

GLOBAL FINANCIAL SERVICES PROVIDER CREATES SCALABLE SOLUTION FOR DODD-FRANK COMPLIANCE

Financial Services Case Study

North Highland helped the client engineer and implement a scalable and practical solution for Swap Data Reporting and Mandatory Clearing regulations specified in Dodd-Frank. Completed in just 10 months, the solution enabled this large global financial services provider to meet initial regulatory deadlines, avoid non-compliance penalties, and reduce costs associated with a global roll-out.

THE CLIENT

Our client is one of the largest financial services providers in the world – investing, lending, moving, and protecting money for customers and clients worldwide. With more than 300 years of history and expertise in banking, our client employs more than 100,000 people operating in 50 countries. Their services focus on corporate and investment banking, and range from wealth and investment management to retail banking and credit cards.

THE CHALLENGE

The global financial crisis of 2007-2008 generated unprecedented debate over bank structure and the functioning of derivatives markets, leading to calls for rapid and significant changes to the regulatory system. In the United States, the Dodd-Frank Wall Street Reform and Consumer Protection Act was enacted in mid-2010 to overhaul the U.S. financial regulatory system, affecting all federal financial regulatory agencies and nearly all of the country's financial services industry. Similar legislation has been approved and is being developed in Europe and Asia. Implementation is already under way for many components of this reform; and implementation is expected to intensify through 2017 as more complex compliance activity is defined and mandated.

To meet pending U.S. regulatory requirements, our client needed to meet compliance dates for Swap Data Reporting and Mandatory Clearing

BEST PRACTICES FOR DODD-FRANK IMPLEMENTATION

Organizations seeking to enhance their implementation of new financial services regulations may want to consider these best practices:

- Take a leadership role and drive industry consensus on issues where rules may be unclear.
- Provide a single view of all related Dodd-Frank projects for your organization, and understand how they will impact your systems and processes.
- Build a solution that is scalable and consistent across asset classes, products, and regions.
- Work with platforms and derivatives clearing organizations (DCOs) well in advance of compliance deadlines; when possible, avoid relying on third-party vendor solutions to minimize delays.

rules specified within Dodd-Frank. Aware of North Highland's expertise in derivatives and related Dodd-Frank projects, the client engaged us to assist with Dodd-Frank implementation within its Credit Derivatives Division. The task was made more challenging by the initial compliance deadline of Dec. 31, 2012, for reporting (a mere 10 months from the project's start date) and the fact that rules pertaining to clearing and reporting were still being finalized by the U.S. Commodity Futures Trading Commission, the Securities and Exchange Commission (SEC), and industry. In addition, as a global financial services provider, our client needed to leverage the solution across multiple regions and asset classes.

THE SOLUTION

To bring the Credit Derivatives Operations into compliance, North Highland and the client team would need to identify new operational workflows, design and test technology solutions, and educate all team members on their new roles and responsibilities. The combined team began working with Technology, Compliance, Front Office and Legal to conduct a detailed analysis of trade capture processes, including an end-to-end analysis of the impact to downstream functions such as confirmations, settlements, treasury and collateral. This set the stage for the team to document business requirements, functional specifications, and detailed procedures for Front Office and Operations teams.

For Swap Data Reporting, a key decision was made to leverage the client's in-house technology platform rather than use third-party providers. This not only reduced costs and avoided delays in working with third party vendors, but also ensured that the client was best positioned to scale the system for global implementation. North Highland worked with the client's IT team to design enhancements to the trade capture system and develop a cross-asset reporting tool.

Throughout the project, North Highland consultants worked with the client to represent the firm and lead industry discussions (held by Depository Trust & Clearing Corporation and International Swaps and Derivatives Association) on critical issues related to Mandatory Clearing and Swap Data Reporting. The team is now seen as a leader in defining how the Dodd-Frank regulations were to be carried out by the industry, giving the client a competitive edge over its peers.



A KEY DECISION WAS MADE TO LEVERAGE THE CLIENT'S IN-HOUSE TECHNOLOGY PLATFORM RATHER THAN USE THIRD-PARTY PROVIDERS. THIS NOT ONLY REDUCED COSTS AND AVOIDED DELAYS IN WORKING WITH THIRD PARTY VENDORS, BUT ALSO ENSURED THAT THE CLIENT WAS BEST POSITIONED TO SCALE THE SYSTEM FOR GLOBAL IMPLEMENTATION.

KEY PRINCIPLES THAT LED TO OUR CLIENT'S SUCCESS:

Building to scale – Our client needed a solution that was solid, stable and scalable, and we delivered. As a result, our client is better able to attract institutional clients based on the enhanced operational capability.

Globally consistent design – Ultimately, designing the system to accommodate global reporting and over the counter (OTC) clearing needs will enable the client to efficiently expand across multiple regions and markets.

Best-of-breed technology approach – Leveraging the in-house technology systems meant we could avoid third-party vendor solutions – and the slow delivery timelines that plagued our client's competitors.

Operational training – We educated and trained staff on new operations processes that would reduce inefficiencies and better enable the client to become Dodd-Frank compliant.

Implementation – We documented and published detailed procedures manuals for operations personnel, led user acceptance testing (UAT) globally, and delivered regular training sessions to educate teams on their roles and responsibilities.

THE VALUE

While the benefits of Dodd-Frank compliance may take several years to realize, North Highland's project management and change management expertise made an immediate impact. Our strategic implementation allowed our client to reduce costs by leveraging a strategic system across asset classes and regions, and helped them avoid being assessed steep fees for non-compliance. As a result, our client is seen as a leader in Dodd-Frank compliance among financial services firms – a position that has already generated new business opportunities. In 2013, the team is working to design system updates and operational processes for upcoming impacts of Dodd-Frank, including SEC requirements, Swap Execution Facilities, and Business Conduct Standards as well as prepare for new clearing and reporting requirements in Europe and Asia outlined by the European Market Infrastructure Regulation and the Japan Financial Services Authority.



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ABOUT NORTH HIGHLAND

North Highland is a global management consulting firm that delivers unique value, relevant big ideas and strategic business capabilities to clients around the world. The firm solves complex business problems for clients in multiple industries through an integrated approach and offers specialty services via its Data and Analytics, Managed Services, and Sparks Grove divisions. North Highland is an employee-owned firm that has been named as a “Best Firm to Work For” every year since 2007 by Consulting Magazine. The firm is a member of Cordence Worldwide (www.cordenceworldwide.com), a global management consulting alliance. For more information, visit northhighland.com and connect with us on [LinkedIn](#), [Twitter](#) and [Facebook](#).

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