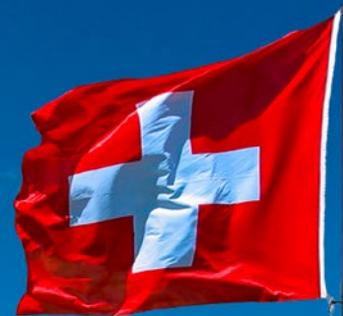


FMIA – Assurance for Swiss groups and Swiss entities

Finance – and Treasury Management



KPMG's Finance- and Treasury Management Team assists you in closing FMIA compliance gaps prior to an audit.

The challenge

In 2017 the obligation of the Financial Markets Infrastructure Act (FMIA) entered into force to achieve compliance with global G20's demand for central clearing, comprehensive reporting on derivatives transactions and advanced risk mitigation techniques.

Every company which trades derivatives in the group and with a legal entity based in Switzerland is subject to FMIA. Swiss entities of groups headquartered outside Switzerland must also be FMIA compliant. Intragroup and external derivatives, traded over-the-counter (OTC) derivatives or executed on an exchange (ETD) derivatives are affected.

Swiss authorities have introduced penalties and sanctions for entities not compliant with FMIA. In order to verify FMIA

compliance the legislator has stipulated a mandatory audit for the financial starting at or after January, 1st 2017. The FMIA audit will be part of the financial year-end audit and requires to state the results in the annual comprehensive report to the board of directors.

Our scope of service for corporates

To help firms pass FMIA audits and avoid penalties and sanctions, we provide assurance services combined with action plans to close any detected gaps to an FMIA compliance.

We consider potential solutions that were already implemented for EMIR purposes and provide comparison of both regulations and potential gaps that have to be closed if EMIR compliance was already achieved.

Our review would focus on the four main obligations of FMIA:

- ① Definition/ Identification of FMIA derivatives (group level)
- ② Self-classification as NFC- (group level)
- ③ Risk mitigation requirements for OTC derivative trading (entity level)
- ④ Reporting requirements for all derivatives (entity level)

FMIA compliance review and assurance

The review focuses on processes, workflows, documentation and systems implemented on single entities and on a group level. Four areas are addressed:

Identification of FMIA derivatives

- Review of group FMIA derivative portfolio identification (definition under FMIA is different from the accounting definition of derivatives)

Self-classification as NFC-

- Documented proof of hedging purpose to exempt deals from the threshold calculation
- If no proof of hedging purpose is available, the regular calculations of the clearing thresholds will be reviewed

Reporting to a trade repository (from 2019)

- Review of the reporting solutions required for one sided reporting (likely for trades with non-Swiss counterparties)
- Review of processes, responsibilities and controls to ensure correct reporting. Internal processes and controls are required in cases of delegation

Risk mitigation techniques

- Risk mitigation techniques such as timely confirmation, portfolio reconciliation, dispute resolution and portfolio compression and exemptions thereof

We will provide leading market practice solutions upon identifying any gaps. Management can subsequently prove having exercised best efforts to meet its regulatory requirements.

NFC-status assurance for global groups

It is a huge challenge to adequately document the NFC-status on a global level. All fully consolidated entities must be included. In addition, the Swiss regulator has set strict rules and defined documentation requirements regarding use of the NFC-exemption. A classification as NFC+ would have severe consequences, as the entire group would be forced to clear all their OTC derivatives and face stricter reporting obligations (e.g. daily reporting of mark-to-market valuations) and risk mitigation requirements. The NFC-status assurance consists of the following key steps:

- Identification of the group-wide OTC derivative portfolio
- Review of the categorization of all derivatives into hedging and non-hedging, OTC and ETD and putting the required documentation, hedging policies, hedging strategies and controls in place to justify this classification
- Support in setting up audit-proof documentation for hedging derivatives

Implementing our recommendations will reduce group management's risk of material finding during the audit, which would have to be reported to the Swiss authorities.

Positioned to serve you best

KPMG's dedicated Finance- and Treasury team has conducted financial market regulation assurance and implementation projects for more than 150 corporate clients. We are in frequent consultation with competent authorities and have benchmark and leading market practice knowledge to develop solutions and documentation.

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