

Federal Reserve Board of Governors

# Course Description for Securities Broker Dealer

Last Revised: January 16, 2019

## Securities Broker Dealer

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### Course Overview

This 3 day course provides an intensive analysis of the middle and back-office operation functions of U.S. brokers/dealers and Registered Investment Advisers (RIA) and the requisite controls. A detailed overview of these functional building-blocks includes the trade lifecycle process from order and trade execution through clearance and settlement, including, custody and description of stock record, margin, and stock loan and asset services.

Participants will gain an understanding of the organizational infrastructures of a broker/dealer. Processes that support these functional areas are a major focus of SBD, with attention given to potential gaps and exposures that create Operational Risk. SBD focuses on interdependencies of operation functions among entities such as investment managers, brokers/dealers, custodians, clearing houses and depositories. Case studies with an operational risk perspective will be used (e.g., MF Global, Peregrine Financial, Madoff, Société Générale).

The content also promotes discussion of real-life “war stories” involving operational Key Risk Indicators (KRIs), such as concentrations, exceptions, limits trade breaks, failed trades, stock record breaks, suspense entries, DKs, and cancels/corrects. Participants will learn how these events, if not properly managed and reported, can have a negative impact on the firms, their customers and counterparties.

### Course Objectives

By the end of this course, participants should be able to:

- Identify mission-critical functions within the lifecycle of a trade, from the inception of an order through settlement, as well as the follow-up required for the effective management of failed trades.
- Explain the critical functions of New Account and Product reference or (static) data set-up for both brokers/dealers and RIAs.
- Gain perspective on the interactions between the internal operation of a broker/dealer and the industry infrastructure, including confirmation/affirmation service providers, clearing houses, depositories and settlement systems.
- Evaluate Key Risk Indicators (KRIs) of operational risk and the source of the information in the firm
- Analyze metrics related to the control of trade activity, including fails, breaks, cancels/corrects, STP levels, and the cost per trade.
- Compare the roles of brokers/dealers, RIAs, clearing firms, prime brokers and custodians.
- Describe impact of operational risk on Corporate Action processing.
- Evaluate the importance of books and records, including how a stock record is used to demonstrate possession and control of firm and client assets.
- Distinguish the areas of operational support for margin and stock loan businesses within brokers/dealers.

- Examine the use of firm policies and procedures, internal controls and audit coverage, as well as governance.
- Describe the internal operational processes of a fund manager.

## **Type of Participant Targeted**

The course is designed as a supplementary course for Community Banking Organization (CBO) examiners.

## **Prerequisites**

None

## **Class Size**

The optimal class size is 25 participants; minimum class size is 15 participants and the maximum is 35.