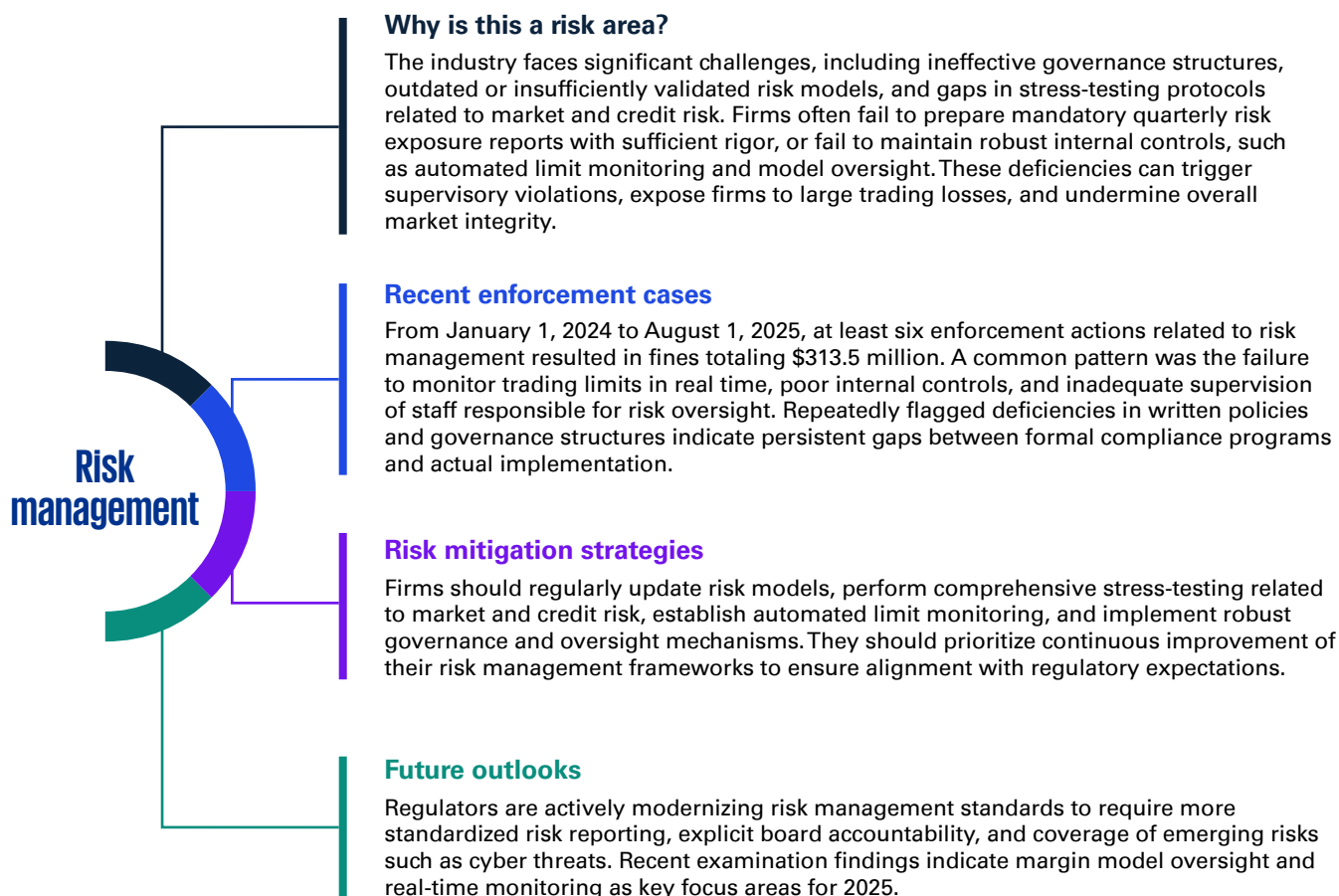




Swap dealer key compliance risks

Back to basics: Kicking the tires on key compliance risks

In a period where regulatory focus is shifting back to basics, swap dealers must prioritize compliance in key areas. This broad guide identifies the critical compliance risks for 2025, including risk management, trade reporting, trade surveillance, and supervision of swap associated persons. By examining recent enforcement cases and common industry challenges, we provide actionable strategies to help ensure your firm maintains compliance. Equip your organization with essential insights to effectively navigate these crucial, high-risk areas.

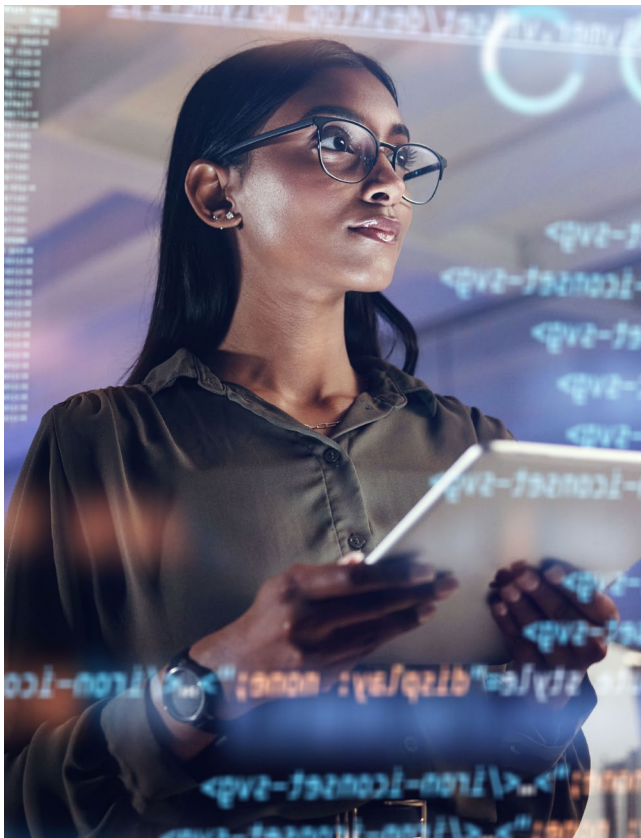


Trade reporting



Why is this a risk area?

Trade reporting involves numerous complexities, from ensuring accurate data submission to meeting stringent timelines. Challenges include poor data management, exceptions management, inadequate technological infrastructure, third-party repository risks, complex swap data reporting frameworks, quality control issues, periodic reconciliations, and evolving regulations and penalties.



Recent enforcement cases

From January 1, 2024 to August 1, 2025, there were four enforcement actions related to trade reporting, resulting in fines totaling \$11.55 million. These actions highlighted patterns of inaccurate and untimely reporting, poor supervision of swap dealer business, inefficient error notification processes, and insufficient testing of swap reporting systems against internal compliance standards.



Risk mitigation strategies

Firms should establish a robust compliance framework with ongoing monitoring of regulatory changes, regular training programs to keep staff updated, and periodic internal and external audits to maintain reporting hygiene.

1. Standardize data definitions across systems to maintain data accuracy and completeness in trade reporting.
2. Establish an issues management framework to effectively address trade reporting discrepancies and ensure timeliness, completeness, and accuracy.

Investments in technology and automation can support effective system integration, improve data accuracy, and minimize manual errors. Additionally, firms should adopt industry-wide data standards, enforce strict vendor management policies, and regularly review their trade reporting framework to refine operational processes.



Future outlooks

CFTC no-action relief issued which will not seek enforcement against reporting counterparties who meet certain conditions. Firms wishing to avail themselves should set up parameters to accurately identify if they exceed the threshold.

For security-based swaps reporting, the Securities and Exchange Commission has extended no-action relief for compliance from November 2025 to November 2029, allowing market participants to follow Commodity Futures Trading Commission (CFTC) rules and reduce compliance burdens.

Trade surveillance



Why is this a risk area?

Ensuring effective trade surveillance is crucial for detecting and preventing market abuse and manipulation. Challenges include inadequate surveillance procedures, high volumes of false positive alerts, latency issues, lack of data synchronization across asset classes, weak supervision, failure to escalate red flags, inadequate responses to outages, use of unapproved communication channels, failure to record communications properly, and adapting to new trading platforms and instruments. Challenges include – Failure to accurately identify trading venue inventory or test surveillance data coverage leading to missing data in the trade surveillance systems.



Recent enforcement cases

From January 1, 2024 to August 1, 2025, five enforcement actions related to trade surveillance and business practices resulted in fines totaling \$312 million. These actions highlighted issues such as failure to capture trade orders in the surveillance systems, inadequate oversight of electronic communication, supervision failures and the use of unapproved communication methods.



Risk mitigation strategies

Firms should leverage artificial intelligence (AI)-driven models and behavioral analysis to reduce false positives and prioritize high-risk trades. Investing in low-latency systems and synchronizing trade data across platforms can improve real-time data processing and prevent gaps in trade reconstruction. Controlling communication channels by banning unauthorized apps, automating voice and text monitoring, and implementing regular compliance training can help maintain a strong compliance framework. Implement reconciliation and validation checks along with real-time monitoring to ensure accurate and complete data inputs are captured in trade surveillance systems.



Future outlooks

Regulators, including the CFTC and National Futures Association (NFA) as mentioned during the annual member workshop, are pushing for more comprehensive trade surveillance frameworks that go beyond traditional monitoring. With the growing complexity of financial markets, regulators are urging firms to adopt real-time transaction monitoring. A strong emphasis is placed on AI-driven analytics and machine learning to integrate and standardize data from multiple sources, ensuring seamless retrieval and analysis. Strengthening supervision and accountability is crucial, with clear escalation procedures and regular training on industry best practices for staff reviewing trade alerts to improve compliance effectiveness. Investing in cutting-edge surveillance platforms is becoming essential to meet regulatory expectations.



Supervision of swap associated persons



Why is this a risk area?

Challenges in the supervision of swap associated persons (APs) include inadequate reporting of swap transactions, failure to maintain accurate and complete trading records, insufficient oversight of swap trading activities, use of unauthorized communication channels, communicating in unapproved or unmonitored languages, inadequate surveillance and monitoring of communications, lack of training and awareness, and weak escalation protocols for reporting suspicious activity.



Recent enforcement cases

From January 1, 2024 to August 1, 2025, there were five enforcement actions related to AP supervision, resulting in fines totaling \$312 million. These actions revealed patterns of inadequate oversight of swap dealer business and monitoring of associated persons, poor oversight of electronic communication systems, and use of unapproved communication methods. Deficiencies in recordkeeping, supervision, risk management, and compliance programs were also repeatedly flagged, indicating persistent gaps between formal compliance programs and actual implementation.



Risk mitigation strategies

Firms must establish tailored policies and procedures for supervising swap APs, including well-defined internal escalation protocols for potential violations. Regular reviews of the supervisory framework are essential to monitor its effectiveness amid evolving regulatory requirements. Investing in automated recordkeeping solutions can streamline the capture and retrieval of swap-related communications, reducing the risk of noncompliance. Firms should also enforce strict policies prohibiting the use of unauthorized communication channels and provide periodic training for APs to reinforce compliance awareness.



Future outlooks

Regulators emphasize the need for comprehensive background checks to verify the educational and employment histories of APs, screening for any statutory disqualification. Ensuring APs complete swap proficiency requirements is vital for maintaining regulatory compliance. Firms should implement ongoing attestations confirming that APs are not using off-channel communication methods to reinforce accountability. Regular compliance checks should verify the proper capture, retention, and review of records. Conducting ongoing training on NFA and CFTC requirements with periodic acknowledgments from APs is essential to ensure understanding of policies and procedures. To further improve oversight, risk-based sample testing and regular reviews of communications, including those in foreign languages, should be conducted to identify any potential violations or market abuse.

NFA recently issued a notice related to the supervision of APs. Although the notice was withdrawn due to industry objections, it likely still provides valuable insights into the NFA's expectations.

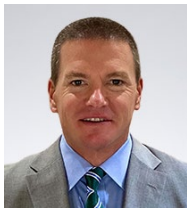
Conclusion

While many firms implemented compliance programs in response to the post-2012 regulations, the rapid evolution of regulations and market dynamics means hidden issues in these historical implementations need to be addressed. An in-depth compliance review can identify and rectify these issues, eliminate redundant controls, optimize existing practices, and uncover gaps. External reviews provide additional insights and strategies. By optimizing compliance and risk management strategies, firms can better anticipate and respond to regulatory demands, mitigating risks and avoiding penalties.

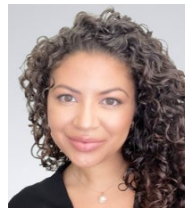
For insights and support, consider external reviews to bolster your firm's resilience and foresight in managing regulatory risks.

If you have any questions or would like an initial consultation, please contact Michael Sullivan or DJ Hennes.

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