

# Exam Prep and Common Findings: SDs

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Member Workshop



# Exam Process

# Exam Expectations



- Examination scope and big picture expectations
  - Characteristics of the applicable swap dealer
  - Potential risks
  - Prior issues
  - Types of reviews and testing
  - Onsite fieldwork

# Exam Expectations



- Preliminary exam questionnaire (“PEQ”)
- Internal control questionnaire (“ICQ”)
  - “Living” document, and should be updated with any material/significant changes between exams
  - Connection with internal control walkthroughs
  - RFS submissions and supporting exhibits
- Finalize scope
- Engagement letter (day 1)

# Exam Expectations



- Internal control walkthroughs
  - Inclusion of stakeholders performing controls
  - **Live** demonstration of control activities
  - Current date vs. audit date

# Exam Expectations



- General ledger output
  - Tailored to the firm's unique profile
  - All accounts and sub-accounts
  - Month-end balances
  - May include monthly journal entry/transaction-level activity
- Fieldwork requests
  - Extensions and clarifying questions
  - Shorter turnaround for certain requests

# Exam Expectations



- NFA requested trade data
  - Timing and volume—moving to targeted requests
  - Troubleshooting key fields
- NFA requested communications files
  - Pre-trade communications
  - Targeted AP communications requests

# Exam Expectations



- Areas of concern and preliminary issues
  - Transparency and discussion
  - Corrective action
  - Pre-report language

# Exam Expectations



- Management representation letter
- Exit/closing interview
  - Summarize report items and management points
  - Discuss corrective action
- Exam report
- Firm response
  - Circumstances that led to each finding
  - Remediation (interim vs. long-term)

# Best Practices

# Best Practices



## Communication:

- Delays
- Confusion? Ask the exam team
- Logistical practices—weekly meetings are encouraged
- Have key stakeholders on calls when flagging document or interview requests

# Best Practices



## Repeat requests:

- Trade data and common discrepancies
- Supervision templates
- Communications

## NFA membership:

- Questions outside of exams
- Material non-compliance outreach

# Common Exam Findings

# Capital/Margin



- Completeness of positions
  - Risk margin amount
  - Credit risk charges
  - Market risk charges
- Failure to take appropriate standardized market/credit risk charges
  - Improper categorization of transactions or counterparties
  - Incomplete or inaccurate calculations

# Risk Management Program



- Senior management or the governing body did not adequately or timely review and approve risk tolerance limits.
- The RMU does not report to senior management independent from the BTU.

# Risk Management Program



- Failure to follow policies and procedures reasonably designed to identify, escalate and resolve exceptions to risk tolerance limits.
- Failure to follow policies and procedures reasonably designed to monitor and manage risks associated with swaps activities.
- Failure to assess whether a new product would materially alter the overall entity-wide risk profile of the swap dealer.

# BCS and Supervision



- System outages
  - Communications surveillance and capture
  - Trade surveillance

# BCS and Supervision



- Surveillance gaps
  - Failure to cover all offices or APs
  - Failure to cover all communication methods (e.g., mobile phone, trading venue chat platform, etc.)
  - Failure to cover all products traded
  - Failure to cover all languages used to conduct business
  - Failure to address key risks

# Swap Data Reporting



Swap data verification – CFTC Regulation 45.14

- Failure to perform verification timely
- Failure to include all required fields in verification

Failure to report timely – CFTC Regulation 43.3

- No improvement between exams; high percentage of late trades

# Q&A

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