



Converting to the new booking entity design will require significant adjustment to the operations infrastructure.

The implications of Dodd-Frank on the OTC Derivatives industry are pervasive and poised to not only impact the analysis and designs aspects of an entity, but a number of critical operational areas and related responsibilities within the derivatives framework. In order to respond to this new regulatory environment, market participants will need to address a number of significant aspects of their business, including compliance, controls and the infrastructure necessary to respond to growing demands from regulators and lawmakers. In preparation for complying with the anticipated mandates, financial firms should be asking themselves the following critical questions to ensure they are positioned properly for the new legislation:

- Has the initial target entity structure been determined?
- Has a gap analysis/project list been formulated?
- Is target structure implementation in process?
- Has the paperwork for novations and CSA's been developed?
- Has the static data architecture been revised?

To realize the vision of booking entity design, firms will need to address a number of operational issues.



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

Adoption Trends in the Marketplace

First Movers

- KPMG has observed several 'first movers' who have quickly established an active PMO to manage and think through the issues and implications across potential scenarios for their entity structures.
- Some have created booking entity models they are ready to trigger when the rules are defined, others are already launching their booking entity structures ahead of rules definition.

Selective Process

- A second group of companies among the 'Fed 14' have established PMOs and have begun limited operational assessments (i.e., to address new clearing requirements).

Wait and See

- The remaining companies are waiting see to how the final rules evolve before taking explicit actions.



Your Needs, Our Services

Areas of Impact	Regulatory and Business Drivers	How KPMG Can Help
Infrastructure	<ul style="list-style-type: none"> Funding implications Novation to new legal entity 	<ul style="list-style-type: none"> Support the analysis of risk weighted asset implications (change in collateral flexibility) and the impact of tri-party custody arrangements available to counterparties Provide derivative and ISDA experienced resource to support the novation process
Governance	<ul style="list-style-type: none"> Executive organizational governance structure for entity Legal entity controller roles & responsibilities 	<ul style="list-style-type: none"> Assist establishment of a PMO to facilitate the development and implementation of the new policies and procedures, obtaining appropriate approvals and validations along the way
Controls	<ul style="list-style-type: none"> Policies and procedures, and associated audit plans Financial/tax/regulatory reporting and control 	<ul style="list-style-type: none"> Provide subject matter experience to comment and review on tax and regulatory reporting implications and needs
Technology	<ul style="list-style-type: none"> Workflow/transaction routing Contract migration 	<ul style="list-style-type: none"> Project management, risk mitigation, and integration assistance with system and data migration efforts across the enterprise to accurately reflect and meet the needs of the new legal entity structure with minimal impact to front office business as usual Systems integration-current architecture review including requirement development, overall project management, and support on testing and implementation
Data	<ul style="list-style-type: none"> Static data (legal entity, product, securities, account, and customer static data) Counterparty, regulator, and intermediary validations 	<ul style="list-style-type: none"> Static data modification – review of existing data structures, identification of gaps vs. industry-wide proposed conventions for product and counterparty identification and conversion of legacy datasets to conform to new industry standards

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

Equity Derivatives Controls Initiative

Large Global Commercial Banking Company

Objectives & Drivers:

- Client incurred a number of Losses in the past two years in the Equity Derivatives business because of control related issues including:
 - Inability to settle
 - Inability to report P&L
 - Inability to correctly capture life cycle events, etc.

In addition, the client has a number of audit points requiring analysis and remediation.

Approach:

- Defined and organized the Equity Derivatives Controls Initiative. The program was divided into the following seven work streams:
 - Trade Capture
 - Static Data
 - Trade Flow
 - Reconciliations
 - Confirmation
 - Industry and Documentation
 - Life Cycle Management
- Each work stream came up with a set of control issues, success criteria, and design principles.
- 31 projects including 14 new projects across the seven streams were identified, defined, and initiated to address the issues.
- For all projects, business cases, draft plans, and estimates were gathered from the business and IT and a budget forecast was prepared and presented to the senior management which was approved.

Results:

- 50.8 FTE savings realized from various process efficiencies.
- \$100.85 million savings in operational loss avoidance.
- 160,759 breaks and 22,537 Out of balance between FO and Accounting and Settlement removed.
- 55,000 manual bookings of life cycle events automated.
- 1,113 trading books auto-marked addressing uniform pricing and parameters inconsistencies and 8 FO control reports rolled out and TO governance for controls management established.
- 15 Audit Points and 8 Self-Identified Audit Points, and 224 Control Issues addressed.
- One new entity setup completed for client-facing swaps for Equity Finance business.
- Major upgrades to the trade capture, P&L, MO, and Operations system achieved simplifying the processing architecture and improving the governance of controls and reporting.

Contact us

For more information, please contact the following Financial Services Regulatory practice professionals:

Howard Margolin

Partner, Advisory

212-954-7863

hmargolin@kpmg.com

Atif Zaim

Principal, Advisory

212-954-7061

azaim@kpmg.com

Eamonn Maguire

Managing Director, Advisory

646-489-2073

emaguire@kpmg.com

Jack Taylor

Managing Director, Advisory

212-954-3471

jftaylor@kpmg.com

Eric Tresino

Senior Manager, Advisory

704-335-5370

etresino@kpmg.com

kpmg.com