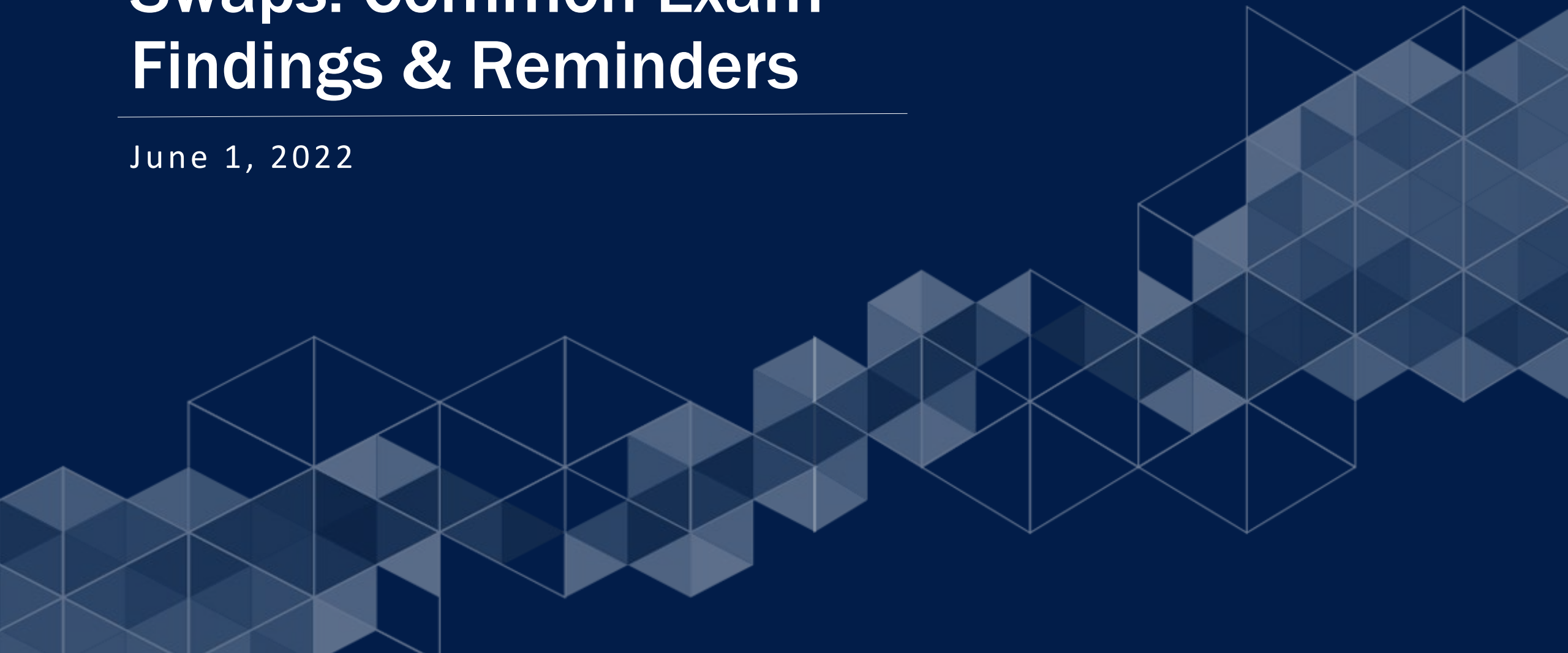


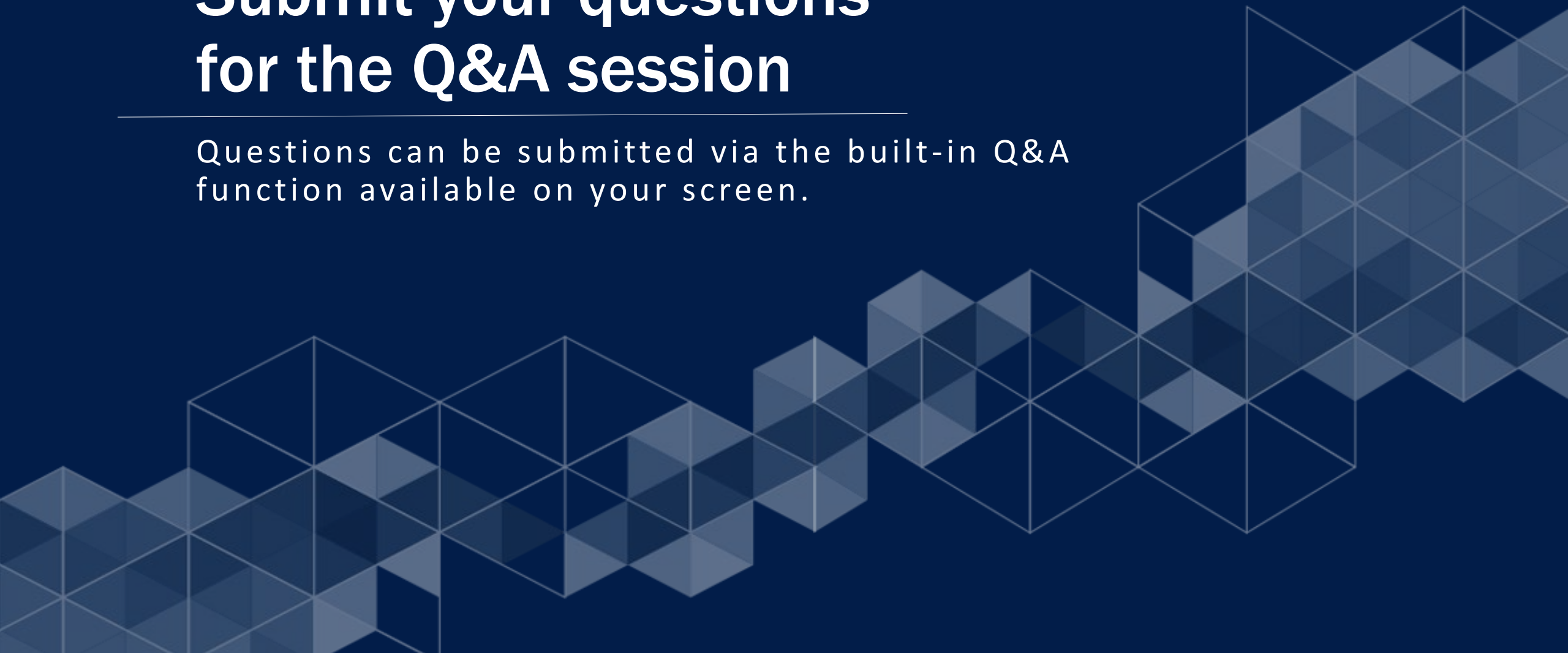
Swaps: Common Exam Findings & Reminders

June 1, 2022




Submit your questions for the Q&A session

Questions can be submitted via the built-in Q&A function available on your screen.



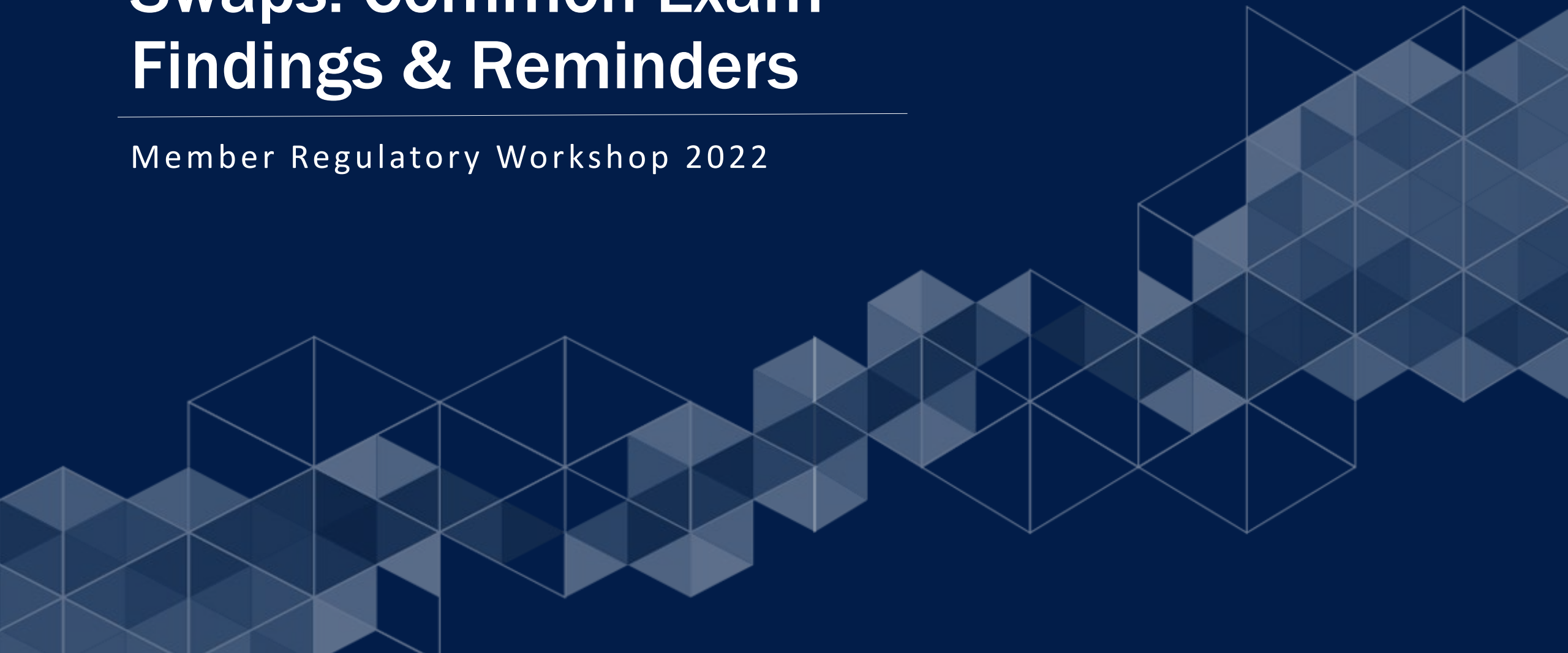
Swaps: Common Exam Findings & Reminders

An archived version of today's session, along with all other sessions for the Member Regulatory Workshop, will be available on NFA's website in the coming weeks.

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Swaps: Common Exam Findings & Reminders

Member Regulatory Workshop 2022



Panel Discussions



- First Panel will discuss common exam findings, exam reminders and exam data requests
- Second Panel will cover observations from our risk team in relation to backtesting exceedances
- Swap Dealer capital exams will not be covered in this panel,
 - Will be addressed as part of the Swap Dealer Capital Update panel tomorrow

Trade Surveillance: Common Exam Findings and Reminders



- Surveillance capabilities should:
 - Cover all in-scope products for all swaps Associated Persons (APs)
 - Cover all applicable languages
 - Monitor both written and verbal communications
 - Pay greater attention to desks or individuals with history of problems
- Reviews should be conducted independently from sales and trading
- Reviews should be documented and include escalation and resolution

Swaps Proficiency Requirements: Common Exam Findings and Reminders



- Firms fail to properly identify population of swaps APs
- Swap APs need to complete Swap Proficiency Requirements (SPR) prior to execution of in-scope trades
- With high turnover in industry, need to focus on AP onboarding
- SPR Admins need to stay current with APs moving from other SDs

Swaps Trade Data: Common Exam Findings and Reminders



- Swaps trade data
 - Data requested upon announcement of examination and prior to issuance of first day letter
 - Use data to gain understanding of firm trading activities
 - Allow for development of a more targeted exam scope and trade sampling
- Data request and time period required will vary by firm based on many factors such as firm business model, size, complexity or trade volume

Final Exam Reminders



- Exam Findings are communicated as soon they are identified during exam
 - Provided to firms through Exceptions Tracker
- Expectation is that corrective action(s) to begin upon notification
 - Develop plan for resolving finding, identifying owners and begin resolution where possible
- Will be asked for updates on corrective action(s) during exam process
- Firms have 15 days to provide response to exam report after issuance

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IM Model Oversight Program Updates

Realized PnL Backtesting Requirements



- CFTC Regulation 23.154(b)(5)(ii)(C) requires SDs approved to use IM models to conduct outcomes analysis, including backtesting, as part of their overall ongoing monitoring process.
- NFA Model Approval Letters require backtesting against realized PnL as well as detailed escalation procedures for instances where the model does not perform as expected.
- CFTC Regulation 23.154(5)(iii) requires SDs to promptly notify the CFTC and NFA of any material problems with the model describing any remedial actions being taken by the Firm.

Existing IM Model Ongoing Monitoring



- SDs monitor IM model performance in accordance with a number of different regulatory and non-regulatory requirements.
- Ongoing monitoring tools typically require freezing portfolios at specific points in time.
- Backtesting against realized PnL is based on actual outcomes and captures the IM model's day-to-day performance.

Analysis of Realized PnL Backtesting Results



- SD's must adequately analyze realized PnL backtesting results in-line with industry best standards.
 - Qualitative and quantitative assessment of the main drivers for realized PnL exceedances.
 - Investigation and escalation thresholds based on the realized PnL backtesting results.
 - Procedures to implement compensating controls and initiate remediation when material problems are identified.

Recent Notice to Members



- Notice to Members (NtM):
 - Swap dealers may include security-based swaps when calculating initial margin on a net portfolio basis subject to certain conditions (October 28, 2021).
 - Proxies and approximations related to alternative reference rates and other indices for initial margin model purposes (May 18, 2022).

Contact Us



If you have questions or would like more information, please contact NFA:

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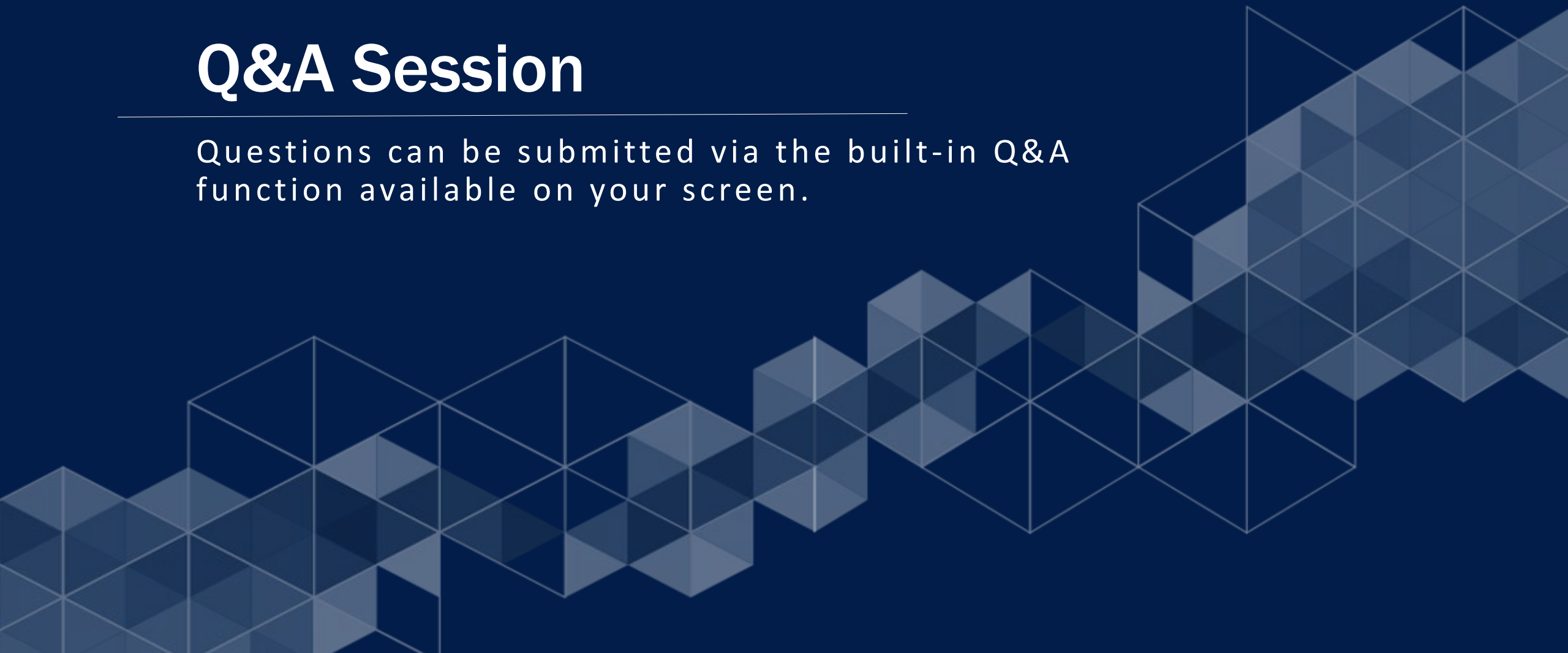
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Member Regulatory Workshop – Next Session

Futures: Common Exam Findings & Reminders will begin at 12:30 p.m.
CT/1:30 p.m. ET.