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## Centralized and Automated Quarterly Broker Confirm Statements Outsourcing Solution

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Implementation of Loffa Interactive Group's (QBS™) Solution

### Current Environment: A Business Analysis

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*SEC Rule 17a-13* requires quarterly security counts to be made by certain Exchange Members, Brokers and Dealers. This process is handled through the distribution of Quarterly Broker Statement requests to Contra firms. This process is generally accomplished by sending items through the US Postal Service or fax. The counter party must review the open QBS item and confirm the reporting transactions. These QBS reports are then sent back via mail or fax to the Originating Party who reviews these items and updates their databases, accordingly.

Rule 17a-13 requires that at least once each calendar quarter, all registered Brokers and Dealers physically examine and count all securities held and account for all other securities not in their possession, but subject to the Broker/Dealer's control or direction. Any discrepancies between the Broker/Dealer's securities count and the firm's records must be noted and, within seven days, the unaccounted for difference must be recorded in the firm's records. Although Rule 17a-13 does not require filing a report with the Commission, discrepancies between a Broker/Dealer's records and the securities counts may be required to be reported. For example, as a loss on Form X17a5 (17 CFR 248.617), which must be filed with the Commission under *Rule 17a5 (17 CFR 17a5)*.

The information obtained from Rule 17a-13 is used as an inventory control device to monitor a Broker/Dealer's ability to account for all securities held, in transfer, in transit, pledged, loaned, borrowed, deposited, or otherwise subject to the firm's control or direction. Discrepancies between the securities counts and the Broker/Dealer's records alert the Commission and the Self Regulatory Organizations (SRO's) to those firms having problems in their back offices.

The current manual process places a heavy burden on the collection of information. Loffa Interactive Group, along with the valuable input from several Broker/Dealers, has been seeking ways to enhance the quality, utility, and clarity of the information collected; while enhancing ways to minimize the burden of the collection of information on respondents, including the use of automated collection techniques.

#### **THE PROBLEM AND CHALLENGE:**

This process is very paper-intensive where thousands of transactions are sent, reviewed, updated, and reviewed yet again. The process of generating these statements, tracking, validating the custodian response, and updating the database tables is also very labor intensive which requires attention to detail that can often be overlooked due to heavy volume. Additionally, the follow-up process and identifying industry contacts compounds the problem of collection of these letters. The Fall 2008 edition of the SOD industry newsletter *SOD News & Views* points out the difficulty, inefficiency and labor hours spent on the quarterly confirmation process. (See **Table 1** below for a high level overview of current process.)

**Table 1 - High Level Overview of the Current Process**

<b>Table 1 - Process Cycle</b>
Creation of QBS Requests to be faxed or mailed (Printing/Sorting)
Manual Faxing of QBS Requests / Verify fax sent
Reconciliation of returned QBS Requests: Monitor fax machine for returned request and sort items accordingly.
Review acceptance or denial of QBS Requests
Reconciliation of QBS Requests: Update system accordingly with acceptance or denial of items
File all responded QBS Requests in cabinet or offsite
Review status of QBS requests. Prepare another faxing job for missing or non-responded items
Manual Faxing of 2 <sup>nd</sup> and 3 <sup>rd</sup> QBS Requests / Verify fax sent followed by the same reconciliation process

### **THE SOLUTION: Quarterly Broker Statements (QBS™)**

Loffa Interactive introduces the **Quarterly Broker Statement (QBS™)** solution. With the valuable input of industry firms, we've developed an automated application that seamlessly addresses the current manual and paper-intensive process of inventory control for open trade verification of Trade Fails, Borrowes, Loans, and Repos. The solution allows participants to send, receive, view, and respond to quarterly statements electronically and includes an updated database of industry contacts to avoid single points of failure.

Loffa Interactive Group has designed the QBS™ solution with a focus on delivering enterprise-level flexibility/capability without requiring a large financial investment to license and configure a solution. The result is a very powerful relationship platform available at a price point that makes QBS™ a viable industry solution. Loffa Interactive Group will provide a centralized, automated solution that can help you achieve the goal of delivering productivity enhancements and significant cost savings while improving supervisory/regulatory control and storage requirements.

Loffa's approach is focused on leveraging the efficiency of straight-through processing for Broker/Dealers and Counter-Parties resulting in:

- Inventory control device to monitor a Broker/Dealer's ability to account for all securities held, in transfer, in transit, pledged, loaned, borrowed, deposited, or otherwise subject to the firm's control
- Lower operating cost by eliminating manual processes and paperwork (Paperless Environment/Green Solutions)
- Electronic Sending, Receiving, and Storage (SEC 17A-4) of QBS Letters
- Universal Portal Option for responding parties to reply electronically
- Access to a Standing Instructional Database of all industry contacts for QBS letter notification
- Centralized application with ability to immediately search/retrieve accepted, unknown or declined transactions
- Ability to identify unprocessed work by counter-party, fail type, status and other criteria
- Strengthened internal controls through audit tracking and supervisory oversight enhancements (FINRA 3012)

The On-Boarding process to use QBS™ is quick and simple and can be accomplished within 3 to 4 weeks. Your Firm will provide the following:

- Current list of counter-party contacts including name, phone number, emails and associated fax numbers to compare with Loffa Interactive's Master Contact Database
- Electronic file(s) containing required raw data of all open QBS items in a format specified by Loffa Interactive Group to create confirm statements

# Quarterly Broker Statements™ (QBS™)

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The following examples illustrate how Loffa Interactive's QBS™ solution can help your firm enhance productivity, performance, ROI, and strengthen internal controls. The items below are to illustrate the breadth of automated capabilities Loffa Interactive will bring to the area of Quarterly Broker Confirm Statements.

## **OPERATIONAL IMPROVEMENTS**

- Streamline and help automate manual workflow processes
- Eliminate manual sending and receiving of faxes
- Eliminate the need to manually send statements through US Postal Service
- Automate delivery and receipt of statements
- Electronically track status of statements
- Centralize all statements into one database
- Allow Operations Group to follow-up with Custodian and trading desk to resolve issues
- Ability to proactively manage the QBS process

## **REGULATORY/COMPLIANCE AND OVERSIGHT IMPROVEMENTS**

- Inventory control device to monitor a Broker/Dealer's ability to account for all securities held, in transfer, in transit, pledged, loaned, borrowed, deposited, or otherwise subject to the firm's control or direction
- Centralize control of all open SEC Rule 17a-13 account and relationship information within either your Executing or Custodial roles
- Provide mobile access to account and relationship information – BCP Readiness
- Audit tracking and reporting capabilities
- Provide increased security and privacy of account information over non-secured faxes/mail
- Provide documentation of the procedures (FINRA 3010b)
- Ability to leverage QBS for assistance in complying with SEC15c3-3

## **STORAGE AND REPORTING IMPROVEMENTS (GO GREEN)**

- Electronic record keeping (SEC 17A-4 archival rule)
- Immediate search and retrieval capabilities
- Eliminate paper copies and storage requirements (Onsite and Offsite)
- Customized reporting capabilities and quick search functionality
- Provide analytic and ad-hoc reporting functions

## **FINANCIAL BUSINESS IMPROVEMENTS**

- Quantify and reduce regulatory and operational risk/cost through centralization of open transactions
- Remove fax/mail and paper intensive manual processes (Scalable solution)
- Lower operational costs through a scalable Web Based solution
- Productivity Enhancement through electronic matching
- Eliminate storage and retrieval costs

# Outsourcing & Service Level

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Loffa Interactive proposes the following Outsourcing and Service Level Agreement tailored to address your firm's immediate customer service level requirements:

## **Quarterly Broker Statement (QBS™) Solution**

Loffa Interactive Group proposes our QBS™ solution to manage the QBS process. Specifically, Loffa Interactive's solution incorporates the ability to:

- Send QBS items to counter-parties
- Send follow-up statements for unresolved items for 2<sup>nd</sup> and 3<sup>rd</sup> attempts on your schedule of your choosing
- Provide your firm with 24/7 access to view all statements sent and received
- Manage the duties within the QBS process for your firm acting as Requestor of Verification
- Centralize both faxes and electronic QBS Responses/Requests
- Immediate Search and Retrieval for historical data for audit and regulatory purposes
- Provide customized reporting at your firms request within 48 hours. (Weekly, Monthly, Quarterly)
- Fully comply with all aspects associated SEC Regulations *17A-4 and 17A-13, FINRA 3010, 3010B, 3012 and 3013*

In addition, Loffa Interactive will support your firm with account and database management services, as needed.

## **ON-BOARDING REQUIREMENTS-**

The following are the items identified for each firm to deliver in order to facilitate the transmission of the required quarterly forms using Loffa's proprietary QBS platform.

Your Firm will provide the following:

- List of current custodial contacts including name, phone number, emails and associated fax numbers
- Electronic file(s) containing required raw data of all open QBS items in a format specified by Loffa Interactive
- Name of liaison and their back up: these individuals will be responsible for working with Loffa on reported exceptions

Loffa Interactive Group will provide the following:

- Comparison, Import and Update list of provided counter-party contacts including name, phone number, email and associated fax number into system
- Process electronic file containing raw data of all required QBS items to be sent
- Resend unanswered Quarterly Broker Confirmation Statements a second and third time (According to a mutually agreed upon schedule)
- Report unanswered/unprocessed exceptions
- Training, Operational Support and Technical Support

## **SUMMARY:**

Loffa Interactive's QBS™ application helps your firm streamline the Quarterly Confirm Statement process, remain compliant with current and proposed industry regulations, strengthen internal controls, and make a positive impact on the environment by eliminating unnecessary paper usage. The solution is extremely affordable, easy to implement and web-based, with no need for your company to install costly hardware. Please contact Mark Roth @ 480-664-6754 or email [mroth@LoffaCorp.com](mailto:mroth@LoffaCorp.com) if you have any questions regarding the application or information contained within this outline.