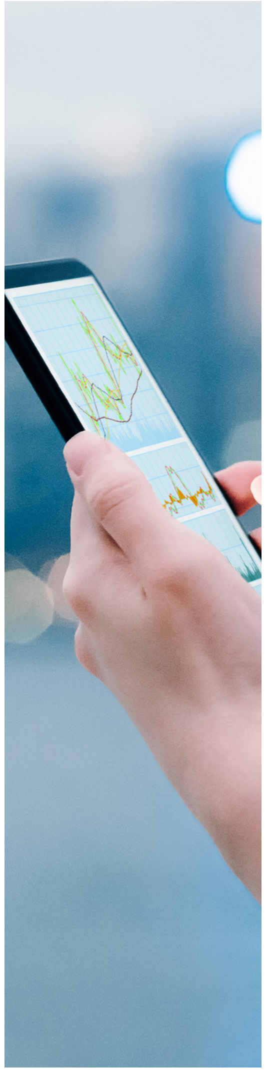

SWAPPING OUT RISK ON OTC TRADING

With the growing sophistication of financial frauds of various kinds, bodies like the Commodity Futures Trading Commission (CFTC) are constantly having to stay on their toes and revamp regulations and policy implementation to prevent fraudulent activity in commodities markets. Governments are also under growing pressure to regulate those markets better and ensure better compliance and risk management for the investor community.

While some continue to view such regulatory requirements as unnecessary or dead weight, a growing number of institutions are beginning to see compliance and risk management as a business enabler. Such institutions are focusing on fostering regulatory compliance and risk management culture to facilitate growth and sustain competitive advantage; and also, to avoid reputation damage. Progressive financial services institutions treat compliance and risk management as key to their survival – in other words, it's the price they must pay in order to obtain the license for doing business.

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However, complying with the rigorous demands of regulators is never easy and a recent report by Greyhound Research, a leading global analyst firm, illustrates this. Titled 'Compliance and Financial Crime Outlook 2018,' the research shows that 73% organizations that are deemed to comply to statutory requirements are struggling with high costs and low operational efficiencies, given the need to constantly integrate, maintain, and support a wide array of disconnected homegrown and third-party applications. This is worsened by the need to replace existing systems as part of the checklist to comply with revised statutory requirements, and they often end up with duplication of efforts, higher cost of operation, and increase in business risks.

MEETING REGULATORY REQUIREMENTS ACROSS GEOGRAPHIES

A **large European investment bank**, an Infosys client, is an active member in the OTC market and needed to adhere to the Swaps reporting **regulations across the US, Australia, Singapore, and the European Union.** This required them to **report data on commodity futures and other asset class products** to the Depository Trust & Clearing Corporation (DTCC), which acts as a repository to accept Swaps transaction data from market participants for regulators. The Infosys team had to **develop a regulatory reporting solution** that would help the investment bank meet their derivatives reporting obligations as mandated by the various regulatory bodies - CFTC, Australian Securities and Investments Commission (ASIC), Monetary Authority of Singapore (MAS), European Securities and Markets Authority (ESMA) and Hong Kong Monetary Authority (HKMA) - for the OTC and listed derivatives products.

Forward-looking financial services firms must **invest in comprehensive technology platforms** that leverage core capabilities for financial crime surveillance, detection, and event correlation along with watch list management, enterprise analytics, and regulatory reporting – meeting all needs with a single platform. Infosys provides integrated and comprehensive solutions covering business, technology, and operations across the risk and regulatory reporting space leveraging our product, technology, and domain knowhow.

A SWAPS REPORTING SOLUTION

Developed first for the US market to meet the requirements of the Dodd-Frank Act, the Infosys team built a **Swaps Reporting Solution** that determined the eligibility of a trade and its reportability to a specific regulator. After the solution was rolled out successfully in the US, the team then added other features to meet regulatory requirements of other geographies. The Swap Reporting Solution had the following components:

- Trade Ingestion: Pulling trades from booking systems to the reporting solutions
- Enrichment: Enriching trades with required data before their eligibility can be determined
- Eligibility Determination: Process trades to determine for which regulation they are eligible to be reported. This also included trades which fell through during the eligibility process and went into exceptions with appropriate reason
- Report Preparation: Prepare reports based on required templates for different regulators for different products (like equity, FX, Commodities, etc.)
- Exception Management – Dashboards which displayed critical analytical information on number of trades processed in the reporting engine, reported to DTCC, failed eligibility process, etc.

In addition to developing the reporting platforms, Infosys also consolidated the client's varied legacy platforms and planned the consolidation to a new platform in a phased manner to ensure smooth transition and reporting continuity. Infosys also played a key role in designing the technical and business requirements, integration and testing activities, and release preparation. The solution was implemented through a **global delivery model** to meet operational, regulatory, and cost efficiency objectives. We also set up the governance structure which mandated **senior management governance reviews** and **daily scrum meetings for the team.** Several Centers of Excellence such as Regulatory CoE, BA (Business Analysis) CoE, UAT (User Acceptance Technology) CoE, Technology CoE, played an immense role in bringing best-in-class expertise to the engagement.

A single and unified reporting system helped **reduce the total cost of ownership (TCO)** of the reporting infrastructure for the client, as it met **regulatory compliance needs across geographies** and had a lot of reusable components. It **reduced the time required to comply with regulatory requirements by about 30%** and the **cost of onboarding new regulations by 20-25%** due to the ability to reutilize components and leverage existing knowledge of resources and test cases. Regulators usually have aggressive timelines for compliance, so the ability to build new requirements on top of existing infrastructure made it possible for the client to **meet regulatory requirements from Day one**. It also helped in **establishing effective governance**, vendor/platform consolidation, and in building lean and effective team structures.

SWAPPING OUT RISK ON OTC TRADING: THE FIVE KEY TAKEAWAYS

1. **Foresee** expected changes in regulations and impact to geographies, businesses units, and product lines
2. **Migrate** to a centralized, comprehensive solution that allows improved risk assessment and due diligence
3. **Monitor** real-time trade against well-defined internal metrics built to exceed regulatory requirements
4. **Build** reusable components to meet diverse regulatory reporting requirements and reduce time and cost to compliance.
5. **Benchmark** against peers and industry standards to make continuous improvement in processes

BIG LEARNING:

Changes in regulations mean that financial service providers, who are already stretched on account of the increase in costs of operations and reduced profitability rates, will need to add fresh muscle to their approach to regulatory compliance and risk management and meeting reporting requirements. We believe the answer to adhering to stricter regulatory demands isn't just changing processes and product structures alone but augmenting the efforts by way of technology and automation that will enable both reduced risks and improved efficiencies.

WE DID THIS FOR THEM. WE CAN DO IT FOR YOU.

To learn more about meeting risk and compliance requirements, reach out to us at askus@infosys.com