

Speech

A Joint Path Forward: Address at Eurofi

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Thank you David [Wright] for the kind introduction. It's wonderful to be back at Eurofi. It has been a couple of years since I last had the privilege of speaking with you, and much has changed since then. There have been changes in national leadership, landmark referendum votes, and MIFID implementation is rapidly approaching. These changes naturally force us to ask questions about the state of our markets—where have we been, and where are we heading.[1]

History has no single starting point, but I think the end of World War II marks an important beginning for modern financial markets. Seventy years ago, the nations of the world were recovering from a devastating war, trying to rebuild their economies and feed their people. The United States had only recently emerged from the Great Depression. It was in the midst of a fundamental shift from its agricultural past to an urbanized future.

In 1963, United States President John Kennedy visited the Frankfurt Assembly and offered this summation of the world at that time:

...we live in an age of interdependence as well as independence – an age of internationalism as well as nationalism.... Today there are no exclusively German problems, or American problems, or even European problems. There are world problems – and our... countries and continents are inextricably bound together....[2]

We are, as President Kennedy observed, inextricably bound together. Indeed, working together, we achieved unprecedented economic expansion and prosperity. In 2016, the combined gross domestic product of the European Union and the United States was 30 times the GDP of 1960.[3] This huge increase in output resulted in an increase in quality of life for both Europeans and Americans. Life expectancy increased by almost 10 years in the United States and even more in Europe.[4] Today, the average European or American family enjoys luxuries that would have been unimaginable 60 years ago. We have achieved this through cooperation and a shared vision. We built this better future together.

However, as in all journeys, there have been bumps in the road. Ten years ago, the financial crisis began. Before it was over, problems in the financial markets had deeply affected both Europe and the United States. The crisis did not respect international borders. It flowed quickly from country to country, and from continent to continent. We were all subject to its vicissitudes. We stood on the brink. But once again we rose to the occasion and faced the challenges together. For the last decade, our markets have been healing. In many ways, they have grown stronger and more resilient. Financial institutions have become more stable, investors are putting their savings in the markets again, and businesses have renewed access to capital.

Today we face new changes, new challenges, and new opportunities. Our markets are becoming increasingly electronic and are moving faster and faster. They are also becoming more global and more interdependent. A trade today can involve participants in multiple countries and be completed in fractions of a second.

As we stand on the precipice of a new world, the so-called information age, we must now ask ourselves, where are we going? How do we continue to build markets that can make life better for all of our citizens? For, as President Kennedy said in the same speech I quoted earlier, those “who look only to the past or the present are certain to miss the future.” Change is a constant. How we respond to it is what matters. We must be brave, bold, and innovative. We should not be afraid of the disruption around us, of new ideas or new ways of doing things, for they represent opportunities. Change allows us to grow, and for our markets to better serve our investors, our companies, and ultimately, our citizens.

One of the most striking and exciting changes we are experiencing is the use of technology. I well remember a time before personal computers, cell phones, and the internet. Today, these items are ubiquitous in our lives; tools we cannot live without. But now, in our financial markets, we are moving beyond technology as just a tool. Technology now *defines* firms from the back office to the front office.

In our financial markets, the rapid adoption of technology has been occurring for some time. Some examples are obvious, like roboadvisors and quantitative trading firms. However, technology has significantly reshaped even our more traditional financial firms. One major financial firm reportedly has reduced its equity traders from 600 to just two. Now, one third of its overall employees—9,000 people—are computer engineers.[5] Another major firm reported that it spent \$9.5 billion on technology in 2016 alone.[6] Many mainstream financial firms are now technology firms.

It reminds me of an iceberg reaching its tipping point. An iceberg can roll over in a few minutes, releasing tons of energy into the surrounding ocean as the colossal structure inverts. The base of the iceberg becomes the top. The resulting wave has far reaching effects. The same can be said of our financial firms and technology. The ripples from the move toward technology are powerfully affecting our markets in a multitude of ways.

One of the effects we all spend a lot of time talking about – and worrying about—is cybersecurity. Unfortunately, we are all well aware of numerous high-profile breaches. As technology has disrupted and redefined our markets, the opportunity for that technology to be exploited has also grown. Each of us must be vigilant. But this is not a battle we can fight alone. Computer systems and technology bring us closer together—for better or for worse. Today’s markets are incredibly intertwined. And, as we have all been learning, they are only as strong as the weakest link. If a less sophisticated player falls victim to a cyberattack, it can affect the entire marketplace. This is something we have all seen. No person is an island[7], nor is any financial firm. Because cybersecurity is a challenge we all face, we must collaborate to find solutions that help the global markets be more resilient.

In the eighteenth and nineteenth centuries, there were private fire departments who responded only to those who had purchased their services. These private fire departments quickly learned, however, that they had to collaborate with each other to prevent fires from spreading. If one house caught fire, the fire could quickly spread to the entire street, neighborhood, or even city. What was needed was a collective response to protect against a collective threat. The cybersecurity threat is no different. A cyberthreat that began on the other side of the world, can quickly infect others because of our interconnected computer systems. We must collaborate if we are to succeed.

Indeed, this is true of all of the changes we face today. Since President Kennedy looked across the Atlantic fifty-five years ago, and saw opportunity in a world characterized by both independence and interdependence, our fates have only become more entwined. Borders do not constrain the changes and challenges that have swept across our economies, our markets, and our financial institutions. These are changes born of ideas, and ideas have no nationality. If we close our eyes to these developments, we will fail to see both the perils and the opportunities.

In our quest for better markets and better lives for our citizens, it is important that we continue to work together, side by side. For the markets no longer allow us to say that there are just American issues or just European issues. As such, solutions to market problems must also be international. As we say in America, united we stand, divided we fall.

Ultimately, I do not know what our collective future holds, but I do know that if we continue to work together in thoughtful and creative ways, it will be for the good of all.

Thank you for inviting me to speak with you today and I look forward to joining you for the rest of the conference.

[1] My remarks are my own and do not necessarily reflect the views of my fellow Commissioners or the staff of the SEC.

[2] John F. Kennedy, [Address in the Assembly Hall at the Paulskirche](http://www.presidency.ucsb.edu/ws/?pid=9303) (1963), *available at* <http://www.presidency.ucsb.edu/ws/?pid=9303>.

[3] The GDP of the European Union and the United States in 2016 were \$16.398 trillion and \$18.569 trillion, respectively. In 1960, their combined GDP was just \$902 billion in current U.S. dollars. See <http://data.worldbank.org/region/european-union> and <http://data.worldbank.org/country/united-states>.

[4] *Id.*

[5] Nanette Byrnes, [As Goldman Embraces Automation, Even the Masters of the Universe Are Threatened](https://www.technologyreview.com/s/603431/as-goldman-embraces-automation-even-the-masters-of-the-universe-are-threatened/?set=603585), MIT Technology Review (Feb. 7, 2017), *available at* <https://www.technologyreview.com/s/603431/as-goldman-embraces-automation-even-the-masters-of-the-universe-are-threatened/?set=603585>.

[6] JPMorgan Chase & Co. Annual Report 2016, *available at* <https://www.jpmorganchase.com/corporate/investor-relations/document/2016-annualreport.pdf>.

[7] John Donne, Devotions upon Emergent Occasions, Meditation XVII (1624).