



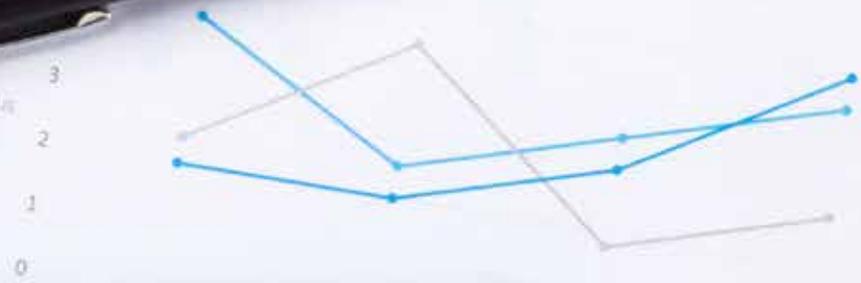
Single Counterparty Credit Limit (SCCL)

Key challenges and considerations



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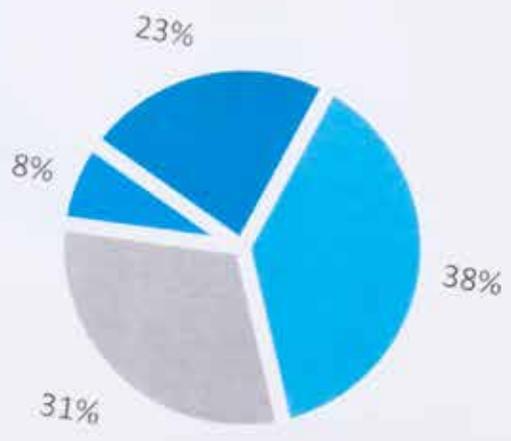
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What is SCCL?

Key points



Risk-shifting approaches

- The final rule applies a “risk-shifting” approach with respect to exposure involving eligible collateral or an eligible guarantor.
- Partial Look-Through Approach is required for SPV, with threshold of 0.25% of tier 1 capital.



Exposure aggregation

- Moving away from the “> 25% equity ownership” definition in the proposal, the final rule defines the affiliates of a single counterparty using financial consolidation standards, as per GAAP, IFRS, etc.
- The final rule requires the bank to first aggregate the net exposures of a single counterparty and all of its affiliates; if the bank’s net exposure to any single counterparty (not exempted) exceeds 5% of its tier 1 capital, the bank needs to further aggregate the counterparty exposure based on a) economic interdependence, and b) control relationship tests.



Flexibility in exposure calculation

- The final rule permits the bank to use any methodology authorized under the capital rules, including internal models, to value derivatives, regardless of qualifying master netting agreements.
- A covered firm must apply the maturity and currency mismatch adjustment approach in the board's capital rules (12 CFR part 217) for reduction in exposure to a counterparty.



Quarterly filing of FR 2950

- The proposed FR 2590 schedules (pending review of public comments, as of December 2018) requires the covered firm to report its exposures to the top 50 counterparties on quarterly basis.
- The proposed FR2590 schedules poses significant challenges to the bank's existing data infrastructure, especially for the data lineage and traceability between FO, collateral management, margin management, Risk IT, and Finance.

Single Counterparty Credit Limit (SCCL) – Final rule

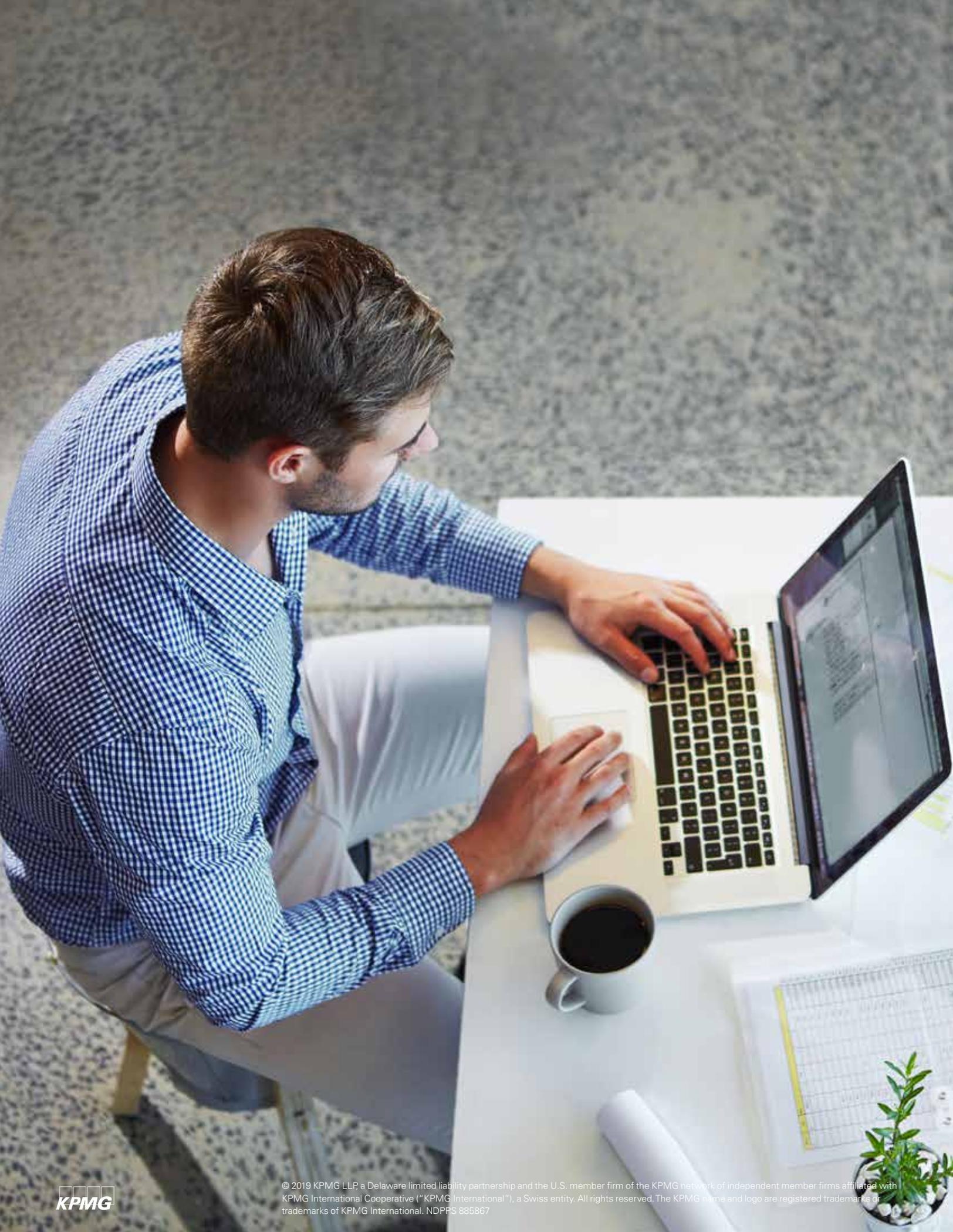
On June 14, 2018, the Federal Reserve issued a final rule to impose single counterparty credit limits on large bank holding companies and large foreign banking organizations with respect to their U.S. operations, pursuant to Section 165(e) of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Evolution in SCCL approach

The final rule extends the risk sensitivity in the 2016 proposal to permit exposure measurement from securities financing transactions (SFT) under internal models and eases compliance burdens by using accounting consolidation as the standard for aggregating exposures of multiple entities to a single counterparty or group of connected counterparties.

Compliance deadline and reporting requirements

U.S. G-SIBs, major FBOs, and major IHCs must comply with the final rule by January 1, 2020; all other covered entities must comply by July 1, 2020. Covered companies are expected to comply with the rule on a daily basis and must report to the Federal Reserve quarterly.



SCCL program setup

Key challenges

- Initiation of SCCL program management:
 - Key process/data owner buy-in
 - Prioritization of program at key quarterly dates for reporting
 - Scope of program: project v BAU
 - Determination of ownership and oversight/governance.
- Fragmented and separate infrastructures for different business units, between banking and trading book assets, and between Risk and Finance functions:
 - Differing sources of data
 - Differing process owners
 - Differing reporting lines.
- Lack of unique identifier for counterparties and its affiliates, especially in the banking book
 - Compliance with initial net exposure aggregation could prove challenging and may require additional data field creation.

How KPMG can help

- Develop roster of key enterprise-wide stakeholders throughout all lines of business and functions.
- Draft communication and execution plan, including detailed workshops and SCCL final rule literacy training sessions.
- For SCCL program strategies and procedures, KPMG can help review and validate the SCCL solution framework being proposed by the Client.
- KPMG has developed an SCCL readiness diagnostic tool that can be used to assess the current state and readiness to adopt the new standard for SCCL compliance. Specifically, KPMG has a questionnaire in place for SCCL gap analysis that can assist in driving resource allocation and key program roadblocks:

Notes:	Major Functional Categories:		
Program Governance			
Data Integration & Management			
Credit Risk Exposure Calculations			
Regulation Reporting			
Process, Procedures and Strategies			
Single Counterparty Credit Limit - Sample Gap Analysis Questions	Major Functional Categories		Solution Framework
Does the Firm have a clear structure of different entities?	Data Integration & Management		Data Infrastructure & Mfg
Does the Firm have counterparty information of all business units?	Data Integration & Management		Counterparty Information Update
Does the Firm have detailed information (e.g. sector and MFI) of the collateral?	Data Integration & Management		Data Infrastructure & Mfg
Does the Firm have transaction data with consistent counterparty information? (Data quality details needed for assessment)	Data Integration & Management		Data Infrastructure & Mfg
Does the Firm have internal or external reference data? (Does it relationship CRM, using rights, or the counterparty?)	Data Integration & Management		Counterparty Information Update
Does the Firm have internal or external reference data for economic interdependence of the counterparty?	Data Integration & Management		Counterparty Information Update
Does the Firm have capability to determine all the entities that are an affiliate of any part of its combined U.S. operations (eligible guarantor)?	Data Integration & Management		Data Infrastructure & Mfg
Does the Firm have capability to determine all debt and equity securities, including convertible bonds, issued by an affiliate of any part of the combined U.S. operations of the FBO (eligible collateral)?	Data Integration & Management		Data Infrastructure & Mfg
Does the Firm have a centralized data governance operational structure for transaction data?	Data Integration & Management		Counterparty Information Update
Does the concept have many business-unit legacy, current, or enterprise systems that require manual intervention to map counterparty name and information?	Data Integration & Management		Counterparty Information Update
Is data processing effective across all systems feeding transaction data?	Data Integration & Management		Data Infrastructure & Mfg
Does the Firm aggregate their exposure relevant data across products, counterparties and assets at the lowest level of granularity?	Data Integration & Management		Counterparty Information Update
Does the Firm have capacity for real time or timely credit exposure calculation?	Credit Risk Exposure Calculation		Credit Exposure Calculation & Aggregator
What types of assets are included in the portfolio? Loans, Deposits, and lines of credit Credit and Cash Reserves	Credit Risk Exposure Calculation		Credit Exposure Calculation & Aggregator

Execution

Key challenges

- Competing priority challenges:
 - Compliance timeline will coincide for most with CECL implementation (heavy data requirement) as well as LIBOR replacement (very broad scope: legal, operational, financial).
- Data challenges:
 - Lack of SPV underlying counterparty data for the required Partial Look-Through Approach
 - Lack of publicly available data for “economic interdependence” and “control relationship” test.
- Functional challenges:
 - Enhancements required for Risk-shifting Approach implementation, covering exemption scope, requirements, and cross-trigger mechanisms
 - Lack of centralized collateral management across different business units.
- Strategic challenges:
 - Business strategies need to potentially adjust/optimize counterparty exposure in compliance with SCCL.



Reporting and monitoring

Key challenges

- Reporting challenges:
 - Difficulties in daily aggregation and netting of counterparty exposures
 - Difficulties in daily monitoring of single counterparty credit risk exposures (daily calculation and breach monitoring required)
- Monitoring challenges:
 - Enhancements required for the analytics and reporting framework to comply with SCCL Final Rules (i.e., ability to report and monitor compliance with rule on a daily basis)
 - Development of monitoring metrics, for both internal and external reporting purposes
 - Implementation and tracking of monitoring framework to ensure compliance with daily requirements

How KPMG can help

- KPMG can assist in developing a daily aggregation process, including controls development as well as data/transaction and control testing programs.
- KPMG can assist in developing an inventory of monitoring metrics, as well as leverage technology to automate reconciliations from authoritative data source to schedule.
- KPMG can leverage our technology partners/alliances to implement an automated FR 2590 population and workflow management process.

Table 7. SUMMARY OF NET CREDIT EXPOSURES

#	Total G-1	Total G-2	Total G-3	Total G-4	Total G-5	Gross Credit Exposure	Total M-1	Total M-2	Aggregate Credit Risk Mitigants	Aggregate Net Credit Exposure
1	1,275	11,377	11,377	142,833	3,485	170,347	488	292	781	169,566
2										
3										
4										
5										
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Summary | General Information | Counterparty Information | Schedule G.1 | Sch ...



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