

## ***MBS CCP Pool Netting: Frequently Asked Questions***

### **Changes to Existing Processes**

Q: What changes will there be to the existing TBA RTTM process?

A: Input for trade matching will remain the same. Output will remain largely the same, but will be modified to reflect aggregated TBA obligations. This is because FICC will aggregate all of the multiple \$1MM obligations having the same trade details into an aggregated TBA obligation (which will initially be capped at \$500 MM).

Q: What changes will be made to EPN?

A: No changes will be made to EPN allocation activity. A pool substitution capability will be provided for post Pool Netting obligations.

### **Pool Submission**

Q: If a member allocates 20MM to a TBA obligation in EPN, should the member submit a single \$20MM Pool Instruct to FICC, or 20 Pool Instructs for \$1MM each?

A: Members are required to submit Pool Instructs to Pool Netting for the value in which they were allocated (up to the FedWire delivery limit of \$50MM). This will enable FICC to generate the largest settlement obligation possible when Pool Instructs are netted and settlement obligations are generated for the associated net positions.

Q: Is Pool Netting only available to Clearing Members?

A: It is only open to Clearing Dealer Members. It is not available to Broker or Option-only Clearing members. An EPN-Only Member is not eligible for Pool Netting services.

### **Pool Comparison**

Q: Will a Pool Matching compliance program be implemented in conjunction with the Pool Netting service.

A: Not initially. FICC will monitor firm performance and behavior from launch date forward. This will include timeliness of Pool Instruct submission, matching rates, CDR usage, etc. FICC will not introduce additional fees or penalties until after a defined “burn in” period.

## **TBA Position Counter**

Q: How does the TBA position counter work? If an “over-allocated” Pool Instruct is submitted and compared by my counterparty, could a subsequent, properly allocated Pool Instruct be rejected for exceeding the TBA position counter?

A: The TBA position counter is designed to ensure that the total value of compared Pool Instructs submitted versus a TBA position do not exceed the value of that position. As such, FICC will reject any Pool Instructs for which there is insufficient associated TBA position. That is, if member has a TBA position for \$2MM, the Pool Instructs targeting that position may not exceed \$2MM (within variance). For example, if the member submitted a Pool Instruct for \$1,000,225 and that Pool Instruct was compared, the TBA position counter would be decremented accordingly. If the member subsequently submitted a Pool Instruct for \$1,000,100, the submission would be rejected for exceeding the available TBA position.

Participants may monitor their available position counter via the RTTM Web.

## **Pool Substitutions Prior to Pool Netting**

Q: For substitutions of a compared Pool Instruct performed prior to Pool Netting, must both buyer and seller submit matching Cancels in order to cancel the pool being substituted prior to submitting a new Pool Instructs for bilateral matching?

A: No. Sellers have the ability to unilaterally cancel compared Pool Instructs. This feature is being implemented by FICC in recognition of the seller’s unilateral right to cancel and/or substitute allocated pools at any time prior to settlement without the approval of the buyer.

Based on initial feedback, FICC is also looking at the feasibility of providing buyers with unilateral delete capabilities for matched Pool Instructs in the event that the seller initiates a cancel/correct via EPN but does not submit the cancel portion into Pool Netting on a timely basis.

## **Customer Delivery Requests**

Q: I’ve heard CDRs can result in the generation of both a net long and a net short position in a single pool. Can you provide an example?

A: If you place a CDR on only some of the Pool Instructs you submit for a given pool, and that pool is deemed netting-eligible, this may result in two obligations being generated – one a net long obligation and one a net short obligation.

For example, assume a member submits four Pool Instructs into Pool Netting: 1) a Sell for 10MM; 2) a Sell for 50MM; 3) a Buy for 10 MM; and 4) a Buy for 30MM. If the member then placed a CDR on the 10MM Sell and the 10MM Buy, the member would end up with the following two obligations: 1) a Sell for 30MM (10MM from the CDR plus 20MM from single net position netting); and 2) a Buy for 10MM (representing the 10MM Buy CDR).

### **Pool Netting**

Q: I've read in the service description that FICC will employ two types of Pool Netting: Single Net Position Netting and Pair-Off Netting. Do I need to specify the type of netting I would like to be employed on my Pool Instruct input?

A: No. While there are two different algorithms used by Pool Netting to increase the amount of activity included in the net, the netting method employed by FICC will be "transparent" to the user. Members will simply be notified that a Pool Instruct went into the net or did not go into the net (via interactive messaging). They will also receive settlement information on end-of-day machine-readable output (MRO) advising members of their deliver/receive obligations versus FICC as CCP.

Q: Is Pool Netting sensitive to both Contractual Settlement Date (CSD) and Delivery Date (DD)?

A: Yes. In order to be included in Pool Netting, Pool Instructs must have the same CSD and DD. This means that Pool Instructs submitted in satisfaction of skip day trades may be netted with Pool Instructs submitted in satisfaction of "regular" trades as long as the CSD and the DD are the same.

Q: Why would a pool number be marked as Netting Ineligible?

A: This would only occur under rare circumstances. For example, if the issuer indicates that there is something "irregular" about a particular pool number, FICC could mark it as Netting Ineligible to preclude Pool Instructs submitted in that pool number from being included in Pool Netting.

Q: When FICC does a pair-off, is there any associated deliver order (DO)?

A: No. Money adjustments are established and settled as part of Funds-Only settlement for the account that 'paired off.' The long and short sides that are left with a position will have DO's versus FICC at the pool net price and a TAP payment.

### **Delivery Obligation Generation and Pool Settlement**

Q: How will FICC determine the size of the obligations it creates? Will I have to “build a box” to make delivery to FICC?

A: For sell Pool Instructs greater than 1 good delivery million (GDM), FICC will attempt to create obligations equal to the size of the submitted Pool Instructs. If this can not be done, FICC will always create obligations less than the amount of the submitted Pool Instructs, never more. For sell Pool Instructs less than or equal to 1 GDM, FICC will create obligations in 1MM and 2MM amounts (with a tail for the remainder, where applicable). In this case, the member may have to build a box, but it would be capped at \$2MM. These obligation sizes are designed to strike a balance between maximizing settlement efficiencies and minimizing potential fail costs.

Q: How do I make delivery if I don't clear at one of FICC's settlement banks (Bank of New York or JP Morgan Chase)?

A: You can elect to either let FICC's output drive your deliveries or you can deliver to FICC's default bank and we will reposition the delivery as required.

### **Pool Substitutions on Net Pool Delivery Obligations**

Q: If the Delivery Date (DD) is wrong on the EPN substitution message, will FICC process the message based on the T2 timestamp or will FICC reject the message.

A: FICC will reject the message and send a DK back to the submitter via EPN. Members must submit substitutions with the correct DD.