 2008 can never happen again and investors and savers can operate without fear of a breakdown of our markets. This can be accomplished as Dodd-Frank intends, particularly by having proper mechanisms in place globally to resolve financial institutions that play central roles in the system, enhancing capital levels (as has already largely been achieved in practice in the US), and setting the right rules on derivatives.

The second step is to review the remaining regulations and decide which items are high priority or are so close to finished that it would be wasteful to put them on hold. There is no need to abandon progress that has already been made, unless it becomes clear that the earlier decisions don't work when combined with other rules. Third, the FSOC must closely monitor progress towards the new agreed deadlines, stepping in when delays occur. As key items are finished, the resources can then be reallocated to the next most critical tasks.

We would like to nominate three items for priority status: ensuring that no financial institutions are Too Big To Fail going forward; proceeding with core derivatives reforms and addressing the rules governing advice to retail investors.

Dodd-Frank includes bold and effective steps to eliminate the potential that some firms may be so central to the financial system that taxpayers might have to rescue them in a future financial crisis. To this end, the rules implementing the new resolution processes should be finalized on an expedited basis. More broadly, there needs to be finalization of heightened prudential standards and oversight processes for the most important global financial institutions, including the rules and procedures on capital, liquidity, living wills, stress testing, credit exposure limits to single counterparties, and Legal Entity Identifiers. It is crucial to coordinate effectively with European regulators on these matters, particularly as London is by far the largest financial center outside of the U.S.

Derivative reforms are complex and important. They will impact not only the direct market for derivatives, but also the many other financial activities that rely on the ability to hedge risks to provide the necessary protections for them to operate effectively. Some progress has been made, but not nearly enough, so we urge that this be the third priority area. This includes prioritizing those reforms that can achieve the key goals of [transparency and risk reduction] and setting out a properly sequenced phase in schedule that accounts for differences in readiness among market participants and different product types. There is also a critical need for a global approach as the derivatives market operates on a truly global basis. It will also be critical to keep a sharp eye out for conflicts with other parts of the rulemaking process. For example, rules on capital, liquidity, and the single counterparty credit limits are being constructed in ways that could make it much less attractive to use central clearing, working against a central tenet of reform efforts, one explicitly endorsed by the leaders of governments around the world.

Addressing the bifurcated regulatory structure between registered investment advisors and broker-dealers is vital. Individual retail investors have lived for too long in a world where RIAs and brokers operated under different standards and were regulated in different ways. Dodd-Frank sought to change that paradigm.

First, it directed the SEC to study the feasibility of a new, uniform fiduciary standard of care for brokers and investment advisers when they provide personalized investment advice about securities to retail investors. SIFMA was an early proponent of this reform—supporting it even before the President issued his white paper—and have continued to work with the SEC on the appropriate way to move forward with rulemaking.

Dodd-Frank also sought to ensure that RIAs and brokers also experience the same level of regulatory examination. Indeed, after a congressionally mandated study, Chairman Spencer Bachus introduced legislation bringing registered investment advisors under a regulatory examination regime comparable to that of brokers. SIFMA supports Chairman Bachus' efforts.

We recognize that there will be challenges confronting our proposed approach. It may seem safer to continue to pretend that deadlines will be met or that the fastest way to meet all the requirements is to proceed simultaneously on all fronts. However, we believe prioritization is essential if we are truly serious about moving forward expeditiously. There will doubtless be disagreements about the prioritization. This is natural, but we also believe it should be possible for the FSOC find broad agreement, if the members work together with good will. The items we have suggested for prioritization touch on the key areas of the economy and should find natural support.

It is critical that SIFMA and the broader industry make our points about the implementation process in a way that underlines our commitment to reforms that create a much safer system that can still serve the needs of the real economy. Financial reform is too important to leave to the mercy of a process that simply is not working effectively or efficiently. It should be no surprise that prioritization would be helpful in dealing with a task of this importance and complexity. Prioritization *does* mean taking responsibility, which carries risks, but neither we nor the regulators and politicians can afford to shirk this duty if we are serious about ensuring a robust financial system to power our economy and in turn restore trust and confidence in the financial system.

I'd now like to introduce Chet Helck, CEO of the global private client group at Raymond James Financial and chairman of the SIFMA Board of Directors.

At Raymond James, Chet works with the CEO and other senior management in formulating and directing strategic initiatives for the firm. In addition to overseeing the global private client group, his leadership responsibilities include wealth management and marketing and corporate communications. He also serves as a director of Raymond James Financial, as well as of numerous subsidiaries throughout the organization.

Chet is deeply committed to addressing issues affecting the securities industry and the interests of investors and we appreciate the leadership he has shown in his service to SIFMA and the broader industry. Please join me in welcoming Chet Helck.