

Fully paid lending program readiness checklist – U.S. 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 bankruptcy protection (for instance SIPC) exclusion/limitations	<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, and collateral posted by the broker 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 for adherence	<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 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 book of business for a firm	<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 SIPC or other bankruptcy protection 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.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	



	No Plans	In Progress			Ready	Comments
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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 are 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		
Compliance must update its pre-/post-trade compliance end-to-end procedures on all aspects of the FPL program as it impacts each client and the firm's overall regulatory reporting. The paper trail should have transparency into reporting, account/collateral segregation, record keeping and other related criteria that will need to be sufficiently robust and transparent to pass regulatory (for instance, FINRA) examination of the FPL program.	<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"/>	

AUDIT AND EXAMINATION 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 regulatory bodies for review, comment and conditional approvals to move forward.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	



KEY PROCESSES IMPACTED BY FPL PROGRAM

	No Plans	In Progress			Ready	Comments
		Business Requirements	Gap Analysis	Implementation Plan		
Rule 15c3-3 – Customer Securities Segregation: Securities loaned by customer to firm no longer protected under Rule 15c3-3	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Rule 204 under Reg SHO – Customer Securities on loan to firm under FPL can create CNS FTD subject to close-out requirement; evidence of recall and return of customer FPL (footnote 55) required to take long sale close-out deferral.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Reg T – Extension of credit by firm to customer. FPL can neither increase nor decrease the calculation of margin credit extended to the customer under Reg T	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
DTC Memo Seg – Securities borrowed from customer’s fully seg’d position must be made available for delivery to external counterparties in DTC; securities returned to the customer by the firm must be returned to fully seg’d position.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Rule 15c3-1 – Customer must be treated as a securities-lending counterparty for purposes of calculating excess net capital and excess capital (105%) rule.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Payments-in-lieu of dividend (PIL) allocation – Securities loaned by customer to firm must be accounted for in allocation of PIL for cash dividends (similar to margin securities on loan by firm).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

FULLY PAID LENDING – HIGH LEVEL BUSINESS

PROCESS WORKFLOW:

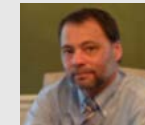


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