

Fully paid lending program readiness checklist – Canada focus



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CLIENT ONBOARDING

	No Plans	In Progress			Ready	Comments
		Business Requirements	Gap Analysis	Implementation Plan		
Client Agreements						
Business objectives outlined	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
KYC/Investment Risk Profile Realignment in executed documents available for audit review	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Disclaimers: “buyer beware” limitations regarding CIPF exclusion/limitation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Specific terms and conditions: new and/or modified specifying metrics for client participation in FPL program and criteria for distribution of earnings from fees and rebates	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Work flows and paper trail						
Ensure FPL program being administered/supervised in accordance with client understanding/agreements in a fair and equitable manner to all participating customers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Account structure and set up						
Identification of FPL clients in account record	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

OPERATIONS

	No Plans	In Progress			Ready	Comments
		Business Requirements	Gap Analysis	Implementation Plan		
Booking Model and Account Setup						
Ensure each client has account(s) for proper recording and reporting of FPL securities on loan to the broker dealer, and collateral posted by the broker dealer within all affected systems (stock record/general ledger, securities lending systems, treasury/cash management/collateral custodian, etc.).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Collateralization Rules, Processes and Controls						
Ensure applicable margin rules understood and systems/processes configured and adhered.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Reporting loan-value Deficiency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Cash collateral must be provided and segregated.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Daily and intraday (best practice) mark-to-market process in place to calculate required collateral and post collateral to third-party custodian	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Intra-day Monitoring						
Capability to review securities available for lending/ out on loan/ available for return/in need of recall, etc., across client and entire firm book of business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

BOOKS AND RECORDS

	No Plans	In Progress			Ready	Comments
		Business Requirements	Gap Analysis	Implementation Plan		
Statements and Portals						
All statements will need to be modified in FPL transactions to disclose CIPF coverage limitations.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Customer web portals, etc., must be updated to reflect securities on loan, collateral posted, fees earned and posted at real-time or, at a minimum end of day.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Booking Model						
Securities borrowed from customers must be recorded in securities lending systems and stock record/general ledger so that:						
Normal trading leverage is neither increased nor decreased (i.e., no impact on credit extended to customer under margin rules);	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Encumbrances related to proxy, dividends, payments in lieu of dividend disclosed and managed (similar to margin securities on loan);	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Tax and other reporting of fees/rebates earned and posted to customer account is captured.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Annual performance reports will need to be amended to present consolidated fees/charges for both FPL and non-FPL accounts for each client for one-view statements of all costs.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

COMPLIANCE

	No Plans	In Progress			Ready	Comments
		Business Requirements	Gap Analysis	Implementation Plan		
Pre- and Post-Trade Procedures						
Updated end-to-end pre-/post-trade compliance procedures for all aspects of the FPL program as it impacts each client and the firm's overall regulatory reporting.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
A fully transparent paper trail for reporting, account/collateral segregation, record keeping, and other related criteria that is sufficiently robust to pass an external audit for the FPL program readiness.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

REPORTING

	No Plans	In Progress			Ready	Comments
		Business Requirements	Gap Analysis	Implementation Plan		
End-of-day management reports on mark-to-market for each client loan to determine cash collateral required to segregate or desegregate next day, or to post to collateral custodian in accordance with program governance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

EXTERNAL AUDIT SCOPE

	No Plans	In Progress			Ready	Comments
		Business Requirements	Gap Analysis	Implementation Plan		
Be prepared to submit the FPL end-to-end systems and work flows (including the client, dealer and the street components of FPL interactions) and procedures to an independent external audit in advance of being considered for approval of an FPL program by IIROC.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	



KEY IIROC RULES IMPACTED BY FPL PROGRAM

	No Plans	In Progress			Ready	Comments
		Business Requirements	Gap Analysis	Implementation Plan		
Rule 2200.2 – Agreement in writing includes rights of each party, events of default, treatment of excess collateral held by non-defaulting party owed to the defaulting party, provisions for set-off or not.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Rule 2200.5 – Loan transactions will be properly recorded in the books and records of the Dealer Member in compliance with Rule 200.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Rule 2200.8 – When dealing with an “Other” counterparty: <ul style="list-style-type: none"> • Securities and collateral must be marked to market daily; • Loan account must be separate from the securities trading accounts; • Collateral must be fully segregated; • Confirmations and month-end statements must be issued. 	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Rule 200.2(d) – Client account statements must be sent monthly or quarterly.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Rule 200.2(f) – Dealer Member must send an annual performance report.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Rule 200.2(g) – Dealer Member must send an annual fee/charge report.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Rule 200.2(i) – Dealer Member must have a securities record reflecting all long and short positions showing the location of all securities.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Rule 200.2(l) – Dealer Member must send trade confirmations to clients.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

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Form 1, Schedule 1: <ul style="list-style-type: none"> • Acceptable Institution (AI): No margin required • Acceptable Counterparty (AC): Market-value deficiency • Regulated Entity (RE): Market-value deficiency • Other: Loan Value deficiency 24 hour rule 	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
If no agreement exists, margin is 100% of the market value of the collateral provided (except for an Acceptable Institution)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
For “Other” counterparties, margin is market-value deficiency if Dealer Member holds the collateral or it is held in escrow by an acceptable depository, bank or trust company qualifying as an AI or AC.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	



FULLY PAID LENDING – HIGH LEVEL BUSINESS

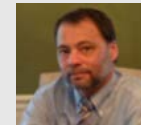
PROCESS WORKFLOW:



ABOUT THE AUTHORS



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