



Dodd-Frank will force derivatives trading into booking entities outside of the bank.

The Dodd-Frank Act dramatically changes the regulatory model for all financial services companies in the United States—financial/bank holding companies, banks, nonbanks, and foreign banking organizations. Its increased federal supervision encompasses many notable changes to the structure, supervision, and regulation of the U.S. financial services industry. In particular, the OTC Derivatives market will be fundamentally changed under Title VII of the Act, which will in turn drive rationalization and transformation efforts as a result of the Swaps Push-out provision and other considerations. The Swaps Push-out provision of the Dodd-Frank Act will trigger substantial implications such as:

- “Swap dealer” and “Major swap participant” registration for derivatives transactions subject to the Act
- Different set of regulatory requirements based on product type, entity type, and regulator(s) of transaction
- Potential differences of rules between key regulators
- New and uncertain rules related to capital, margin, collateral segregation requirements, business conduct, and other requirements
- Consideration of client preferences and competitors’ actions

As market participants grapple with a rapidly changing environment and work toward understanding the impact to the business, substantial uncertainty remains around fundamental rules and regulations with respect to capital, margin, and segregation requirements to name a few. As a result, institutions are undertaking the arduous process of identifying potential issues and implications for scenarios across a number of categories. In addressing these parts of their business, those impacted should be considering tough questions such as:

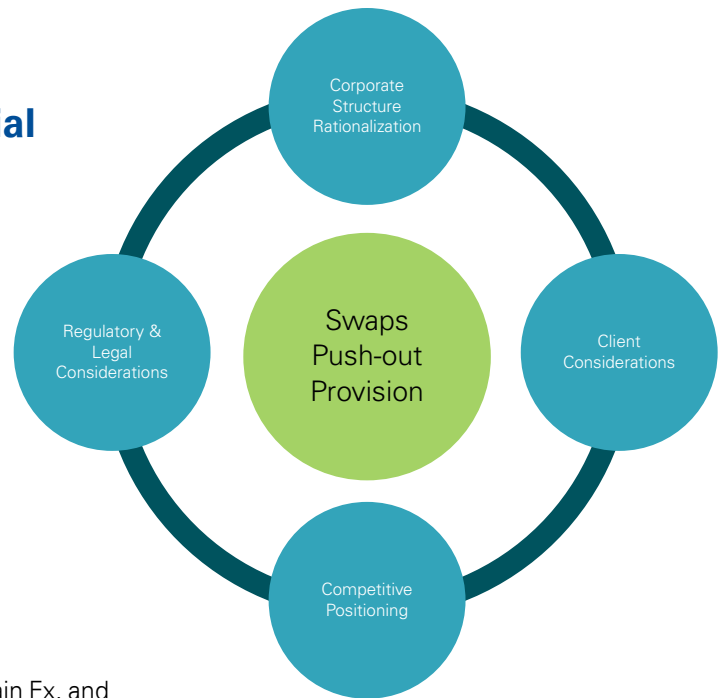
- What challenges will we face to fund new capital requirements?
- How will customers react to new margin requirements?
- Will my competitors’ strategic structures be more favorable?
- How will I manage transactions with counterparties subject to cross-jurisdictional requirements?

The Swaps Push-out Provision of the Dodd-Frank Act Will Trigger Substantial Changes.

While the Dodd-Frank Act establishes the broad outline of regulations for derivatives businesses, most of the details will be determined by the regulators within one year of enactment.

Banks' Derivatives Oversight & Eligibility under Push-out Rules

- **Oversight** – Banks' derivatives transactions now subject to additional oversight by both CFTC & SEC
- **Bank Eligible** – Rates, FX, and certain commodities and investment grade debt swaps
- **Bank Ineligible** – Certain equity and non-investment grade debt swaps
- **No Change** – Options on equities and other securities, certain Fx, and forward contracts will likely maintain current regulatory status under Act

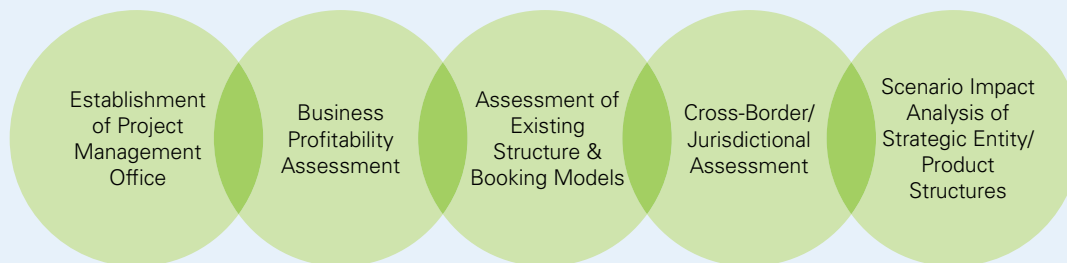


As the marketplace reacts to the Dodd-Frank push-out rules with a variety of responses, KPMG is helping clients to actively plan for impending rules and related impact to their organizations.

Market Intelligence Alert

Initial Approaches to Develop a Strategic Booking Entity Corporate Structure

Institutions today are beginning their analysis efforts from a diversity of starting points based on corporate structure, existing product mix, current customer base, regulatory supervision, to name a few. To this end, companies are actively planning for a number of potential scenarios, and exploring implications and cost benefits to develop potential options for a strategic approach such as:



KPMG holds the tools, knowledge and industry perspective to assist firm leadership navigate the dynamic regulatory environment, across the operational landscape.

Your Needs, Our Services

Consideration & Issue	Regulatory and Business Drivers	How KPMG Can Help
Booking & Managing Transactions	<ul style="list-style-type: none"> • D-F Swaps Push-out provision and other regulations • Recovery & resolution plans (i.e., living wills) • New regulatory capital requirements • Funding & liquidity needs 	<ul style="list-style-type: none"> • Development of overall booking strategy across major entities • Exposure analysis – impact on bank and key market-facing entities • Analysis of business outcome such as profitability, capital consumption, and cost of funding • Assessment of additional needed entities by type and jurisdiction
Competitive Positioning	<ul style="list-style-type: none"> • New entity registration requirements • Protection of customer assets • Cross-jurisdictional & border considerations • Potential for regulatory arbitrage 	<ul style="list-style-type: none"> • Generate notions of potential competitive structures • Develop strategies for mitigating consequences of competitors' strategic structures • Actively plan for a number of changes to competitive landscape
Trading & Operations	<ul style="list-style-type: none"> • Central clearing requirements • New capital, margin, collateral & segregation rules • 15A6, Reg T, & other regulation considerations 	<ul style="list-style-type: none"> • Profitability and cost considerations • Clearing, margin, and other operational considerations • Intercompany impact analysis
Client Considerations	<ul style="list-style-type: none"> • New capital, margin, collateral & segregation rules 	<ul style="list-style-type: none"> • Client novation implications • Modification of static data • Assessment of changes to margin requirements • Client preferences for achieving netting and potential portfolio margining benefits

KPMG: The Right Choice

KPMG's experienced regulatory professionals include former regulators, supervisors, examiners, and compliance practitioners. Our professionals have the skills and qualifications to help financial services entities evaluate their organizational readiness for the new regulatory requirements. Our experience and extensive financial services qualifications in the areas of large-scale change management equip us to assist your financial services organization with the strategic operational and technical transformation needed to meet the regulatory challenges ahead.

KPMG: The Right Approach

As your adviser, KPMG can assist in gap-analysis reviews, offer broad and wide-ranging strategies, and provide objective implementation guidance. Working hand-in-hand with your senior management team, we can help you anticipate and manage regulatory risk and make the right choice, at the right time, and at the right cost. Our effective, efficient, and highly collaborative approach helps you:

- Prepare for the impact of the reform on your systems and processes, business, and people, from the current-state assessment through the implementation deadline.
- Leverage our public policy and government affairs experience to obtain perspectives that are informed by the latest developments.

KPMG: The Right Commitment

We are personally committed to exceeding your expectations. From project management and execution support to providing deep subject-matter knowledge, we will help inform your strategy on various provisions of the reform. KPMG is poised to begin working with you immediately to:

- Strengthen enterprise-wide programs
- Implement effective governance and risk management frameworks
- Enhance internal controls
- Create a culture of risk management and compliance

Global Strength in Financial Services

KPMG has dedicated considerable resources to becoming a leading service provider worldwide to the financial services industry. Our Financial Services practice is our largest line of business, representing about a quarter of total firm revenue. Our global strength includes approximately 21,000 KPMG LLP and KPMG International professionals as well as 1,500 partners. Our people understand the issues, trends, and risks relevant to financial services companies as they meet the multifaceted challenge of regulatory reform.



Case Study

Crisis Recovery Plan & Strategic Corporate Structure PMO

Large U.S. Investment Bank Holding Company

Objectives & Drivers:

- To support PMO efforts associated with their Crisis Recovery Plan (Living Will) submission to the Fed, and facilitating follow-ups to address ex ante actions identified as part of the plan and ongoing governance efforts
- To support a Legal Entity Structure PMO charged with developing a target corporate structure as a result of the Dodd-Frank Act. Additionally, the PMO is coordinating existing legal entity rationalization efforts around the booking and managing of derivatives transactions for input into the strategic development process.

Approach:

- Establishment of a PMO to facilitate Crisis Recovery Plan work streams and strategic corporate entity structure rationalization efforts
- Coordinating the activities and analysis of two distinct cross-functional steering groups that convene weekly and are tasked with advancing ex ante commitments from the Crisis Recovery Plan, and to consider potential implications, costs/benefits, and other considerations for developing a strategic corporate structure for booking and managing derivatives transactions
- Working with the businesses and cross-functional teams to coordinate capturing and tracking key attributes for the preparation of high-level analytics for steering level status reporting, and coordination and aggregation of in-depth analyses
- Streamlining execution of additional analysis efforts for both PMOs by developing tools and templates to introduce consistency, and leverage “best practices” of earlier analysis efforts, and introduce suggestions for improvements
- Conducting workshops to share and consider the range of issues and implications for developing a strategic corporate structure, and costs/benefits of a range of scenarios that is iteratively refined through the process

Result:

- KPMG continues to support the PMO by helping to facilitate project management, including management of milestones, dependencies, status reporting, and communication with stakeholders.
- Preparation of various reports, analytics, and aggregation of a diversity of analyses aimed at streamlining a complex and quickly moving process amidst uncertain rules and regulations to be set forth as a result of the Act

Contact us

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