

Fully paid lending program readiness checklist – multi-jurisdictional focus



CLIENT ONBOARDING

| | No Plans | In Progress | | | Ready | Comments |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|----------|
| | | Business Requirements | Gap Analysis | Implementation Plan | | |
| Client Agreements | | | | | | |
| Business objectives outlined, including exclusions for positions or jurisdictional participation | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| KYC/Investment Risk Profile Realignment in executed documents, in all applicable jurisdictions, available for audit review | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| Disclaimers: “buyer beware” limitations regarding jurisdictional investment protection exclusions/limitations | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| Title Transfer Collateral Arrangements (TTCA) specifying rights and entitlements of collateral, exclusions/ limitations, including any corporate action or entitlement or impacts that might be triggered by FPL in various jurisdictions | <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 lending 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"/> | |

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| | | Business Requirements | Gap Analysis | Implementation Plan | | |
| Work flows and paper trail | | | | | | |
| Ensure lending program being administered/ supervised across all applicable legal entities and locally specific systems 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"/> | |
| Have reports and processes/proof to demonstrate to regulators equitable treatment of clients in line with reporting with local reg needs | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| Account structure and set up | | | | | | |
| Obtain Legal Entity Identifier (LEI) for SFTR reporting | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| Client classification (professional, retail, etc.) for reporting under MiFID II | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| Establish data linkage or cross-reference across client onboarding platforms for improved data quality, and ability to track both clients in programs and securities available for lending | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |

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| | | Business Requirements | Gap Analysis | Implementation Plan | | |
| 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, regardless of the use of disparate securities lending or clearing and settlement systems in different locations/jurisdictions | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| Determine best way to follow the sun for book of business given complexities of running real-time systems for desks and batch systems for accounting/ back office reconciliation | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| Street-Side Settlements | | | | | | |
| Transfer customer securities from local custody to lending central securities depository (CSD, CREST, Euroclear, etc.) for street-side delivery in the relevant market of execution | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |

BOOKS AND RECORDS

| | No Plans | In Progress | | | Ready | Comments |
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| | | Business Requirements | Gap Analysis | Implementation Plan | | |
| Statements and Portals | | | | | | |
| All statements must be modified to disclose bankruptcy protection coverage limitations under applicable customer jurisdiction. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| Statement and confirm presentation may vary between jurisdictions for FPL depending on reg approvals for client communications. | <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; this may require integrating feeds/ data sources for positions, collateral, fees, etc. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |



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| | | Business Requirements | Gap Analysis | Implementation Plan | | |
| 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, and taxes are reported in each jurisdiction via locally mandated forms and processes. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| Annual performance reports must be amended to present consolidated fees/charges for each client for one-view statements of all costs and revenues. | <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 their pre-/post-trade compliance end-to-end procedures on all aspects of the program as it impacts each client and the firm's overall regulatory reporting in all jurisdictions in scope for the program. The audit trail should demonstrate transparent and robust reporting, account/collateral segregation, record-keeping and other related criteria to pass regulatory examination of the program for each applicable jurisdiction. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |

REPORTING

| | No Plans | In Progress | | | Ready | Comments |
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| | | 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 program end-to-end systems and work flows (including the client, dealer and the street components of program 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"/> | |



FULLY PAID LENDING – HIGH LEVEL BUSINESS

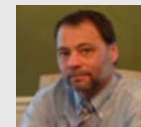
PROCESS WORKFLOW:



ABOUT THE AUTHORS



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