

NEW SERVICE BULLETIN

Fixed Income Clearing Corporation



*The Depository Trust &
Clearing Corporation*

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PRIME BROKER NETTING – NEW SERVICE ANNOUNCEMENT AND PARTICIPANT MESSAGE SPECIFICATIONS

OVERVIEW

In an effort to support prime brokerage, FICC is enhancing its Real-Time Trade Matching (RTTM) service to provide all dealer netting members who are also prime brokers the flexibility to “match-only” or “match and net” government securities trades both by customer and by product (i.e., cash vs. repo).

Using correspondent clearing functionality already in place, prime brokers will be able to submit trades to RTTM with 5-character symbols that will indicate the client and whether the trade, either cash or repo, should be matched only or matched and netted. In order to do this, prime brokers will need to tell FICC, client-by-client, how they want both cash and repo trades to process. FICC, in turn, will then issue symbols for each client and set them up on the FICC database so that cash and repo trades will either match-only or match and net.

In order to obtain the most efficient netting by commingling proprietary and prime broker activity, prime brokers can submit these trades with symbols in their regular netting accounts. Alternatively, prime brokers that wish to segregate activity may establish separate accounts. All netting-eligible trades will be included in the regular GSD net.

Participants should plan for the enhanced functionality to be in production in Q4 2007.

BACKGROUND

Historically, prime brokers in government securities—such as U.S. Treasuries—that are eligible for netting by FICC’s Government Securities Division, have tended to act as agent for their clients and have not become principal on their clients’ trades with executing brokers. For this reason, prime brokers have not typically submitted trades to FICC for comparison and netting versus executing brokers. However, to obtain the benefit of pre-settlement trade comparison, many prime brokers have indicated to FICC that they would like to submit trades to FICC. Several participants, anticipating the potential netting benefits as outweighing the potential risks, have expressed the desire to submit buy/sell trades for comparison and netting; and repos for comparison-only, in the near term—with the ultimate goal of netting all activity.

FICC is now moving ahead to initiate such a service and this document describes the procedures required for use of the new service

SYMBOL SET UP

Prime brokers will execute a new netting member agreement with a list of clients for whom they intend to submit trades. As part of this agreement, prime brokers will submit a table listing their clients and how each client’s symbol should be set up for cash and repo trades.

If a symbol for a particular client has already been established (for example, by another prime broker), FICC will use that same symbol. The combination of participant/prime broker and symbol will be unique, allowing multiple prime to set up the same clients differently. In this way, executing brokers will always know a particular client by the same symbol regardless of the prime broker on a given trade.

Once symbols are assigned and set up at FICC, it will be the prime broker's responsibility to communicate client symbols to clients, and in turn, to their executing brokers. Executing brokers are strongly encouraged to submit trades versus the prime brokers with the appropriate client symbols.

POPULATING TRADE INPUT MESSAGES

Symbol set up (and settlement logic) is driven by the prime broker for a given trade. Since the same dealers can act as both prime brokers and executing brokers, it is important that trade submissions indicate which trade submitter is acting as "prime broker" and which is acting as "executing broker".

The prime broker will be designated as being the prime by populating the submitter's correspondent/executing broker field with a prime broker client symbol. If the prime broker submits as "buyer," then it will populate the "buyer's correspondent" field with the client symbol. The executing broker will submit as "seller," leaving the "seller's correspondent" field blank and populating the "buyer's correspondent" field with the symbol. It is the set up of that symbol on the FICC database for that particular prime broker (to compare-only or net for cash or repo) that will drive how the trade is processed.

The prime broker's correspondent field is expected to be populated with the 5-character alpha-numeric prime broker client symbol issued to that prime broker by FICC. The counterparty's (or executing broker's) correspondent field is expected to be blank or populated with a 4-character symbol indicating on whose behalf the executing broker is clearing.

Example: Participant 96YY wants to "net" all buy/sell trades for client HA001 and "compare-only" repo trades. As the prime broker for client HA001, 96YY will request FICC to establish these relationships on the FICC database ahead of any trade submission. Participant 96YY will submit a form to FICC indicating how this client should be set up for buy/sells and repos. The symbol "HA001" is issued by FICC.

Participant 96YY is the prime broker for client HA001 who buys US Treasury securities from Executing Broker 95XX. Prime Broker 96YY's trade submission will indicate the following:

- The prime broker indicates its own participant number, 96YY, in the buyer's field.
- The buyer's correspondent field (CORR) is populated with client symbol HA001
- The seller's field is populated with 95XX
- The seller's correspondent field is left BLANK or is populated with a 4-character symbol on whose behalf the seller is clearing.

	<u>Executing Broker 95XX submission</u>		<u>Prime Broker 96YY submission (PB)</u>	
submitter	95R (SELL)	95XX	95R (BUYR)	96YY
submitter CORR	70E (SELL/CORR)	[]	70E (BUYR/CORR)	HA001
contra	95R (BUYR)	96YY	95R (SELL)	95XX
contra CORR	70E (BUYR/CORR)	HA001	70E (SELL/CORR)	[]

Please see the following example party block excerpts from the MT515 and MT518 messages.

MT515 AND MT518 PARTY BLOCK EXECERPTS GENERAL FORMAT

M/O	Tag	Block/Qualifier	Subqualifier/Options	Field Description	Data Field Format	Sample Values
M	:16R:	CONFPTY		Mandatory Repeat Block Start		
M	:95R:	:BUYR/	GSCC/PART	Party = Buyer	34x	:95R::BUYR/GSCC/PART96YY
O	:20C:	:PROC//		Contra Buyer X-ref	16x	
O	:70E:	:DECL/	/GSCC	Narrative/ Additional Reference Numbers/ Information	(10*35x)	
			/CORR	Party = Buyer's executing firm	5c	:70E::DECL/GSCC/CORRHA001
O	:70C:	:PACO/	/GSCC	Participant Contact Narrative	(4*35x)	
			/TDID	Buyer Contra Trader ID	20c	
M	:16S:	CONFPTY		Repeat Block End		
M	:16R:	CONFPTY		Mandatory Repeat Block Start		
M	:95R:	:SELL/	GSCC/PART	Party = Seller	34x	:95R::SELL/GSCC/PART95XX
O	:20C:	:PROC//		Contra Seller X-ref	16x	
O	:70E:	:DECL/	/GSCC	Narrative/ Additional Reference Numbers/ Information	(10*35x)	
			/CORR	Party = Seller's Executing Firm	5c	*
O	:70C:	:PACO/	/GSCC	Participant Contact Narrative	(4*35x)	
			/TDID	Seller Contra Trader ID	20c	
M	:16S:	CONFPTY		Repeat Block End		
M	:36B:	:CONF/	/FAMT/	Quantity as Face Amount (Par)	15d	
M	:35B:	/US/		Security Identifier - CUSIP	4 * 35x	
O	:70E:	:TPRO/	/GSCC	Trade Instruction Processing Narrative	(10*35x)	
			/DKRS	DK Reason (see Appendix E)	4!c	
M	:16S:	CONFDET		Block End		
M	:16R:	SETDET		Optional Block Start		

* If there is no value in an optional field, the field will not display.

M	:22F:	:SETR/	/RPTO	Indicator = Reporting Purposes	4!c	
M	:17B:	:STAN/	/N	Standing Instruction Override = No	1!a	
M	:16R:	AMT		Optional Block Start		
M	:19A:	:LOCO/	/USD	Commission Amount	15d	
M	:16S:	AMT		Block End		
M	:16S:	SETDET		Block End		

Example: Similarly, client HA001 can also sell US Treasuries to executing broker 95XX with 96YY acting as the client's prime broker. The prime broker's MT515 message would indicate the following:

MT515 AND MT518 PARTY BLOCK EXECERPTS GENERAL FORMAT

M/O	Tag	Block/Qualifier	Subqualifier/Options	Field Description	Data Field Format	Sample Values
M	:16R:	CONFPRTY		Mandatory Repeat Block Start		
M	:95R:	:BUYR/	GSCC/PART	Party = Buyer	34x	:95R::BUYR/GSCC/PART95XX
O	:20C:	:PROC//		Contra Buyer X-ref	16x	
O	:70E:	:DECL/	/GSCC	Narrative/ Additional Reference Numbers/ Information	(10*35x)	
			/CORR	Party = Buyer's executing firm	5c	*
O	:70C:	:PACO/	/GSCC	Participant Contact Narrative	(4*35x)	
			/TDID	Buyer Contra Trader ID	20c	
M	:16S:	CONFPRTY		Repeat Block End		
M	:16R:	CONFPRTY		Mandatory Repeat Block Start		
M	:95R:	:SELL/	GSCC/PART	Party = Seller	34x	:95R::SELL/GSCC/PART96YY
O	:20C:	:PROC//		Contra Seller X-ref	16x	
O	:70E:	:DECL/	/GSCC	Narrative/ Additional Reference Numbers/ Information	(10*35x)	
			/CORR	Party = Seller's Executing Firm	5c	:70E::DECL//GSCC/CORRHA001
O	:70C:	:PACO/	/GSCC	Participant Contact Narrative	(4*35x)	
			/TDID	Seller Contra Trader ID	20c	
M	:16S:	CONFPRTY		Repeat Block End		
M	:36B:	:CONF/	/FAMT/	Quantity as Face Amount (Par)	15d	

* If there is no value in an optional field, the field will not display.

M/O	Tag	Block/ Qualifier	Subqualifier/ Options	Field Description	Data Field Format	Sample Values
M	:35B:	/US/		Security Identifier - CUSIP	4 * 35x	
O	:70E:	:TPRO/	/GSCC	Trade Instruction Processing Narrative	(10*35x)	
			/DKRS	DK Reason (see Appendix E)	4!c	
M	:16S:	CONFDET		Block End		
M	:16R:	SETDET		Optional Block Start		
M	:22F:	:SETR/	/RPTO	Indicator = Reporting Purposes	4!c	
M	:17B:	:STAN/	/N	Standing Instruction Override = No	1!a	
M	:16R:	AMT		Optional Block Start		
M	:19A:	:LOCO/	/USD	Commission Amount	15d	
M	:16S:	AMT		Block End		
M	:16S:	SETDET		Block End		

TRADE MATCHING

Matching logic for these trades will be the same as for regular trades submitted to GSD. Today, match logic seeks to match trades on symbol. If no matching symbol is found intra-day, the symbol is then ignored as a matching field. Prime broker client symbols will not be required for exact match. However, executing brokers will be encouraged to submit symbols so that these symbols appear on advisories to prime brokers.

Based on participant feedback, FICC is building an “exact-match” capability and the ability to “turn it on” should it be desired at a future date. Implementation of an exact-match would require that all executing brokers submit with symbols. If some executing brokers can not or will not submit with symbols, then prime broker trades submitted would remain unmatched.

Current end-of-day match logic (phased comparison) will remain. Prime broker participants, however, can request contra-flip, in which trades can be automatically flipped among a single participant’s linked accounts to facilitate matching, to be turned off.

REPORTING

Prime broker participants that choose to establish a segregated GSD participant account for their prime activity will receive the information for this account on their current GSD activity reports. Prime brokers that choose to commingle their prime broker activity with their regular netting account will have, in addition to their current GSD activity reports, another set of reports that displays data on just their prime broker universe of trades.

TESTING

Prior to using the service, all prime brokers will need to test their ability to submit a 5-character symbol to FICC. Please contact your relationship manager for questions about testing.

FEES

All current trade recording, netting and settlement fees apply. For participants using a separate account for this activity, FICC’s secondary account fee will be applied. There are no new or additional fees for this service.

REGULATORY APPROVAL

FICC filed a rule change with the Securities and Exchange Commission (the “SEC”) to amend the rules of the Government Securities Division (the “GSD”) in support of technical changes necessary for the implementation of the new service. This rule change was filed this month (August 2007) seeking immediate effectiveness.

For more information, contact your relationship manager or Lisa Meiselman at 212-855-1207 or lmeiselman@dtcc.com.