

February 5, 2001

Implementation of Federal Home Loan Mortgage Corporation ("Freddie Mac") Auction Takedown Processing Beginning with the February 9, 2001 Auction

Introduction

GSCC is introducing Auction Takedown processing for Federal Home Loan Mortgage Corporation ("Freddie Mac") Reference Notes. This processing will be an extension of GSCC's existing Auction Takedown service, implemented in 1994 for U.S. Treasury securities. Procedures for Freddie Mac Auction Takedown processing will therefore be nearly identical to those currently in place.

Briefly summarized, Freddie Mac will provide GSCC with auction award details for our participating members on auction date. GSCC will then generate comparison output based solely on the information provided by Freddie Mac (that is, Freddie Mac will submit auction award data to GSCC on a one-sided or locked-in basis). Auction purchases will be netted with when-issued trades (in the same security) submitted by GSCC netting members prior to issue date. On issue date, GSCC will take direct delivery of auction purchases from Freddie Mac via our established auction account at Chase for redelivery to participants in net long positions.

This Bulletin describes the Auction Takedown service for Freddie Mac securities, highlighting any differences between this new service and existing Auction Takedown procedures for U.S. Treasury securities. System testing for Freddie Mac Auction Takedown has been on-going, and any required rules changes have been filed with the SEC. Implementation procedures have been expedited in order to provide the service for the Freddie Mac auction scheduled to occur on February 9, 2001 with a settlement (issue) date of February 15, 2001. In order for netting members to participate in this service for the February 9th auction, they must sign a "Delivery and Payment Agreement" (copy attached) prior to that auction date which will authorize Freddie Mac to submit all of their eligible auction purchases to GSCC for comparison and settlement.

Benefits

Agency securities are steadily becoming a larger portion of GSCC's processing activity. In 2000, the par value of Agency security transactions processed through GSCC increased 131% over the par value of these transactions in 1999. The inclusion of Freddie Mac securities in GSCC's Auction Takedown processing will therefore further extend the potential benefits of the service, which include:

- Increasing the level of netting and subsequently reducing the number of required securities movements;
- Augmenting a member's liquidity by netting its short position with an offsetting long position in auction purchases and therefore creating a lower margin payment;
- Enhancing GSCC's overall risk management processes by allowing GSCC to margin a netting member on its true overall net settlement position; and
- Assisting in the prompt and accurate clearance and settlement of securities transactions.

Overview of Freddie Mac Auction Takedown Processing

Submission and Comparison

Freddie Mac will be designated as a valid locked-in trade source by GSCC. This will allow Freddie Mac to submit, on auction date, auction purchase data to GSCC on a one-sided or locked-in basis against eligible netting members. As noted previously, In order for netting members to participate in this service, they must sign a "Delivery and Payment Agreement" (copy attached) which will authorize Freddie Mac to submit all of their eligible auction purchases to GSCC for comparison and settlement. ***Please note that Freddie Mac's participant ID number for Auction Takedown processing will be 9708.***

Auction purchases will be processed on a locked-in basis; purchasing members should not submit corresponding details to GSCC to effect a match. Upon receipt of auction purchase data from Freddie Mac, GSCC will automatically generate a valid and binding compared trade for the purchasing member.

Because participant input will not be used to generate comparison output, GSCC will populate the Participant's external reference number field with a GSCC reference number. Participants will then have the ability to replace the GSCC reference numbers with their own external reference numbers using either on-screen or machine-readable input. In the unlikely event that an error is detected, members will have the ability to submit requests to Freddie Mac for cancellation/correction using exiting cancel functionality.

Note that all of the above procedures are the same as those currently employed for U.S. Treasury Auction Takedown processing, whereby the Federal Reserve Banks act as locked-in trade submitters.

Submission on Behalf of Customers

The U.S. Treasury Department does not currently submit to GSCC auction awards on behalf of the customers of GSCC netting members. GSCC will, however, process auction purchases of Freddie Mac securities made by our netting members for both their customers and their proprietary accounts. Freddie

Mac will submit a single locked-in trade to GSCC for each participant representing the total of the participant's proprietary and customer auction awards.

Netting and Settlement

All auction purchases will enter GSCC's netting system on the evening they are submitted and compared. They will be netted with the members' when-issued (W.I.) and secondary market trades in the same security that were submitted and compared throughout the when-issued period (between announcement date and settlement/issue date). On auction date, W.I. trades will be converted to final money based on the actual coupon announced by Freddie Mac. On the morning of settlement date, members' net settlement positions will be established, and settlement will occur through GSCC's existing settlement mechanism. (Note: Freddie Mac securities settlement will be processed through GSCC's established Auction Takedown account at Chase. The delivery instructions for this account are: ABA 021000021 - CHASE NYC/ATGSCC).

Members should note that the Delivery Differential adjustment will apply to settlements of newly issued Freddie Mac securities (just as it does to newly issued U.S. Treasury securities). The Delivery Differential adjustment is a funds-only settlement adjustment made by GSCC in order to determine the settlement value for a receive or deliver obligation. This adjustment will apply in the event that the price of securities awarded at auction is less than the current market value.

Participant Output

There will be no changes to participant output as a result of implementing Freddie Mac Auction Takedown services. All activity executed in conjunction with this service will be reported using GSCC's existing comparison and netting output.

Contact Information

Questions pertaining to the Delivery and Payment Agreement should be addressed to Diane E. Waller at (212) 412-8693.

Any other questions or comments regarding Freddie Mac Auction Takedown Processing should be directed to GSCC Participant Services at (212) 412-8541/8551/8226.