

NEW SERVICE BULLETIN

Fixed Income Clearing Corporation



The Depository Trust &
Clearing Corporation

IMPLEMENTATION OF MODIFIED MRO TO SUPPORT FAIL NETTING AND PHASE 1 COLLATERAL SUBSTITUTION ENHANCEMENTS

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Today, FICC is releasing modified specifications for proprietary machine-readable output (MRO) in conjunction with its planned implementation of two new services by its Government Securities Division (GSD) – Fail Netting and Phase 1 Collateral Substitution Enhancements for repurchase agreements (repos). These MRO specifications, which include Comparison and Netting MRO for both RJE transmission systems and for non-RJE (i.e., all other types of) transmission systems, have been updated to reflect new fields and new values being added to existing fields to support the new services. **Modifications to this MRO are being rolled out to participants in a single implementation (i.e., not in phases), and will therefore affect all participants simultaneously. Successful testing is therefore critical, and participants should plan to complete their testing by year-end. A detailed implementation schedule will be published in June.**

In order to facilitate your coding efforts, only those changes critical to the implementation of Fail Netting and Phase 1 Collateral Substitution Enhancements have been incorporated into the MRO. Below is a brief summary of each project along with the corresponding changes being made to the specifications. To facilitate your ability to identify the changes that have been made to the MRO, all changes have been highlighted in the specifications, which have been posted to FICC's website at www.ficc.com. They are available under the "What's New" tab on the home page, and may also be found in the Government Securities Division/Important Documents section of the internet.

Separate service descriptions for Fail Netting and Phase 1 Collateral Service Enhancements will be issued shortly under separate cover. These will provide full business functionality together with more detailed testing and implementation plans.

FAIL NETTING SERVICE OVERVIEW

GSD's net settlement system is being modified to include all daily outstanding GSD failed settlement obligations in its regular overnight netting process. In doing so, each participant's fail obligations for the current business day will be netted with its other Government securities transactions having the same CUSIP number and the next business day's settlement date. A fail will therefore be outstanding for only one day on GSD's books before entering the net settlement cycle for the next settlement date. Implementation of this service will eliminate clearance obligations by netting outstanding fails versus new activity, thereby lowering clearance costs and reducing participant risk exposure stemming from outstanding fail positions.

MRO will be modified to include new fields and to add new values to existing fields. The following chart summarizes these changes for each of the two record types affected:

MRO CHANGES FOR FAIL NETTING

Record Type/Occurrence	Affected File Number(s)	New Field (F) or Change to Existing Field(C)
<p>17 - Transaction in Net (when the failed obligation is included in the netting process)</p>	<p>GSD Netting MRO and Print Image output format</p> <ul style="list-style-type: none"> • File 158 (Non-RJE) • File 179 (RJE) • File 173 (RJE) 	<p>(C) The Obligation Identifier (OID) of the original obligation will be populated in the existing Transaction ID field so that participants can link the transaction back to the obligation that failed. (Note: This is the same OID displayed on the previous day's Type 18 message and the current day's Type 23 message indicating that the failed obligation has been netted.)</p> <p>(C) A new value of "Fail" will be added to the existing "Status Field" to indicate that a failed obligation is entering the net.</p>
<p>23 – Cleared Obligation (once a failed obligation has been marked-to-market and netted)</p>	<p>GSD Netting MRO and Print Image output format</p> <ul style="list-style-type: none"> • File 158 (Non-RJE) • File 179 (RJE) • File 173 (RJE) 	<p>(F) * A new fail mark field has been added containing the dollar value of the fail mark calculated for the failed obligation (to be paid/collected in Funds-Only Settlement).</p> <p>(F) * A new field has been added indicating if the failed mark is a debit (D) or a credit (C).</p> <p>(C) A new value in the existing "Clearance Method" field containing "N" has been added to indicate that the failed obligation has been netted.</p>

* **Note:** To accommodate the addition of these new record types, the filler field that immediately follows the new fields will be decreased by 19 spaces -- 18 spaces for the fail mark amount and 1 space for the debit/credit indicator.

PHASE 1 COLLATERAL SUBSTITUTION ENHANCEMENTS OVERVIEW

Phase 1 Collateral Substitution Enhancements is part of a multi-staged plan to improve the GSD repo collateral substitution service, with an emphasis on developing and implementing processes to assist participants in handling peak substitution days. Phase 1 will allow a participant (either an inter-dealer broker or repo dealer) to submit a substitution notification to FICC without requiring the simultaneous submission of the replacement collateral details. FICC will then immediately begin processing the substitution based solely on the “partial” substitution notification. That is, FICC will identify the associated reverse repo and create instructions to deliver the original collateral back from the reverse dealer to the repo dealer while automatically substituting a generic CUSIP as the replacement collateral. Upon collateral allocation, the generic CUSIP will be substituted with the specified replacement collateral.

Because the possibility exists that a participant may receive, in reverse order, two sets of messages having the same Transaction ID, MRO will be modified to include a unique identifier to indicate which message was generated first. The following chart summarizes these changes for the record types affected:

MRO CHANGES FOR SUBSTITUTION ENHANCEMENTS

Record Type/Occurrence	Affected File Number(s)	New Field (F) or Change to Existing Field(C)
01 – Comparison Confirmation 03 – Cancellation Confirmation 07 – Trade Input Accepted Confirmation	GSD Comparison MRO and Print Image output <ul style="list-style-type: none"> • File 137 (Non-RJE) • File 192 (RJE) • File 136 (RJE) 	(F) * A unique identifier assigned by the system has been added to allow participants to easily identify the sequence in which messages were generated.

* **Note:** To accommodate the addition of these new record types, the filler field that immediately follows the new fields will be decreased by 6 spaces.

UPCOMING INTERACTIVE MESSAGING CHANGES

It should be noted that FICC is currently in the process of preparing an interactive messaging specification for GSD netting output that will be published by June 30, 2005. Participant testing for the interactive netting specification will be available for testing in Q4 of this year. This specification will also include changes to message flows and data contained on messages to support Fail Netting and Phase 1 Collateral Substitution Enhancements. (Note: The changes being made to interactive messaging specifications, while similar, will not mirror changes being made to MRO). Because implementation of Fail Netting and Phase 1 Collateral Substitution Enhancements will occur before

testing and participant migration to GSD interactive messaging for netting is completed, **all participants will be required to make the coding changes contained in these MRO specifications and to test with FICC prior to service implementation. (As noted above, a detailed implementation schedule will be published in June.)**

As noted in the introduction, all MRO specifications are available on FICC's corporate website. For additional information regarding the changes to the specifications, please contact Fixed Income Client Support at 212-855-7651/7652/7654.