



# Volcker & LBF Implementation

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**Key Requirements**

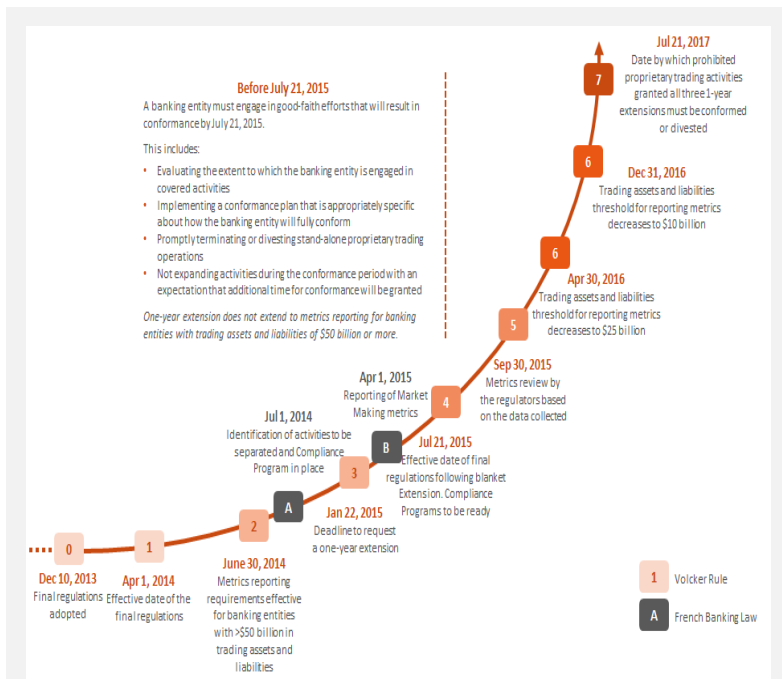
Volcker

- The Volcker Rule, a part of the Dodd-Frank Wall Street Reform and Consumer Protection Act, was adopted on December 10, 2013:
  - ✓ Prohibits banking entities from engaging in short-term proprietary trading of securities, derivatives, commodity futures and options on these instruments for their own account, and provides a list of exemptions to this prohibition
  - ✓ Prohibits banking entities from owning, sponsoring, or having certain relationships with “covered funds” (such as hedge funds or private equity funds)
- In the Final Rule, the conformance period has been extended by one year until July 2015:
  - ✓ A comprehensive compliance program has to be in place by that date, requiring enhanced internal controls on trading, full documentation of covered funds activities and a CEO attestation process
  - ✓ Depending on the size of U.S. Trading Assets and Liabilities, metrics reporting to U.S. regulators will be required either in 2015 or 2016

French  
Banking  
Law

- On July 27, 2013, France published its new Law on the Separation and Regulation of Banking activities:
  - ✓ Requires credit institutions, financial companies and mixed financial holding companies of a certain size to ring-fence proprietary trading activities in ad hoc subsidiaries
  - ✓ Creates a new regime for the recovery and resolution of certain banking and financial institutions
  - ✓ Enhances the related powers of the ACPR and creates a new organ in charge of preventing and managing banking crisis situations

**Timeline**



**Very strong interplay between the Volcker Rule and the French Banking Law, especially on the proprietary trading side**

Pillar	Volcker vs. LBF	Key Impacts	
<p><b>Business limitation and segregation</b></p>	<p>Comparable exemptions for market making and hedging</p>	<ul style="list-style-type: none"> <li>• Inventory all trading desks and assess the impacts of the rule on the products being traded, hedging strategies, source of revenues, location, etc.</li> <li>• Identify permitted / exempted activities</li> <li>• Identify strategic or tactical moves to reshape the business</li> <li>• Assess exit strategies if need be and associated logistical and operational implications</li> </ul>	<p>Business: 3 impacts IT &amp; Proc: 2 impacts Resources: 1 impact Gov: 0 impacts</p>
<p><b>Metrics reporting</b></p> <p><i>Not required for US trading assets and liabilities below \$10B</i></p>	<p>Similar metrics as LBF metrics are largely inspired by Volcker</p>	<ul style="list-style-type: none"> <li>• Design the strategy for calculation and reporting of the following metrics:               <ul style="list-style-type: none"> <li>• Risk and Position Limits and Usage</li> <li>• Risk Factor Sensitivities</li> <li>• Value-at-Risk (“VaR”) and Stress VaR</li> <li>• Comprehensive Profit and Loss Attribution</li> <li>• Inventory Turnover</li> <li>• Inventory Aging</li> <li>• Customer-Facing Trade Ratio</li> <li>• Additional metrics tailored to the particular strategies and risks of its trading desks</li> </ul> </li> </ul>	<p>Business: 0 impacts IT &amp; Proc: 3 impacts Resources: 2 impacts Gov: 1 impact</p>
<p><b>Enhanced Compliance Program</b></p>	<p>More stringent requirements for Volcker</p>	<ul style="list-style-type: none"> <li>• Draft standard and specific policies and procedures (trading desks, risk management processes, hedging, liquidity, recordkeeping...)</li> <li>• Set-up internal controls such as risk limits and quantitative metrics</li> <li>• Review responsibilities and accountability of the management framework</li> <li>• Define the process for CEO attestation incl. escalation process</li> <li>• Perform independent testing of the compliance program</li> <li>• Provide adequate training to personnel and managers involved</li> <li>• Create and retain records sufficient to demonstrate compliance</li> </ul>	<p>Business: 0 impacts IT &amp; Proc: 1 impact Resources: 2 impacts Gov: 2 impacts</p>

## What is at stake

## CH&Cie key differentiating factors

1

### Manage Volcker and LBF as a whole

- Set-up a shared governance covering both regulations with local relays and strong communication
- Converge to a homogeneous classification and level of granularity under Volcker and LBF
- Infrastructure strategy and methodology for metrics production should be common

- Deep knowledge of the two regulations acquired through projects led for comparable CIBs
- Existing gap analysis between LBF and Volcker and impact assessment
- Presence in France and in the US with local staff working for your CIB in both locations
- Extensive understanding of Capital Market business, developed from both project experience and operations

2

### Increase awareness and create a sense of urgency

- Make the F/O responsive and Market Risk accountable for the validation of the classification and quantitative measurements
- Onboard quickly IT teams to launch projects for the production of missing indicators
- Clear documentation and communication on what could be timely done or not and associated remediation actions if needed

- Extensive knowledge of your environment, people and culture, organization, systems and processes
- Robust program management skills facilitating the syndication of stakeholders, the delivery in a timely manner and the drafting of the documentation to the regulators
- Teams with an international background and capable of successfully managing cultural differences

3

### Start with tactical solutions

- Perform an accurate data quality assessment to ensure the relevancy of the indicators
- Find the best way to manage the different levels of aggregation of indicators to reconcile the data
- Leverage on existing architecture and quickly identify missing indicators
- Evaluate options for recordkeeping

- Ability to provide advice on best practices among comparable organizations
- Ability to design and implement tactical solutions allowing a timely response to the regulators

1

### Business impact assessment

- Finalize the calculation of the size of US trading assets and liabilities to identify when metrics reporting and program compliance standards should begin
- Define the granularity and map trading desks to Volcker and LBF classification
- Compare Volcker and LBF requirements and map activities and products under their respective classification, identify exemptions
- Design the strategic approach to document and demonstrate the compliance of activities

2

### Exit strategies

- Assess technical, tactical and strategic moves to reshape the business if need be
- Evaluate exit strategies for investments in or transactions with covered funds not under an exemption
- Identify logistical and operational implications of a transfer of activities outside the US

3

### Compliance program creation

- Define governance and roles and responsibilities in managing and monitoring the compliance program and reach a global consensus and buy-in of the stakeholders
- Formalize the Target Operating Model describing the controls, surveillance, monitoring, testing, strategy, people, processes and technology needs
- Prepare an analysis of the expected impacts of the rules in terms of revenues, customer relationships, risk profile, costs of compliance etc.
- Set-up internal controls, policies and procedures to demonstrate compliance with the rule requirements

4

### Metrics reporting strategy

- Identify existing indicators and capabilities that could be leveraged
- Perform a data quality and availability assessment
- Regroup business units into reporting clusters to meet metrics requirements
- Work closely with F/O and Market Risk to develop attribute definitions and calculation methodologies
- Assess technology, resources and budget needs to address the production requirement

**Numerous Regulatory projects led for your competitors in Europe, Asia and North America**

- ✓ Implementation of the Volcker Rule - DFA
- ✓ Drafting of a Resolution Plan - DFA
- ✓ Implementation of a Trade Repository – DFA
- ✓ Creation of an Intermediate Holding Company – DFA
- ✓ Impact assessment of clearing requirements – EMIR
- ✓ Creation of the Chief Data Officer function – BCBS239



**Large span of regulatory expertise thanks to our Market and Regulatory watch unit**

- ✓ A team dedicated to the market and regulatory watch:
  - Providing regular updates on new regulations
  - Performing cross-regulation analyses, business and operational impacts assessment, extraterritoriality analyses, etc.
  - Providing advice on best practices among comparable organizations





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