

# QFC Reporting: The Clock is Ticking

## Introduction

In January of 2015, a new mandate was published which will force major financial institutions to adopt an entirely new approach to managing their QFCs, or *qualified financial contracts* and related agreements. It stipulates extensive reporting on the data held within QFCs, expanding the type of information and the speed in which it is needed. To comply, organizations must implement solutions and processes which are more comprehensive, utilized more broadly across the organization, and can deliver accurate QFC data in a daily cadence.

The notification came from the US Secretary of the Treasury in the form of a NPR, or *notice of proposed rulemaking*, and it detailed the change to the existing reporting requirements for QFCs, which include securities contracts, commodity contracts, forward contracts repurchase agreements, swap agreements, and the Master Agreements that cover these contracts. The new ruling is directly applicable to the “SIFI” banks, or *systemically important financial institutions* which generally includes banking and S&L holding companies with over \$50B in assets.

When a SIFI enters insolvency, counterparties to QFCs in the U.S. may begin to exercise their contractual rights in the QFC - *within the next day*. If the bank goes under FDIC receivership, the FDIC is left with one day to decide to transfer a particular QFC to another institution, retain the QFC and allow the counterparty to terminate it, or repudiate the QFC and pay the counterparty.

In order to have the information needed to make informed decisions on these matters, the new ruling requires affected institutions be able to maintain and report on specific information in their QFCs ***within 24 hours if requested***.

This proposed ruling not only dramatically increases the speed in which information has to be reported, but also expands the type of information captured, the numbers and types of institutions affected, and also the range of banking business units within an entity that must now comply with the new reporting requirements.

Affected organizations will need to *significantly change* their systems and procedures on how contract data is captured and managed in order to meet the new proposal.

***“To be of meaningful assistance to the FDIC and meet the requirements, impacted organizations will have to be able to report on QFC information on a daily basis...”***

## Types of Data

The NPR is specific on the types of QFC information that must be reported, including position, collateral, and legal agreement data for bilateral, exchange-traded and centrally cleared QFCs, and for QFC-related transactions. It stipulates four separate reports which focus on the following:

- 1. Position-level information:** Booking information, position information, trade documentation, etc.
- 2. Counterparty-level aggregated exposure:** Counterparty exposure, counterparty information, documentation information for the agreement, etc.
- 3. Information on QFC-related legal agreements:** Agreement identifying information, governing law, default information, guarantees, etc.
- 4. Detailed collateral information:** Descriptions, CUSIP identifier, original face and current market values, etc.

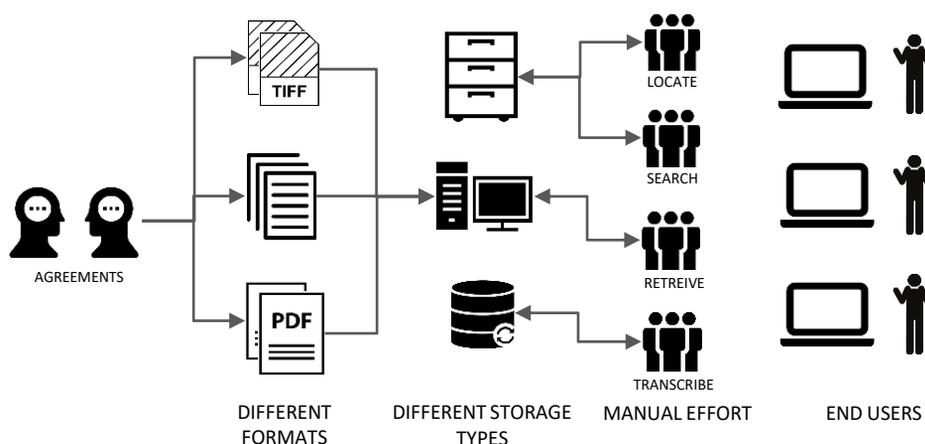
Each of these reports requires a significant set of data elements for compliance.

## The Challenge

The NPR is creating significant issues for SIFI organizations, most of whom already face challenges in managing their contract and contract data, and are already dealing with a wide variety of reporting mandates including new RRP (SR 14-1 and Living Wills) and IASB (IFRS 15 and 16) regulations, just to name a few.

Today, contracts are stored in *multiple locations and formats* across various business units and functions. This may be due to poor adoption of document management repositories along with the proliferation of file servers, shared drives, and standalone SharePoint repositories. This means that the first challenge is *just finding all the QFC contracts*.

After contract documents are found, the second step of QFC compliance is the process of extracting the data needed for QFC reporting, and having it updated daily.



## Manual Search and Extraction

Some organizations will attempt to manually extract and report QFC data. This involves searching, extracting data, and transcribing the data into spreadsheets. Every time a manual review is completed but new information is needed, another manual review must be performed again. This is a lengthy and expensive proposition, unfeasible with the 24-hour timetables stipulated by the NPR.

Another concern with manual reviews is the subjectivity, with trained reviewers perceiving clauses and data points differently. The result is unreliable data due to errors caused by reviewer interpretation.

## Seal Transforms QFC Reporting

Seal performs critical functions for compliance, including locating QFCs and associated agreements across the network, creating a centralized repository for all documents, extracting the needed information from QFC agreements, enriching the data using Seal's machine learning (ML) and natural language processing (NLP), and providing reporting through its built-in data visualization platform.

Seal has worked with several SIFI banks on their QFC reporting initiatives, giving us the insight and experience to tailor the right technology solutions and guidance for our customers.

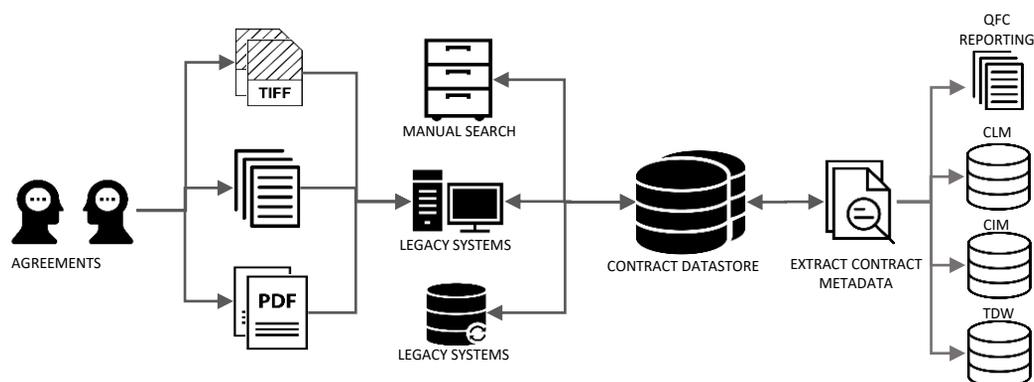
## Seal Discovery and Analytics

Seal is designed to crawl the network to locate contract documents and copy them into a centralized repository. Seal can find documents in file shares, network drives, SharePoint repositories and legacy systems – anywhere contracts may be hiding. This is critical as the NPR widens the scope for data from a wider range of business units across an effected organization, including Sales and Trading, Financing, and Custody operations.

Seal will locate documents in Word, PDF, TIFF, and other document formats. For TIFF and non-searchable PDF formats, perhaps coming in from a scanning process, Seal's built-in OCR engine will convert them to a functional PDF format. The result is a *secure contract data store*, making all QFC agreements and their related documentation easy to search and find.

Seal is built for data extraction and management so organizations can find information fast. Seal will **extract a set of contract data automatically**, including many of the components needed for the NPR. The system has been trained to understand and extract terms such as *governing law*, *counterparty information*, *currencies*, *Master Agreement identifiers*, etc.

## Seal's Technology-Supported Approach



CLM – Contract Lifecycle Management  
 CIM – Client Information Management (KYC, CRM, Client Reference Data)  
 TDW – Transaction Data Warehouse

## Seal's Custom Policies

Seal users can leverage Seal's machine learning to **create custom policies** in the system, defining specific data elements, terms, and clauses needed for QFC reporting. This can include data such as Position Status, Purpose of Position, Guarantee information, Transfer Restrictions, Termination Events, etc. The data extracted from QFC agreements can also be imported into other banking systems such as CLM, Client Information Systems (CIS), and transaction systems.

## QFC Reporting

A core component of QFC compliance is the design and implementation of the reporting system to capture and aggregate the data for *next-day reporting* per the NPR. The Seal platform includes a market-leading data visualization and reporting tool to allow users to create a defined set of QFC reports specific to the business function. The built-in reporting means organizations will not have to purchase multiple tools and integrate them for the various functions needed for QFC compliance. With Seal, everything comes pre-integrated from a single vendor – saving time and money.

## The Need for Speed

As mentioned above, the most significant challenge to QFC compliance is the speed in which contract data has to be extracted and reported in near real time. Seal is unique in that our artificial intelligence (AI) technology can be implemented and started with a single example. Other solutions in the market have more basic implementations of ML or service provider rules, and require numerous examples of the data, and more extensive data reviews before the system is productive.

Also, the scalability of the Seal platform allows it to process over 1.5M contracts within a 24 hour period, well beyond other solutions. This means even the *largest contract sets* can be processed in the short timeframes required by the NPR.

## Benefits With Seal

Once an organization has used Seal to discover contracts across the network and extract contract data, that insight and intelligence is now a valuable asset to be used across a wide variety of business functions over time. These include other regulations, including RRP and IFRS mandates, M&A and divestiture activities, and risk management initiatives.

Seal's capability called "Analyze This Now" allows business users to work with their contracts in the tool they are most familiar with, *MS Word*, and leverage the intelligence of Seal in the back end for comparing clauses, making revisions, repapering agreements, etc.

While QFC reporting may be a critical need, *knowing what's in your contracts at all times provides benefits well beyond a single regulatory mandate.*

## Seal With Partners

While Seal provides a powerful foundation for extracting and reporting QFC data, a comprehensive and structured plan addressing all aspects of the initiative, including assigning responsibilities, and specific operating procedures to ensure ongoing compliance is needed.

Seal partners with a group of experienced service providers who can assist our customers in the broader set of initiatives needed for QFC compliance. For more information, please visit [seal-software.com/seal-partners](http://seal-software.com/seal-partners), or contact Seal.

## Contact Seal

### Corporate HQ

201 Mission Street, Suite 2250  
San Francisco  
CA 94105. USA.  
T: + 1 650 938-SEAL (7325)

### European HQ

1-2 Hatfields  
Waterloo London  
SE1 9PG United Kingdom  
T: +44 203 735 9898