

NEW SERVICE BULLETIN

Fixed Income Clearing Corporation



*The Depository Trust &
Clearing Corporation*

INTERACTIVE MESSAGING SPECIFICATIONS FOR THE GOVERNMENT SECURITIES DIVISION (GSD) NETTING OUTPUT

June 27, 2005

INTRODUCTION

FICC will be publishing specifications for Interactive Messaging for GSD Netting Output on June 30, 2005. Implementation of these specifications will enable participants to receive netting output on an interactive basis using standardized SWIFT message formats. This latest deliverable is part of a multi-phased project spanning several years to provide Interactive Messaging input and output to our participants across FICC products and services.

Interactive Messaging for GSD Comparison to support Real-Time Trade Matching (RTTM) was implemented in December, 2000. Participation in the service has been steadily growing since then, and currently over 96% of trade input is submitted using interactive message formats. Interactive Messaging for GSD Netting Output builds on the messaging capabilities developed to support Comparison Output. This approach provides for further message standardization and should facilitate participants' coding efforts. GSD Interactive Netting Output will provide the following additional benefits:

- The messaging will support new services being introduced in early 2006 – Fail Netting and Phase 1 Collateral Substitution Enhancements. (These new services were briefly summarized in the New Service Bulletin entitled “The Implementation of Modified MRO to Support Fail Netting and Phase 1 Collateral Substitution Enhancements” issued on May 13, 2005 and will be described more fully in separate service descriptions that will be issued closer to each service implementation date.)
- Upon trade matching, GSD will send real-time interactive messages notifying participants that trades are either anticipated to be sent to the netting system (i.e., “Trade Bound to Net” messages) or are comparison-only. These messages will enhance participants' ability to perform real-time risk assessments.
- The addition of more detailed information on clearance instructions (such as those resulting from broker fails and collateral substitutions) will help participants identify the source of those instructions.
- The provision of additional information on maturity and coupon debits or payments (such as whether debits or credits stem from repos or fails) will facilitate participant's reconciliation efforts.

- Interactive Messaging for GSD Netting Output will ultimately replace batch Machine-Readable Output (MRO), so that moving forward, participants will only need to program to one set of interfaces.
- Reasons why trades that were previously marked-to-market have been removed from the net will be provided (such as where repo collateral has matured but not been replaced or trade cancellation).
- The implementation of these specifications paves the way for future service enhancements, such as same-day settlement services and the ability to provide multiple daily funds-only settlements.

Participant testing of the new specifications will begin during the fourth quarter of this year, with production implementation slated for mid-2006.

This bulletin provides a high-level overview of Interactive Messaging for GSD Netting Output. As noted above, specifications providing complete details of the new service will be issued on June 30, 2005 and will be available on FICC's corporate website. (An Important Notice will be issued in conjunction with the publication of the specifications.) It should also be noted that, in early Q3, a document will be published containing message samples to supplement the specifications.

MT509 – TRADE STATUS MESSAGES

Trade Status messages are sent by GSD to participants for each event/status change that takes place on the GSD system regarding a specific trade. MT509 messages are currently generated as part of Interactive Messaging for Comparison Output. Nine new MT509 status messages will be implemented to support Interactive Messaging for Netting Output. These include:

1. Trade Bound to Net - This message will be sent to the submitting party indicating that the trade is anticipated to be net settled by GSD (i.e., has been forwarded to the net settlement system for processing).
2. Trade Comparison Only - This message will be sent to the submitting party indicating that the trade is not netting-eligible.
3. Buy/Sell Trade in Net - This message will be sent to the submitting party indicating that a buy/sell trade has been net settled.
4. Repo Start Leg in Net - This message will be sent to the submitting party indicating that the repo start leg has been net settled.
5. Repo Close Leg in Net - This message will be sent to the submitting party indicating that the repo close leg has been net settled.
6. Forward Trade Pended/No Longer in Net – Repo Collateral Matured – No New Collateral Assigned - This message will be sent to the submitting party when the collateral underlying a repo transaction has matured and no new collateral has been assigned to the repo. The repo is therefore no longer included in GSD's netting process.
7. Forward Trade Pended/No Longer in Net – No Collateral Assigned to GC Trade - This message will be sent to the submitting party when a previously compared and netted forward starting general collateral repo does not have specific collateral assigned to

the trade within the required time frame. The repo is therefore no longer included in GSD's netting process.

8. Forward Trade Pended/No Longer in Net – Trade Cancelled - This message will be sent when a trade that has previously been netted is cancelled. The message will be sent to the submitting participant in addition to the related cancellation messages.
9. Forward Trade Pended/No Longer in Net – GSD Excluded Trade - This status message will be sent to the submitting party when GSD has excluded the trade from the netting process (e.g., where a security has been changed from netting-eligible to not netting-eligible).

MT548 – CLEARANCE INSTRUCTIONS/SETTLEMENT STATUS/PROCESSING ADVICE MESSAGES

Clearance Instruction/Settlement Status/Processing Advice Messages will be sent by GSD to notify participants that:

1. A clearance instruction has been sent to the clearing bank;
2. A previously sent clearance instruction has been cancelled (because of GSD action); and
3. A settlement obligation (associated with a previously sent clearance instruction) has been cleared.

The MT548 is a new message type that does not exist for Interactive Comparison Messaging. Clearance Instruction and Clearance Instruction Cancel Messages will be generated for each of the following types of settlements:

1. Next Day – (Note: This settlement type will be used to denote both next day and same day Clearance Instructions, where applicable.)
2. Fail
3. Held Fail
4. Broker Fail
5. Repo Substitution

Cleared Obligation Messages will be sent by GSD to notify the Participant that an obligation has been cleared. These messages will be generated for each of the following types of Settlements:

1. Paired Off
2. Bought In
3. Held Fail Matured
4. Matured
5. Cleared
6. Netted

MT590 – ADVICE OF CHARGES, INTEREST OR OTHER ADJUSTMENTS

The MT590 Message is a new message type that will be sent by GSD to participants to advise them (on a per-trade, per-obligation basis) of funds that have been debited or credited to their account associated with coupon and/or maturity payments for repos and fails as well as for forward mark associated with forward settling trades. Two general categories have been established:

- Coupon/Maturity Debit or Credit for Outstanding Repo or Fail: GSD will use the MT590 message type to notify participants of coupon and/or maturity (principal) debits or credits associated with outstanding fail obligations or repo transactions. The following four record types will be used:
 1. Repo Coupon Payment
 2. Fail Coupon Payment
 3. Repo Maturity Payment
 4. Fail Maturity Payment
- Per Trade Forward Margin: GSD will use the MT590 message type to notify participants of forward margin (mark-to-market) and forward finance margin on a per trade basis. These two amounts have been aggregated on this message to reflect a single debit or credit amount.

MT950 – STATEMENT MESSAGES

The MT950 Message is a new Statement Message type that will be sent by GSD to participants to convey information currently provided on the Participant Net Summary and the Security Net Summary machine-readable output (MRO) record types. This message is structured like a bank statement. That is, it has a beginning balance, a series of entries, and a closing balance. Each is summarized below:

- Participant Net Summary: GSD will use the MT950 message type to provide participants with their funds-only settlement obligation and associated details. At this point in time, this message will be generated once per day per participant (as funds-only settlement occurs once each day). The following funds-only settlement components will be reflected on the MT950 Participant Net Summary as entries:
 - Next Day TAP
 - Fail Mark
 - Coupon Payment
 - Matured Items
 - Clearance Differences
 - Miscellaneous Adjustments
 - Forward Mark Allocation
 - Forward Mark Allocation Return
 - Collected/Paid
 - Invoice
 - Delivery Differential
 - GCF
 - Margin Interest

- Security Net Summary: GSD will use the MT950 message type to provide participants with the information provided on the following two GSD batch MRO records:
 - Security Net Summary (Record Type 20)
 - Forward Position Summary (Record Type 28)

This message will be sent to participants each day for every security in which the participant has activity in netting-eligible securities. The following components of the Security Net Summary will be reflected as entries of the MT950 message:

- | | |
|-------------------------|---------------------------|
| • Next Day Position | • Delivery Differential |
| • Fail Position | • Forward Position |
| • Fail Mark | • Forward Amount |
| • Coupon Payment | • Forward Mark |
| • Matured Items | • Forward Mark Allocation |
| • Next Day TAP | • GSD Position Offset* |
| • Clearance Differences | • GSD Cash Offset* |
| • Fail Accrued Interest | |

Because all entries on this message type must be reflected as either debits or credits, position information will be converted to debits or credits. Short positions will be reported as debits and long positions will be reported as credits.

* It should also be noted that according to SWIFT processing logic, it is mandatory for Statement Messages to have a Beginning Balance and an Ending Balance, and that the Ending Balance of one Statement must equal the Beginning Balance of the next Statement. GSD will therefore force all Beginning and Ending Balances to be zero for these messages. Position and cash offset amounts will be included as the last two entries of every Security Net Summary, effectively forcing the Ending Balance to zero by offsetting the total cash entries and total position entries made on the Summary.

UPCOMING PUBLICATIONS AND CONTACTS

As noted at the beginning of this Bulletin, FICC will be publishing specifications for Interactive Messaging for GSD Netting Output on June 30, 2005. You will be notified of the publication of these specifications via Important Notice. In addition, FICC will be publishing message samples in early Q3.

GSD's contacts for the Interactive Messaging project are provided below:

Message Specifications

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Additional inquiries regarding this and other GSD services may be directed to the Fixed Income Client Support Group at (212) 855-7651/7652/7654 or go to www.ficc.com.