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Today's Webinar

Regulatory Reform Act and Reporting Implications

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**** We will begin Shortly ****

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Agenda

- Executive Summary
- US Financial Reform Bill
 - Overview
 - Changes to Regulatory Agencies
 - Key Terms and Definitions
 - Key Areas of Focus
- Impact on Reporting
- Recent Developments
- Best Practices
 - Automate
 - Document
 - Review
 - Communication
- Questions

US Financial Reform Bill - Executive Summary

The economic crisis introduced a new term to our national vocabulary “systemic risk” and the US Financial Reform Act will provide new rules to Financial Industry Regulation

US Financial Reform Bill - Executive Summary

- The US Financial Reform Bill commonly referred to as the Dodd-Frank Wall Street Reform and Consumer Protection Act:
 - Is the largest global financial reform initiative since the Great Depression
 - Intended to promote and provide enhanced soundness and stability to the US financial system
 - Signed by President Obama on July 21, 2010
 - Affects almost every sector of the Financial Services Industry:
 - Banks
 - Insurance Companies
 - Non-Bank Financial Institutions
 - Role of Government and Regulatory Agencies, Consumers and Investors

US Financial Reform Bill - Overview

- The US Financial Reform Bill was designed to address 4 main principles:
 - Reducing systemic risk in the financial services industry
 - Protecting consumers and investors by providing “clear rules of the road” that prevent manipulation and abuse
 - Eliminating gaps in regulatory oversight that allow regulatory arbitrage and ineffective or uneven regulation of financial products and activities
 - Fostering international coordination because risk does not stop at natural borders

- Significant changes include:
 - Creation of new regulatory agencies
 - Reforms to over-the-counter (OTC) derivatives
 - Regulation of the hedge fund industry
 - Reporting and compliance requirements

US Financial Reform Bill - Overview

- Key areas of focus include:
 - Consumer Protection
 - Bank Regulation
 - Derivative Regulation
 - Hedge Fund Industry Oversight
 - Insurance Regulation
 - Credit Rating Agencies
 - Enhanced Roles of the SEC and Federal Reserve

US Financial Reform Bill - Changes to Regulatory Agencies

Creation of New Government Agencies

Eliminated Agency

Independent Agencies	Federal Reserve Agencies	SEC Agencies	Treasury Agencies	HUD Agencies	Eliminated Agency
<p>Consumer Fin. Protection Bureau (CFPB)</p> <p>Agency housed within the Fed, to protect consumers with Regulatory power over Banks and non-Banks</p>	<p>Office of Fair Lending & Equal Opportunity</p> <p>Office within the CFPB. Oversees the Bureau's efforts to enforce fair lending practices</p>	<p>Office of Investor Advocate</p> <p>To support investors in SEC dealings & identify areas where investors have significant issues</p>	<p>Federal Insurance Office</p> <p>Monitor/ review & coordination of activities across insurance industry; establish industry guidelines</p>	<p>Office of Housing Counseling</p> <p>An office to support responsible home ownership and counseling on rental housing</p>	<p>Office of Thrift Supervision</p> <p>Previously responsible for oversight of thrifts. Supervision now overseen by the Fed Reserve, FDIC and OCC.</p>
<p>Financial Stability Oversight Council</p> <p>Responsible for oversight of systemic Risks. Provides policy and regulatory recommendations</p>	<p>Off. of Financial Protection for Older Americans</p> <p>Responsible for of the financial interests and industry practices for Seniors</p>	<p>Office of Credit Ratings</p> <p>Administer rules & promote accuracy in ratings. Ability to fine raters or deregister a rating agency</p>	<p>Office of Financial Research</p> <p>Providing technical expertise on market activities and systemic risks. Non-voting member of FSOC</p>		
<p>Investor Advisory Committee</p> <p>Independent committee to advise SEC on regulatory priorities & practices</p>		<p>Credit Rating Agency Board</p> <p>Self-regulatory organization, will designate credit rating agencies as qualified. Conduct 2-yr study on ABS issuers</p>			

US Financial Reform Bill - Key Terms & Definitions

Term	Definition
Dodd-Frank Wall Street Reform	Named after Senator Christopher J. Dodd and U.S. Representative Barney Frank, the Act is a product of the US Financial Reform Bill to address emerging risks and issues in the financial system
Volcker Rule	<p>Requires regulators to implement regulations for banks, their affiliates and bank holding companies, to prohibit proprietary trading, investment in and sponsorship of hedge funds and private equity funds, and to limit relationships with hedge funds and private equity funds</p> <p>Nonbank financial institutions supervised by the Federal Reserve will also have restrictions on their proprietary trading and hedge fund and private equity investments</p> <p>Regulations will be developed after a study by the Financial Stability Oversight Council and based on their recommendations. Impacts are unclear and will likely depend on the ultimate rulemaking</p>
Systemic Risk	An event that can trigger a collapse in a certain industry or economy

US Financial Reform Bill - Key Areas of Focus

Initiative	Overview	Timing
Enhanced Consumer Protection	<ul style="list-style-type: none"> • Creation of the Consumer Financial Protection Bureau (CFPB) • Objective to protect consumers from fraudulent, abusive and deceptive practices 	<ul style="list-style-type: none"> • September 2010 - Elizabeth Warren assigned special advisor to lead creation of CFPB • July 2011 - CFPB Expected to be fully functional
Addressing Systemic Risks	<ul style="list-style-type: none"> • Creation of the Financial Stability Oversight Council (FSOC) • Monitor systemic risk and make policy and regulatory recommendations 	<ul style="list-style-type: none"> • July 2010 - FSOC formed • October 2010 - FSOC held inaugural meeting on October 1, 2010
Ending Too Big To Fail	<ul style="list-style-type: none"> • Implementation of the Volcker Rule provisions • Prohibiting proprietary trading and limiting investment and sponsorship of hedge funds • Include “Funeral Plan” provisions (plans required for orderly shutdown in case of failure) 	<ul style="list-style-type: none"> • July 2010 - FDIC granted ability to liquidate troubled firms • January 2011 - Funeral Plan provisions enacted
Improving Bank Regulation	<ul style="list-style-type: none"> • The Office of Thrift Supervision (OTS) will be eliminated • FDIC will regulate state Banks and thrifts • OCC will regulate federal Banks and thrifts • The Federal Reserve will regulate bank and thrift holding companies with assets over \$50 billion 	<ul style="list-style-type: none"> • July 2011 - OCC assumes responsibilities from the OTS • January 2012 - stress tests required over \$10B in assets

US Financial Reform Bill - Key Areas of Focus

Initiative	Overview	Timing
Credit Rating Agencies	<ul style="list-style-type: none"> • Office of Credit Rating Agencies created at the SEC, to examine the practices of agencies • Investors able to sue agencies if they failed to consider necessary information in the process of developing a company's rating 	<ul style="list-style-type: none"> • July 2010 - investors able to sue agencies • July 2012 - SEC study on rating agencies
Strengthening the Federal Reserve and Changes to the SEC	<ul style="list-style-type: none"> • Fed Reserve to oversee companies with assets over \$50 billion • New Investment Advisory Committee created to assist investors in dealings with SEC 	<ul style="list-style-type: none"> • July 2010 - Investment Advisory Committee created • January 2012 - Fed Reserve to provide additional rules on debt-to-equity ratios and capital requirements
Executive Compensation and Corporate Governance	<ul style="list-style-type: none"> • Shareholders given non-bidding vote on executive pay • SEC able to grant shareholders proxy access to nominate company directors 	<ul style="list-style-type: none"> • January 2011 - SEC "say on pay" rules enacted • July 2011 - independent compensation committees

US Financial Reform Bill - Key Areas of Focus

Initiative	Overview	Timing
Derivative Regulation	<ul style="list-style-type: none"> • Regulations for oversight of the OTC derivatives market by the SEC and CFTC • The use of CCPs for clearing, and exchange facilities required, where available • Banks to spin off swap operations into affiliates 	<ul style="list-style-type: none"> • July 2011 - revised rules for derivatives and clearinghouses published • July 2012 - Banks required to spin-off swap operations
Insurance Regulation	<ul style="list-style-type: none"> • Federal Insurance Office (FIO) created to provide guidance and monitor insurance industry • Insurance company activities exempt from ban on proprietary trading under the Volcker Rule 	<ul style="list-style-type: none"> • July 2010 - Treasury authorizes FIO to begin work • July 2011 - industry recommendations to Congress
Changes Impacting Securitization and Municipal Securities	<ul style="list-style-type: none"> • Companies required to retain at least 5% of the credit risk in products being securitized • Unregulated intermediaries, to register with the SEC 	<ul style="list-style-type: none"> • December 2010 - MSRB to issues rules • April 2011 - rules to retain 5% of deals being securitized issued
Hedge Fund Regulation	<ul style="list-style-type: none"> • Hedge Funds over \$150 million in assets, required to register with SEC • Funds to be placed under Fed supervision if it poses systemic risks to the financial system 	<ul style="list-style-type: none"> • July 2011 - SEC rules for Hedge Fund registration • July 2012 - Volcker Rule provisions enacted

Impact on Reporting

Driver

1. The US Financial Reform bill and Consumer Protection Act is a massive legislation
2. Securitization rules require retention of some credit risk and improved disclosure
3. Volcker rule studies the issues surrounding proprietary trading and hedge fund investments
4. Derivatives reform supports more centralized clearing and transparency
5. Mortgage rules require improved underwriting, disclosure and elimination of yield spread premium and certain prepayment penalties
6. Executive compensation and corporate governance sections will require disclosure and transparency

Potential Impact

1. The US Financial Reform bill is over 30 times the size of Sarbanes-Oxley and the impacts of this legislation will take years to evolve
2. ***“How much skin in the game”*** risk retention rules will adversely impact the securitization for some asset classes driving more products to be funded on balance sheet
3. The Volcker Rule will have a significant impact on large banks that have material prop trading and hedge fund investments
4. New regulatory framework for derivative products will affect reporting and increase disclosure requirements
5. Mortgage origination will be dominated by the top originators and conforming products. Changes will accelerate the trend away from the mortgage broker origination model
6. Increase requirements and focus on improved measurement and disclosure mechanisms

Recent Developments

- Impacts from proposed Basel III liquidity and capital rules could be significant:
 - Scenario analysis of proposed rules reveal that ROE and ROA could drop as much as 60% on average for the largest banks
 - Under Basel III, banks will be required to increase their Tier 1 capital to at least 6 percent of risk-weighted assets
 - The "conservation buffer" of capital that must be fully in place by January 1, 2019. Phase in period allowed
 - If any bank fails to keep the capital above the buffer will be forced to restrict payouts such as bonuses, dividends and share buybacks

Best Practices

- ↪ Automate
- ↪ Document
- ↪ Review
- ↪ Communication

Automation

- ↪ Data are only as good as their source
- ↪ Regulatory reporting software should interface with the G/L and related subsystems
- ↪ Minimum manual intervention
- ↪ Limit the use of spreadsheets
- ↪ Leverage business solutions for regulatory reporting

Documentation

- ↪ Reconciliations and manual adjustments should be clearly documented
- ↪ Accounts, product and customer descriptions should be clear and readily available to preparers

Review and Approval

- ⌘ Data should be thoroughly reviewed before submission (including a management review)
- ⌘ Document reasons for unusual/significant changes
- ⌘ Include the ability to conduct analysis in regulatory reporting systems
- ⌘ 80/20 rule

Communication

- ↪ Work closely with business lines, accounting policy and audit (both internal and external)
- ↪ Stay apprised on approved and possible accounting and regulatory changes
- ↪ Speak regularly with regulators
- ↪ User Group participation
- ↪ Ability to clearly convey and document complex issues in a timely manner

Participate in the Report Design Process

- ↪ Software Vendor Conference
- ↪ Industry Groups
- ↪ Federal Register Notices

Data Collection Process

- ❖ Establish sufficient internal controls to compensate for the weaknesses inherent in the manual data collection processes
- ❖ Establish a standardized data collection process with sufficient quality controls and accountability for data

“A process lacking standardization with high level of manual intervention is susceptible to significant errors.”

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Data Collection Process (continued)

- ↳ Implement controls
- ↳ Automate
 - Stream-line the process
 - Set and enforce regulatory reporting standards
 - Establish a process to monitor the accuracy of information submitted for regulatory reports

Transaction Level Data Base

- ↪ Consolidated source for bank's subsystems
- ↪ Allows the firm to move from a manual to an automated process
- ↪ Required data are centrally stored
- ↪ Drill-down capability
- ↪ Granular information can be easily extracted

Data Detail

- ❖ Granularity of information required for regulatory reporting is not always available to the preparer yet required
- ❖ Design a system/process where sufficient level of detail is available
- ❖ Design a system with an option to accommodate future changes

Reporting Consistency

- ↪ Consistent reporting of financial products
- ↪ Similar data submitted for various reports should come from the same source within your organization
- ↪ Reduce month-end closing period and eliminate or minimize reconciliation among systems
- ↪ Turnover

Data Integrity

- ↪ Coding of Customer Information Files (CIFs), product information availability
- ↪ Review the accuracy of static and other source data in to identify discrepancies in coding on a regular basis

Early Detection System

- ↪ Analysis can detect potential issues with reporting
- ↪ Implement an early detection system for a business related analysis and detection of potential errors and inconsistencies

Analysis

- ↻ Review data prior to submission (including a management review)
- ↻ Analyze and document reasons for significant changes or trends
- ↻ Reconcile data to the G/L

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Questions?





About Shauna Hughes

Shauna Hughes is an accounting and banking professional with nearly 20 years of experience. She has a well-rounded knowledge of banking reports, reporting mechanisms and bank accounting. She possesses strong project management and analytical skills and is an accomplished problem solver, skilled in managing and implementing new and innovative ways to improve procedures. Prior to joining SOFGEN, Ms. Hughes was an employee of the Federal Reserve Bank of New York for four years in the capacity of Operations Support Analyst. Ms. Hughes has a Bachelor of Science degree in Finance from Seton Hall University.

About SOFGEN Americas, Inc.

SOFGEN is an IT consulting group specialized in private, commercial and retail banking. Founded in Geneva, Switzerland in 1999, SOFGEN serves banks from its principal offices in Geneva, Chennai, Singapore, London and New York. The SOFGEN group employs 300+ staff, serving the IT requirements of 200+ clients and providing solutions and products that cover the entire system life cycle, from requirements analysis and system selection to implementation and ongoing post implementation support. SOFGEN's software products include industry-leading REG-Reporter, an automated regulatory reporting solution, and DOC-Tracker, a documentation compliance management software application.

REG-Reporter automates compliance with reporting requirements prescribed by regulatory authorities and helps ensure the accuracy and integrity of financial reports while increasing the efficiency of the reporting process. It combines data from all of the bank's operating systems into a central data repository, where key information is translated into standardized data. The resulting data is then compiled in required report formats recognized by regulatory agencies such as the Federal Reserve. For more information, kindly visit www.sofgen.com or contact Vincent Raniere, EVP, Global Head of Product Sales at vraniere@sofgen.com.

Joyce M. Clinton

Joyce M. Clinton is a CPA with nearly 30 years of professional experience including 15 years as a Finance executive for a top-five U.S. Bank and CFO experience for public and privately held financial institutions. Areas of expertise include:

- Corporate performance management (strategic planning; budgeting, forecasting; reporting; multi-dimensional profitability; activity-based allocations)
- IT financial management and IT project portfolio management
- Controllership functions (SEC/regulatory reporting, financial close, accounting operations/policy)
- Treasury operations

In consulting, Joyce leverages her deep industry experience to assist our clients with improving the overall efficiency of their finance operations.

Joyce is a key contributor in the development of Capco's solution offerings. She held leadership roles in the development of Capco's Planning, Budgeting and Forecasting, Regulatory Transparency, Technology Cost Transparency and Finance Process Reengineering solution offerings.

About Capco

- Capco is a global business and technology consultancy dedicated solely to the financial services industry. Capco was founded in 1998 and has 15 offices in Europe, the UK and across North America, and centers in India. The firm is a private company with management ownership and the backing of a strategic investor - STG (Symphony Technology Group) with a total portfolio of \$2.5 billion revenue and approximately 15,000 employees. Capco employs over 1,000 professional consultants and 3,000 technology specialists*. Capco's professionals have on average more than 15 years of industry experience. Capco was recently named one of the "Top 15 Consulting Firms to Work For" by Consulting Magazine.
- We offer end-to-end consulting services to design, build and operate truly transformational and informational solutions to solve complexity for our clients. Key differentiators include The Right People; Deep Market Experience; Fact-Based Thought Leadership; and Consulting/Capabilities Solutions.
- Our Finance, Risk & Compliance (FRC) practice helps companies:
 - Create a vision, strategy, and roadmap for information management, processes, systems, and organization structures
 - Tactically transform the finance, risk, and compliance functions to support the strategy
 - Operationalize the transformation





About BAFT-IFSA

BAFT-IFSA is the premier global financial services association formed by the merger of the Bankers' Association for Finance and Trade (BAFT) and the International Financial Services Association (IFSA). It provides advocacy, education and community-building opportunities for financial services institutions around the globe as well as suppliers to the financial services industry. BAFT-IFSA is the leading forum for analysis, discussion and action among international financial professionals on a wide range of topics affecting transaction banking, including trade finance, payments, compliance and asset servicing. For additional information log on to our website www.BAFT-IFSA.com or contact the BAFT-IFSA at Info@BAFT-IFSA.com

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**The Next BAFT-IFSA
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Topic: Implications of New Liquidity Regulations

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