

Fixed Income Clearing Corporation:

MBS Novation - Interactive Messaging Changes Overview

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Version Control Page

Date	Version #	Name	Description of Change
04/28/2015	0.1 DRAFT	C. Swords	Initial version
07/15/2015	1.0	C. Swords	<p>Made following changes:</p> <ul style="list-style-type: none"> Refer to FICC accounts as FTBA, FSPT and FSTI, rather than FICT, FICA and FICB. No longer automatically purge uncomparing trades after system-configured number of days. Add details on how commission reflected in MT518 Trade Novated message (separate commission from price) Add details on split/splice matching and introduction of “broker match identifier” (BASK) to assist in linking dealer trades against a broker. Provide DNA matching rules, including trade date and original trade par. Provide details on “pool reference” number (EPNX) available on allocation message, to flow through to associated Pool Instruct Advisories. Provide details on Trade Date validations/usage on Pool Instructs.
10/15/2015	1.01	C. Swords	<p>Made following changes:</p> <ul style="list-style-type: none"> Trade Date missing from table of DNA match criteria Expanded Pool Net selection criteria is “delivery date >= next business day” (previously was noted as delivery date > next business day).
2/11/2016	1.02	C. Swords	<p>Made following changes:</p> <ul style="list-style-type: none"> Section 1.2.2 Trade Comparison, highlight fact that RTTM-assigned Trade Id is only returned on MT509 Match messages when exact matched; split/splice does not return this id. However, the Trade Id is always returned in MT518 Trade Novated messages. Section 1.3 RTTM Action for Uncomparing Trades, remove comment about new TBA trade DK codes associated with STIP trades; existing codes will be leveraged. Section 1.4 RTTM Action for Comparing Trades, highlight fact that for MT515 Cancel post-novation, RTTM will accept contra as either FICC novation account or original broker. This is done to minimize impact to member’s systems. Section 2 Trade Novation, clarify that if GUP tag is submitted on novation-eligible trade in MT515, this tag will be ignored (rather than reject entire message) Section 4 Do Not Allocate, add 1) support to target specific trades via RTTM-defined Trade Id, and remove optional DNA term “original trade par”; 2) introduce new message

Date	Version #	Name	Description of Change
			<p>MT518 “DNA Assigned”; 3) indicate that DNA price is to 9 digits; 4) clarify that cutoff for DNA submission is when receive MT599 SDNA message at approximately 4:30pm on 48 and 24hr day.</p> <ul style="list-style-type: none"> Section 6.1 Pool Submission via RTTM, add note that matching of pool instruct is performed on 1st 6 digits precision only; when matched, member’s PID is updated to reflect full price and receives MT518 “Pool Instruct Matched with Modifications” to reflect this. 6.2 RTTM Actions on Uncompared Pool Instructs, highlight fact that “force-compare” message reflects both Pool Instruct creation and match; a separate MT509 will not be generated. Section 10 Administrative Messages, corrected typographical error, the start/end of Expanded Pool Net code is SEPN and EEPN, respectively.
3/7/2016	1.03	C. Swords	<p>Made following changes:</p> <ul style="list-style-type: none"> Corrected Novation Message tag from 22F::PROC/DTCY/NOVT to 22F::PROC/GSCC/NOVT. Updated footnotes showing syntax of TRID and EPNX in Special Instruction field of ON to reflect that value is enclosed by “=”. For example, reference number of “12345” is represented as “EPNX=12345=”. One Screen Input DNA Replay message will support create and cancel; DNA Create reflected as processing code SCDN + message function NEWM; DNA Cancel reflected as processing code SCDN + message function CANC.
3/29/2016	1.04	C. Swords	<p>Made following changes:</p> <ul style="list-style-type: none"> Corrected typographical error where mentioned expanded pool net runs on CSD, but it runs on CSD-1 9 DNA Settlement / TBA Reprice - Add Variance TAP 4 Do Not Allocate – indicate that when a DNA is submitted in terms only mode, the full trade price to 9 decimal places must be provided. If submitted in trade id mode, the trade price must still be provided but FICC will only validate the 1st 6 decimal places
9/21/2016	1.05	C. Swords	<p>Made following changes:</p> <ul style="list-style-type: none"> Corrected typographical error where mentioned (page 6) that RTTM-assigned Trade Id used for STIP trade allocation was returned in MT518 Novation message via tag 20C::COMM, when it should be tag 20C::LIST.
5/5/2017	1.06	C. Swords	<p>Made following changes:</p> <ul style="list-style-type: none"> Section 8 Pool Conversion: provide more details on PID to POID pool conversion for STIP trades.
7/14/2017	1.07	C. Swords	<p>Made following changes:</p>

Date	Version #	Name	Description of Change
			<ul style="list-style-type: none">• Section 6.2 RTTM Actions on Uncompared Pool Instructs: add footnote to indicate that force compare occurs at various times of day.• Section 7 Pool Netting: add footnote indicating examples of non-netting-eligible pool allocations, including SIFMA over-variance exception and late turnaround.• Section 4 Do Not Allocate (DNA): update verbiage to indicate that DNA Assigned message means DNA has been assigned to individual trades; previously, it indicated that this message returned individual Trade Id's of associated trades but this only occurs for DNA submitted via Trade Id (not terms).

Overview of MBS Novation

The mortgage-backed securities (MBS) Novation project is a conversion to operational novation and a simplification of the netting and settlement process that will enable MBSD to retire inefficient processing such as NOS. It will expand and extend the services rolled out with Pool Netting, which introduced the comparison, trade guarantee, netting and CCP settlement of pool allocations submitted in satisfaction of members' outstanding to be announced (TBA) obligations. MBSD will continue to require bilateral matching and to support dealer-to-dealer and broker-to-dealer trade submission.

Changes to SWIFT-Based Interactive Messaging

FICC has updated the existing messaging specifications for trade submission to RTTM[®] to support the MBS Novation initiative. All messaging input and output was analyzed, and changes limited to minimize member-facing changes. The following document will walk through the new and updated business processes introduced with MBS Novation and the resulting impact to interactive messaging. **Please note that this document only highlights the key changes to messaging and is not intended to be an exhaustive source of all changes.**

The following symbols will be used throughout the document:



Indicates messages that have been eliminated



Indicates a change to existing messaging



Identifies corollary information regarding messaging



Indicates a new service, message and/or tag/sub-qualifier.

1 Trade Comparison

Mortgage-backed securities are not traded through a formal exchange but rather through the over-the-counter market. As such, upon trade execution MBS members submit all mandatory trade details, in the form of Trade Instructs, to MBS for comparison of the trade details submitted against them by their counterparties. The trade comparison service is mandatory for all MBS Clearing Members.

The core of MBS's trade comparison service is its Real Time Trade Matching® ("RTTM®") system. This is an interactive system that enables members to automate the submission and matching of their trades throughout the trading day.

Using SWIFT-based message formats or web entry, RTTM® provides a common platform for collecting and matching trade data, enabling the parties to a trade to monitor and manage the status of their trades in real time. The result is a confirmation for trade executions that is legal and binding.

1.1 Trade Submission via RTTM®

Members will be able to submit trade input to the RTTM® system via three input media:

1. SWIFT-based Interactive Messaging (all trade types);
2. Multi-batch files in SWIFT-based message format (all trade types);
3. RTTM® Web Front End (all trade types); or
4. Proprietary Batch Files (SBOD, TFTD/TBA and OPTN only)

1.1.1 Trade Types

The following types of trades will be eligible for MBS's trade comparison service:

Settlement Balance Order Destined ("SBOD")

TBA Trades submitted to MBS for TBA Netting will be submitted as SBO Destined ("SBOD") and scheduled for net according to the SIFMA calendar. SBOD trades must be submitted in eligible TBA securities and may be submitted in round million or odd-lot values. As a result of the net, one or more SBON obligations will be generated for each member within each TBA CUSIP; these SBON will be versus FICC's TBA novation account (referred to as FTBA) at system price. The cash difference between the SBOD trade price and system price will be calculated and result in a "TBA"¹ cash obligation, payable on associated SIFMA CSD. Members must allocate pools to these SBON trades via EPN during the allocation process, unless excluded from allocation through Do Not Allocate (pair-off) request submitted via RTTM. If allocated, these pools will subsequently be eligible for Pool Netting.



The par value (36B::CONF//FAMT) on SBOD submitted via MT515, and reported in MT518, may now be odd-lot or round million.

Trade-for-Trade ("TFTD")

Not all trades submitted to RTTM® for comparison are netting destined. Members can also submit

¹ This new cash obligation type replaces the existing "SBD" cash event.

trades as Trade-for-Trade (“TFTD”), which are trades precluded from TBA Netting. MBSD will have three categories of TFTDs:

1. **TFTD TBA:** TBA trades may be excluded from the TBA Net for various reasons, including the trade is submitted post-TBA netting, or both members agree to not submit the trade as netting destined. Similar to SBONs, members must allocate pools to TFTD TBAs via EPN during the allocation process, and these pools will subsequently be eligible for Pool Netting.
2. **TFTD with Stipulations (“STIP”):** STIP trades are trades in which there is a stipulation on one or more of the trade terms. Although members submit trades into RTTM® indicating that they are STIP, the actual stipulated terms are unknown to FICC. STIPs can be submitted in round millions and odd lots.



TFTD STIP (/TDSVSTIP) is a new trade service type that is specified in the MT515 Trade Instruction Processing Narrative (70E::TPRO). This information will also be reported in the MT518.

Members must allocate pools to STIPs via EPN during the allocation process; however, the pools are not Pool Netting eligible. As allocations to STIP are not fungible, the specific STIP trade to target must be identified on the ON using the RTTM-assigned Trade Id.



The RTTM-assigned Trade Id used to identify the STIP trade to target for allocation is always returned to member via RTTM® Assigned Reference (20C::LIST) in the MT518 Novation message.

3. **TFTD Specified Pool Trade (“SPT”):** A SPT is a trade in which one of the agreed to terms is a specific pool and original face. The parties to the trade have a legal obligation to deliver that specified pool in order to satisfy the terms of the trade. Members may identify the pool using a variety of means; 1) pool number and associated TBA CUSIP, 2) pool CUSIP or 3) pool number and issuer.



In addition to the pool number, the members may now identify pool CUSIP (/CUSP) and/or pool issuer (/ISSE) under the pool identification (13B::POOL) tag in the MT515.



When a pool is uniquely identified via these new sub-qualifiers, the associated TBA CUSIP (35B::/US) in the MT515 is no longer necessary and may be set to “NONCUSIP”.

Regardless of which method a member utilizes on submission to identify a pool, the system will translate this to pool number and associated TBA CUSIP and reflect this on subsequent output. The pool identification methods used by members do not have to be the same for trade comparison.



The identification of pool via MT518 will include pool number and TBA CUSIP, as done today. The pool CUSIP and issuer will not be reflected.

SPT trades are not allocated via EPN, since the pool number and original face is already known at the time of submission. On the evening before CSD, SPT trades are “converted” meaning that the SPT trade is automatically settled (via system-generated NOS) and corresponding receive and delivery pool obligations² generated for settlement at the Clearing Banks on the next business day. Note, if a SPT is bilaterally matched in RTTM® on CSD or later (e.g. SPT is “as-of”), this conversion will occur immediately and in real-time, ready for settlement at the Clearing Banks. See *Section 8: Pool Conversion* for details on this conversion process.

TBA Options

RTTM® compares put and call option trades submitted by members. On the evening of expiration date, if the members have not already canceled the option, RTTM® will purge the option trade regardless of whether it is in or out of the money.



Options will no longer be eligible for Broker submission via any method, including MT515. As such, sub-qualifier (/TDSVOPTN) in the Trade Instruction Processing Narrative (70E::TPRO) can no longer be used for broker trade instructs.

Members do not allocate pools to option trades, and FICC will not novate option trades. FICC will not systemically generate a TBA trade for an in-the-money option, nor calculate or process any money movements associated with the execution or expiration of an option trade.

1.1.2 Minimum / Multiple Par Sizes

There are different minimum and multiple rules for the various trade types. The table below lists the minimum and multiple amounts for each trade type. The maximum trade size for RTTM® submission is unchanged from today, set at a dollar less than 10 billion, i.e. \$9,999,999,999.

Trade Type	Minimum Par	Multiple Par	Maximum Par
SBOD	1000	1.00	9,999,999,999
TFTD TBA	1000	1.00	9,999,999,999
TFTD SPT	1,000 / 25K original face ³	1.00	9,999,999,999
TFTD STIP	1000	1.00	9,999,999,999
OPTN	1,000,000	1,000,000	9,999,000,000



For all TFTD trades, the minimum is now 1,000 and multiple of 1.00, as specified in the par value (36B::CONF//FAMT) in MT515 “Trade Instructs” and corresponding MT518 advisories.

1.2 Dealer/Dealer vs. Broker/Dealer Trade Comparison

Regardless of the legal entity type of the MBS Member, from a system perspective, MBS supports two types of trade submission and comparison:

² These are also known as “Pool Obligations” (POID).

³ Minimum differs based on product.

- **Dealer vs. Dealer:** These are trades executed directly between two Dealers, as principal.
- **Broker vs. Dealer:** These are trades executed between two Dealers (buyer and seller), as principal, facilitated by a Broker, acting as agent.

1.2.1 Trade Instructs

All members submit trade details in the form of “Trade Instructs.” RTTM® validates all trade submissions upon entry, regardless of the method of input. Certain fields are required on Trade Instructs; if any mandatory fields are missing, RTTM® will reject the trade.



The reject codes/reasons reported in the MT509 “Trade Instruct Rejected” message (:25D::IPRC//REJT) have been updated in support of novation.

When a dealer trade instruct is submitted successfully, RTTM® immediately assigns the trade a unique Transaction ID number. Broker trades, on the other hand, must be “balanced”, meaning that trade instructs for both sides of the trade have been submitted. Once a broker trade is balanced, RTTM® will assign the broker trade a Transaction ID. These Transaction IDs are used by members to identify their unmatched trades.

As soon as a dealer trade, or balanced broker trade, is created and assigned a Transaction ID, an “advice” is generated for the counterparty to notify them that activity has been submitted against them.

1.2.2 Trade Comparison

When a dealer trade is submitted, RTTM® will compare the terms of the trade against previously submit counterparty trades and if they match, the Transaction ID will be replaced by a unique RTTM-assigned Trade ID. The dealer trade is considered “matched” (also referred to as “compared”). This occurs regardless of whether the counterparty on the dealer trade is a dealer or broker.



When a trade is matched, FICC will send the Dealer an MT509 “Trade Matched” message (:25D::MTCH//MACH). This MT509 may contain the MBSD assigned Trade ID (20C::COMM), indicating the new identifier for the compared trade, depending on match “mode” (see next section) on Comparison Methods.

Because broker trades are two-sided, they go through a two phase match process; when one side of a broker trade matches a dealer trade, the broker trade is “partially matched” (PMAT); when the other side of the broker trade matches, the broker trade is now “fully matched” (FMAT). When these match event occur, the broker trade Transaction ID will be replaced by a unique RTTM-assigned Trade ID.



When a broker trade is partially matched, FICC will send the Broker an MT509 “Trade PMAT – Short” (:25D::MTCH/DTCY/MAPS) or MT509 “Trade PMAT – Long” (:25D::MTCH/DTCY/MAPL), depending on if the broker sell or buy side matched. When the unmatched Dealer of a PMAT trade matches the Broker, the Broker will receive an MT509 “Trade Fully Matched” message (:25D::MTCH/DTCY/MAFM). These MT509 will contain the RTTM® assigned Match Trade ID (20C::COMM), indicating the new identifier for the compared trade.

1.2.3 Comparison (Match) Method

MBSD will first attempt to compare each trade based on all trade terms matching exactly; this involves a single buy and sell trade.



When a trade is matched via exact match, the MT509 “Trade Matched” message will contain the RTTM-assigned identifier in the Trade ID (20C::COMM) field .

If an exact match is not found and the trade is a brokered trade, MBSD will then apply the Net Position Match logic which involves multiple trades and requires the total net par of a set of trades with the same terms to match. In order to achieve Net Position Match, a process called “split / splice” is used. Once RTTM® identifies a set of trades that match on net position, it will “split” or “splice” the Dealer’s trades to match the Broker’s trades. Specifically, MBSD will cancel the Dealer trades, and create new Dealer trades that exactly match the Broker’s submissions⁴.



Currently, when split/splice matching occurs, FICC generates MT509 “Trade Matched” messages for each dealer trade matched/canceled, and MT518 “Comparison Request Cancel (due to match)” for the advisories the new dealer trades matched against. The generation of the new dealer trades does not get reported via SWIFT. (Note, however, the new dealer trades created are subject to novation and as such, will result in MT518 “Trade Novated” message once novation occurs – see Section 2 for details).

To assist members in linking trades involved in a match versus a broker, whether subject to split/splice or exact match, FICC will now generate a “broker match identifier” for each match event versus a broker, and return this common identifier in the match, advisory cancel and novation messages above (using tag 20C::BASK).



When a trade is matched via split/splice match , the MT509 “Trade Matched” message will not contain the RTTM-assigned Trade Id; however, this identifier will be returned in the MT518 “Trade Novated” message (:22F::PROC/GSCC/NOVT).

Not all trades are eligible for Net Position Match.

- Net Position Match is only applied to Dealer vs. Broker trades
- Net Position Match is only applied to SBOD and TFTD/TBA trades
- STIP and SPT trades are not eligible for Net Position Match (a.k.a. “split/splice” processing).



STIP trades are a new type of trade introduced in Novation and may be matched via exact match only on a 1-1 basis.

1.2.4 Commission Processing

Brokers may charge the Dealers with whom they trade a commission. The commission information may be included by the submitting Broker and Dealer upon trade submission to RTTM®. MBSD collects all commissions on a monthly basis from the Dealers and passes the money to the Brokers. Commission is

⁴ For original Dealer trades that are “split” into multiple smaller trades, the replacement trades will have the same XREF as the original trade; for trades that are “spliced” into a single trade, the XREF will be blank.

paid / collected the month following the CSD of the trade on Class B settlement date for matched trades.

MBSD processes rate-based commission only, in which the Broker always submits the price *exclusive of commission*, whereas Dealers can submit the trade price either inclusive *or* exclusive of commission.



Flat commission will be eliminated with MBS Novation. As such, flat charges indicator (22F::CATB//FLAT) is no longer available.

1.3 RTTM® Action for Uncompared Trades

A trade will remain uncompared if either party to the trade has not submitted their side of the trade to RTTM® or if the terms of the submitted trade do not match the terms of the counterparty's trade submission.

After a Trade Instruct has been submitted to RTTM®, but before it has been bilaterally compared, members can Affirm, DK, Cancel or Modify the Trade Instruct.

- **Affirms (Dealers Only):** Affirms are used by Dealers to 'agree' to a counterparty's Advice resulting in a compared trade. An Advice is a notification that an activity has been submitted against a member by its counterparty.
- **DKs (Brokers and Dealers):** A DK may be submitted by either the buyer or the seller to inform its counterparty via a DK Advice that it "does not know" (or that the member disagrees with the terms of) the Trade Instruct being submitted. This will result in the Trade Instruct being assigned a "DK" state in the system. Counterparties must take action to resolve DK states by reviewing the terms of a submitted Trade Instruct and, if necessary, canceling and resubmitting the Trade Instruct. Once a Trade Instruct is compared, a DK cannot be submitted against it.

Once the DK has passed all validations, the targeted Trade Instruct will be placed in a DK state but will remain eligible for comparison; DKs are informational only. If a member has submitted the DK in error, it may submit a new Trade Instruct for bilateral matching against the counterparty's Trade Instruct that is in the DK state, or it can affirm the Advice via RTTM® Web.

- **Cancels (of Uncompareds):** This action is used by members to delete their uncompared trades. Uncompared trades can be canceled unilaterally by the submitting member.
- **Modify (Dealer):** Dealers cannot modify uncompared trades. They must cancel the Trade Instruct and then resubmit.
- **Modify (Broker):** For PMAT trades, Brokers can use the "modify" action to update an XREF and / or to correct the uncompared side of a PMAT trade when the correction required is due to an erroneous counterparty or commission.



Currently if the Broker modifies the XREF of a PMAT trade, the DK status will be removed

from the trade. With MBS Novation, the DK status will only be removed if trade terms are modified on a PMAT trade (i.e. counterparty or commission).

1.4 RTTM® Actions for Compared Trades

A trade will become compared if both parties to the trade have submitted their side of the trade to RTTM® and if the terms of the submitted trade required for comparison match the terms of the counterparty's trade submission.

There are limited RTTM® actions for compared trades. A compared (or matched) Trade Instruct may be either canceled or modified, as described below.



Once a dealer receives an MT518 "Trade Novated" message (:22F::PROC/GSCC/NOVT), any action targeting the novated trade should contain the same trade details as reflected in the message, i.e. the counterparty must be designated as the appropriate FICC novation account, not the original counterparty on the trade.

The exception to this is cancel of a novated trade, where RTTM will not reject a Cancel record targeting a brokered trade with an incorrect contraparty due to novation. In other words, Dealers can either submit the original Broker or the FICC novation account on the MT515 Cancel submitted to RTTM, as appropriate for their systems.

- **Modify (Brokers and Dealers):** Brokers and Dealers can modify a fully matched trade to update the XREF, but for any other modifications, the trade must be bilaterally canceled and resubmitted.
- **Cancels:** Since MBS requires bilateral matching, where both parties to the trade must agree to the terms of the trade for it to be considered valid, in order for a compared trade to be canceled, the same parties to the trade must also agree to the cancel. A trade will remain compared until the cancel is matched.

Once a trade is novated, the dealer must submit the cancel against the appropriate FICC novation account; the cancel will be forwarded to the original counterparty. Only if both dealers agree to the cancel will the trades be canceled.

Trades can only be canceled during certain periods in a trade's lifecycle, as indicated below.

Trade Type	Period Cancel Allowed
SBOD	Must be canceled prior to onset of associated TBA net.
TFTD/TBA	Unallocated TFTD/TBA can be canceled prior to 48hr day only.
TFTD/STIP	Unallocated TFTD/STIP can be canceled prior to CSD only.
TFTD/SPT	TFTD/SPT can be canceled prior to CSD only ⁵ .

⁵ The SPT trades can be canceled up to 4:30pm, when the Pool Conversion process is run. See Section 8:Pool Conversion for details.

OPTN	OPTN can be canceled until end-of-day before expiration date, at which time RTTM® will automatically purge.
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The cancel rules governing TFTD/TBA and SPT trades have changed in support of the Novation service. The reject codes/reasons reported in the MT509 “Cancel Rejected” message (25D::IPRC//REJT) have been updated appropriately.

- **Uncancels:** The member submitting a Cancel Request can change its mind and “uncancel” a trade, as long as the counterparty has not already compared the “Cancel Request”. If a member submits an “Uncancel,” the trade will revert to the (previous) compared state.
- **DKs of Cancels:** A “DK of Cancel Request” may be submitted by either the buyer or the seller to inform its counterparty via a “DK of Cancel Request Advice” that it “does not know” the Cancel Request being submitted. This will result in the Cancel Request being assigned a “DK” state in the system. The DK will only be removed if the trade is bilaterally canceled or if the Cancel is removed (via an Uncancel action).

2 Trade Novation

For Dealer vs. Dealer trades, when both parties to a trade have submitted their side of the trade to FICC, and all fields required for comparison match exactly, the trade will achieve a matched (compared) state. FICC will novate the Dealers’ trade upon comparison and become the counterparty to the trade, i.e. FICC’s novation account will become the buyer to every seller and the seller to every buyer⁶.

For Broker vs. Dealer trades, only fully matched (“FMAT”) trades will be novated. The counterparty to each Dealer trade will become a FICC novation account, and this account will be listed as the counterparty on all trade output. As stated earlier, FICC will only novate FMAT trades and will not novate versus a Broker.

FICC will utilize separate novation accounts for TBA, SPT and STIP activity, referred throughout this document as indicated below⁷.

FTBA	FICC novation account for generic TBA trades (TFTD/TBA) and SBON obligations.
FSPT	FICC novation account for SPT trades
FSTI	FICC novation account for STIP trades

Once novation occurs, members will be notified of this event, along with the new counterparty.



Dealers will receive an MT518 “Trade Novated” message (:22F::PROC/GSCC/NOVT) when a trade is novated. Brokers will not receive this message, since only Dealer trades are novated. The MT518 “Trade Novated” message will contain all trade details, and any action targeting a novated trade (e.g. Cancel Request) must contain the same trade details as reflected in the

⁶ Option trades are not novated.

⁷ These are account mnemonics only; they do not represent the actual account names that will be used.

message.

Note that when a dealer has submitted a brokered trade with a price inclusive of commission, the novation message will reflect the price exclusive of commission in the price field (90A::DEAL/PRCE) and commission value in amount field (19A::LOCO//USD).



Since FICC is novating all FMAT brokered trades, the Give-Up (“GUP”) process will be eliminated. As such, the number of GUP days will be removed as a trade input field (70E::TPRO/ tag, sub-qualifier /GUPP) on the MT515 and corresponding MT518; if included in a MT515 novation-eligible trade, this tag will be ignored.

3 TBA Net

Fully matched (and therefore novated) SBOD trades are processed through MBSD’s TBA netting service, which is run according to the SIFMA calendar on 72hr day. This netting service supports SBOD trades submit in GDM as well as odd-lots and will result in one or more SBON obligations versus FICC’s TBA novation account (FTBA) priced at the TBA CUSIP’s “system price”⁸. A “TBA” cash differential will be generated to account for the difference between SBOD trade price and system price.



The TBA Net has been expanded in the Novation service to include odd-lot netting. In addition, all resulting obligations will be versus FICC’s TBA novation account (FTBA) and therefore result in SBON obligations (SBO versus non-original counterparty); SBOO obligations (SBO versus original counterparty) will no longer be generated.

4 Do Not Allocate (“DNA”)

When members have two or more offsetting SBON and/or TTFD/TBA positions with the same TBA CUSIP and CSD, they may “pair-off” these positions and exclude them from the allocation process, thereby avoiding the need to make delivery of these pools. This process, referred to as “Do Not Allocate (DNA)”, is available for trades settling on SIFMA CSD only and may be submitted via RTTM® on 48hr and 24hr day from opening until the cutoff at approximately 4:30pm. As the offsetting positions may have different prices, a cash differential called DNA will be generated to account for the differences.



The cutoff for DNA submission and, on 48hr day, start of DNA settlement is announced via the MT599 “Start of Pool Conversion, DNA Settlement and TBA Reprice” (/GSCC/SDNR) message. It is anticipated to begin at 4:30pm, after EPN close.

A DNA can be submit in 2 “modes”; a) **terms only mode** means members specify terms of the buy/sell positions to target and RTTM® will select the specific trades to assign the DNA to; and b) **trade id mode** means members specify trade terms as well as specific trades to target.

The DNA fields are listed in the table below.

Field Name	Description
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⁸ The TBA CUSIP “system price” is the prior day’s EOD price, which is the same as the current day’s pool net price.

	Field Name	Description
TBA Terms: Common trade terms for the DNA requested		
1	Account ID	Account identifier
2	CSD	Contract settlement date
3	TBA CUSIP	TBA CUSIP (9 characters)
Sell Terms: The seller price, trade date and amount of par to DNA, with optional Trade Id of specific trade to target. These fields are repeating, with at least 1 sell specified per DNA.		
4a	Price	Trade price
4b	Trade Date	Trade date
4c	Par	Par to DNA
4d	Trade Id	Trade Id of targeted trade - Optional
Buy Terms: The buyer price, trade date and amount of par to DNA, with optional Trade Id of specific trade to target. These fields are repeating, with at least 1 buy specified per DNA.		
5a	Price	Trade price
5b	Trade Date	Trade date
5c	Par	Par to DNA
5d	Trade Id	Trade Id of targeted trade - Optional
Reference: Member identification		
6	DNA Reference	Member-specified unique DNA reference number, used for members to uniquely identify their DNA submissions.

As can be seen above, members identify the general trade terms of account, CSD and TBA CUSIP, then detail the specific buy / sell prices and trade date to target, along with par amount to DNA. Members may also identify specific trades to assign the DNA to by providing associated Trade Ids; if no target Trade Ids are provided, RTTM will select trades to assign the DNA to from among those with matching terms.



When a DNA is submitted in **terms only mode**, the full trade price to 9 decimal places must be provided. If submitted in **trade id mode**, the trade price must still be provided but FICC will only validate the 1st 6 decimal places.

The DNA may specify sell versus buy positions on a 1-1, 1-many, many-1 and many-many relationship; however, the request must be balanced, i.e. total buy par = total sell par.



Members can submit DNA Requests via a MT515 “Do Not Allocate Request” Message (22F::PROC/GSCC/DNAL). They will receive a MT509 “DNA Accepted” Message in response (25D::IPRC/GSCC/DNAL), along with RTTM-assigned DNA identifier (20C::LIST). This message will be followed by a MT518 “DNA Assigned” Message (25D::IPRC/GSCC/DNAP), indicating that the DNA has been assigned to specific trades as targeted by user (if DNA submitted in “trade id” mode) or trades selected by RTTM® (if DNA submitted in “terms” mode).

If the member submits the DNA Request via RTTM® Web, they will receive a MT518 “Screen

Input DNA Replay” Message (22F::PROC/GSCC/SDNA, message function NEWM) to enable the member to load the DNA details into their system, including Trade Id assignment details.

FICC will validate the request to ensure there is enough position matching the terms specified to support the request and in a manner that conforms with SIFMA Good Delivery Guidelines.

When successfully submitted, RTTM® immediately assigns the request a unique DNA ID. This identifier may be used to identify their DNA requests, along with the member supplied XREF.

If, after submission, a member wishes to cancel their DNA request, they may do so up until the DNA request is settled by the system during the “DNA Settlement and TBA Reprice” process, run in the afternoon prior to CSD.



Members can submit DNA Cancel Requests via a MT515 “Do Not Allocate Cancel Request” Message (22F::PROC/GSCC/CDNA), along with member-specified XREF or RTTM-assigned DNA ID. They will receive a MT509 “DNA Cancel Accepted and Processed” Message in response (25D::IPRC/GSCC/CDNA).

If the member submits the DNA Cancel Request via RTTM® Web, they will receive a MT518 “Screen Input DNA Replay” Message (22F::PROC/GSCC/SDNA, message function CANC) to enable the member to record the cancel in their system.

5 Pool Notifications

MBSD’s Electronic Pool Notification (“EPN”) service is used by sellers to convey details of pools they will deliver in satisfaction of their TBA obligations.

For the TBA trade to be eligible for settlement on CSD, the seller must notify the buyer of the mortgage pools it plans to deliver by 3:00 p.m. (ET) on 48-hour day. Given the time sensitive nature of the allocation process, all EPN messages are time-stamped and EPN applies multiple time-stamps to messages, including the official T2 time-stamp which used to determine good delivery, i.e. the pools were allocated prior to 3:00 p.m. (15:00:01 is late delivery).

As central counterparty to all TBA trades, allocations must be submitted by sellers versus the appropriate FICC novation account. Once validated for message structure, FICC will perform validations to ensure the allocation conforms to SIFMA Guidelines and associated TBA position exists in the system. FICC will then turn the allocation to one or more matching buyers, and submit the allocations to the RTTM Pool Comparison system for further processing (see Section 6: *Pool Comparison* below).



Previously, FICC only validated the content of the messages to ensure they conformed to the message structure requirements; it was the buying member’s responsibility to DK an allocation if it did not meet good-delivery guidelines or the terms of the trade. As counterparty to all allocations, FICC will now perform full business rule validations and DK the seller as necessary.

5.1 Submission Methods

There are two methods for submitting pool information via EPN:

1. **EaSy Pool (ESP):** EaSy Pool is a Web-based application for EPN message entry, message display, reporting, and administration.
2. **Computer-to-Computer Interface (CTCI):** This interface provides an on-line, real-time, automated message exchange with EPN.

5.2 Types of EPN Messages

EPN users may exchange different types of messages to accomplish notification.

- **Original Notification (“ON”):** Used by the seller to notify the buyer of the pools it will deliver for an outstanding TBA position.
- **Cancel & Correct (“CC”):** Also known as the Pool Substitution message, this message allows a seller to notify the buyer to disregard the pools from a previously submitted ON message and to replace those pools with the new pool details provided in the CC message.
- **Don’t Know (“DK”):** Used by the buyer to notify a seller that it does not agree with the terms of the previously sent ON. Buyers can also DK a CC for replacement pools or other valid DK reasons.
- **Cancel (“CX”):** Used by the seller to notify a buyer to disregard the terms of a previously sent ON.



As allocations submitted to FICC are fully validated and turned to subsequent buyers, once accepted by FICC they can no longer be canceled by the sellers. In other words, cancel “CX” messages submit by sellers versus a FICC novation account will be rejected by EPN, and never generated by FICC.

5.3 Allocation Processing

EPN messages are limited to a maximum number of good delivery millions and pools. Each message has two main components: 1) the header, which contains information pertaining to the TBA trade, and 2) the pool detail, which contains the information for the allocated pools. The pools are allocated in “lots”, with terminators designating where a lot begins and ends.



As mentioned, pool allocations submitted via EPN will automatically be fed to the RTTM Pool Comparison system for further processing (see Section 6 for details). To assist reconciliation between EPN and RTTM Pool Comparison systems, a “pool reference” number may be defined for each allocation in EPN⁹, which will be passed to the Pool Comparison system and reflected in subsequent SWIFT MT518 messaging for the associated pool advisory / instructs using a new “pool reference” qualifier in the existing “trade processing narrative” field (70E::TPRO/EPNX).

Note that the pool reference is member-specified by sellers (as they submit into EPN), and

⁹ This information is specified in the EPN pool details “special instructions” field for ON or replacement pool on CC, using format “EPNX=value=” For example, a reference of “1234567890” is represented as “EPNX=1234567890=”.

generated by FICC for buyers (as FICC generates the EPN allocation for buyers).

Allocations to TBA Trades

Members allocate to TBA trades by specifying matching trade terms. FICC will ensure that there is sufficient position in the system among matching SBON and TFTD/TBA trades, and that the allocation adheres to SIFMA Guidelines. Once validated, these allocations are turned by FICC to one or more matching buyers and the corresponding TBA trade positions decremented; if allocated within SIFMA variance, the TBA trades are automatically closed.



Allocations to TBA trades received by FICC with incorrect delivery date are not adequate grounds for an automatic DK. FICC will adjust the date per SIFMA Guidelines and report the corrected date in the allocations turned to the buyer(s).

Allocations to TBA trades may be submitted as GDM lots and, for the residual tail, as odd-lot.



Allocations to TBA trades with bad-lot terminators are not supported by FICC and will be DK'ed.

Allocations to STIP Trades

Members allocate to STIP trades by uniquely identifying the STIP trade to target.



The Trade ID must be specified in the special instructions field of EPN message header¹⁰. This Trade ID is assigned to a fully matched and novated trade by FICC and returned to the member via SWIFT messaging in the MT518 "Trade Novated" message (:22F::PROC/GSCC/NOVT).

FICC will ensure that there is sufficient position in the targeted trade, but as FICC has no knowledge of the actual stipulations associated with the trade, will not verify against full SIFMA Guidelines¹¹. FICC will turn the allocation to the buyer on the STIP trade, and it is the sole responsibility of the receiving member to DK the allocation if it does not meet the agreed upon terms.



Previously, STIP trades were booked as generic TBA and settled away from FICC. With the introduction of STIP trade processing in Novation, all allocations and subsequent settlements will occur through FICC as central counterparty.

Once turned to the appropriate buyer, the corresponding STIP trade position is decremented. Unlike allocations to generic TBA trades, STIP trades are subsequently closed (fully decremented) differently, based on terminator logic.

- Stipulated trades that are out of SIFMA variance are closed using bad-delivery (a.k.a. bid-list) terminator 8889. When received by FICC, this indicates that the STIP is fully allocated and should be closed; it is not subject to SIFMA variance.

¹⁰ The format is "TRID=value=" For example, "TRID=1234567890=".

¹¹ FICC will not validate SIFMA variance when allocated using bad-delivery (bid-list) terminators, nor validate pool counts per lot (regardless of how allocated / lot terminators)

- STIP trades subject to standard variance are allocated using GDM or odd-lot terminators, in the same manner as generic TBAs. FICC will automatically close the trade once it is allocated within SIFMA variance.

5.4 After the Allocation Process

After members have allocated mortgage pools to their TBA SBON and TFTD positions, the pools are then eligible for MBS's Pool Comparison and Netting services, which are explained in *Section 6:Pool Comparison* and *Section 7:Pool Netting* respectively.

Allocations to STIP trades are eligible for MBS's Pool Comparison and Conversion service, as described in *Section 6:Pool Comparison* and *Section 8:Pool Conversion* respectively.

6 Pool Comparison

MBS's Pool Comparison service is used to communicate pool details (in the form of Pool Instructs) to members based on their allocations submitted via EPN. In addition, it allows members to designate pool allocations that should be precluded from being "netted away" via netting, resulting in the settlement of a pool obligation between the member and FICC.

6.1 Pool Submission via RTTM®

Pool input is generated in RTTM® through two methods; 1) automatically via EPN submissions and 2) directly into RTTM® via various input media.

Automatic Generation in RTTM

All allocations versus FICC processed through the EPN system result in an "advice" being generated in RTTM® notifying the member of that an activity has been submitted against them from FICC. These allocations are fully validated by FICC and may contain additional or corrected pool details, not provided on the seller member's allocation.



The advice is communicated as an MT518 "Comparison Request" (22F::PROC/DTCY/CMPR). To assist reconciliation between EPN submissions and corresponding "advices", members may optionally specify a "pool reference" number for each allocation in EPN¹², which will be reflected in the advisory using a new "pool reference" qualifier in the existing "trade processing narrative" field (70E::TPRO/EPNX).



Trade details provided in an EPN allocation are reflected in the pool MT518 "Comparison Request" (22F::PROC/DTCY/CMPR). This includes the full trade price of 9 decimal places.

Note, however, when a member submits an allocation with incorrect delivery date, FICC will automatically adjust the date per SIFMA Guidelines and report this change back to the members

¹² As previously indicated, this information may be specified in the EPN pool details "special instructions" field for ON and replacement pool on CC, using format "EPNX=value=". For example, a reference number of "REFABC" is reflected as "EPNX=REFABC=".

in the corresponding pool MT518 “Comparison Request” (22F::PROC/DTCY/CMPR).

If this advisory remains uncomparing at the end of the processing day, FICC will automatically generate a matching “Pool Instruct” on the member’s behalf.



Members are no longer required to submit Pool Instructs directly into the RTTM® system, though they may optionally choose to do so. These submissions are no longer required as FICC will automatically generate matching pool instructs based on EPN submissions.

Direct Submission into RTTM

Members may also submit pool input (and associated actions) directly into RTTM® via three input media:

1. SWIFT-based Interactive Messaging;
2. Multi-batch files in SWIFT-based message format;
3. RTTM® Web Front End.

RTTM® will validate these pool submissions upon entry, regardless of the method of input. Certain fields are required on Pool Instructs; if any mandatory fields are missing, RTTM® will reject the trade.



In the MT515 “Pool Instruct” message, the Trade Date (98C::TRAD) will no longer be ignored but rather validated to ensure that it is a valid calendar date.

When a pool instruct is submitted, RTTM® will compare the terms of the instruct against previously received advisories and if all pool details are the same (price up to 6 digit precision only), the instructs are considered “matched” (also referred to as “compared”).



In the MT515 “Pool Instruct” message, the Trade Date (98C::TRAD) is now a matching field for comparison (date portion only; time is not used for matching).



When a Pool Instruct and advisory are matched with price differences in the 7-9th digit precision, the member’s Pool Instruct is updated to reflect the full price (as specified in the advisory). As done today, the members will receive a MT518 “Pool Instruct Matched with Modifications” (22F::PROC/DTCY/CMPPM) to reflect this.



As allocations submitted via EPN result in member “advisories”, pool instructs submitted directly into RTTM® should automatically compare against these EPN-initiated advisories, as long as the terms specified in the allocation and instruct match.

If the information submitted on the ON and Pool Instruct are not the same, the corresponding FICC advisory and pool instruct will not match; the pool instruct will be uncomparing in the system. As previously mentioned, if the advisory remains uncomparing at the end of the processing day, FICC will automatically generate a matching “Pool Instruct” on the member’s behalf.

Note, when FICC adjusts the delivery date on the allocation per SIFMA Guidelines, the pool instruct submitted must contain the corrected date or comparison versus the advisory will not occur.

6.2 RTTM® Actions on Uncompared Pool Instructs

A Pool Instruct submit directly into RTTM® will remain uncompared if the member has not submitted an EPN allocation with matching terms.

After a Pool Instruct has been submitted to RTTM®, but before it has been compared, members can Cancel or Modify the Pool Instruct or add a CDR.

- **Cancel (of Uncompareds):** This action is used by members to delete their uncompared pool instructs. Uncompared instructs can be canceled unilaterally by the submitting member.
- **Modify:** With the exception of the CDR field (explained later in *6.5 Customer Delivery Requests*), members may modify any of the data on their previously submitted Pool Instruct, prior to comparison.

Pool Instruct “Advisories” resulting from EPN allocations remain uncompared in RTTM® until the member affirms the advisory, submits a matching Pool Instruct or the system force-compares on member-behalf.

- **Affirms:** Affirms are used by Members to ‘agree’ to a contra-side Advisory resulting in a matched pool. Affirms are only possible via RTTM® Web. In order to match a pool via other methods of input, members must submit Pool Instructs.



DK of Pool Instruct “Advisories” is no longer a supported action as all advisories are automatically generated based on member allocations submitted via EPN. DK requests were previously available via MT515 “DK Request” (22F::PROC/DTCY/TDDK).

If a member elects to bypass affirming or submitting a matching Pool Instruct directly into RTTM, FICC will automatically generate a matching pool instruct on the member’s behalf by the end of the processing day¹³. This process is referred to as “force-compare”.



Members will receive an MT518 “Screen Input Replay – Force Compare” message (:22F::PROC/DTCY/SITR) when a pool instruct is automatically generated and matched. The MT518 “Screen Input Replay” message will contain all pool details, along with reason code indicating this was a result of force-compare process. Note that this message indicates that a new message was generated and matched; a separate MT509 “Trade Matched” message will not be generated.

¹³ Force compare occurs at various times in the day depending on whether they are subject to further processing; e.g. prior to Pool Netting, prior to Pool Conversion, in real time or at End of Day.

In addition, to assist reconciliation between EPN submissions and these instructs, the “pool reference” number specified in the corresponding EPN allocation, if any, will be returned as a new “pool reference” qualifier in the existing “trade processing narrative” field (70E::TPRO/EPNX).

6.3 RTTM® Actions for Compared Pool Instructs

After a Pool Instruct has been bilaterally compared, members can Cancel or Modify the Compared Pool Instruct.

- **Cancels:** A “Cancel” may be submitted by the member to cancel a Pool Instruct compared on the current business day only. The member’s Pool Instruct will be cancelled and the corresponding advisory from FICC will revert to an Uncompared State, but the advisory will not be deleted from the system. If the member does not resubmit a matching Pool Instruct by the end of the day, this advisory will be force-compared at the end of the day.



Compared Pool Instructs may only be canceled on the day comparison has occurred; attempts to cancel Pool Instructs compared on a prior business day will be rejected. The reject codes/reasons reported in the MT509 “Cancel Rejected” message (25D::CPRC//REJT) have been updated in support of these new rules.

- **Modify:** Post comparison, the only data members may modify is the Pool Instruct’s XREF. The counterparty is not notified when a submitter modifies its XREF.

6.4 EPN Actions on Pool Instructs

As previously indicated, allocations versus FICC processed through the EPN system result in “advices” being generated in RTTM®. These advices inform the members of activities submitted against them from FICC. When members subsequently DK or CC previously submitted ON, corresponding changes occur in the Pool Comparison system.

- **DK:** When a buyer DK’s an allocation via EPN, the corresponding Pool Instruct “advices” previously created for both buyer and seller are canceled. If either Pool Instruct advisory was compared, the member’s Pool Instruct will revert to the uncompared status.



The existing MT509 “Pool Instruct has been Unmatched” (25D::MTCH//NMAT) message will be used to inform the member that their Pool Instruct is no longer compared, with reason code (NMAT//CPCA) indicating that this is due to counterparty (FICC) action.

- **CC:** When a seller CC’s an allocation via EPN prior to pool netting, the corresponding Pool Instruct “advices” previously created for both buyer and seller are canceled, and replacement advisories generated. If either original Pool Instruct advisory was compared, the member’s Pool Instruct will revert to the uncompared status.

 The existing MT509 “Pool Instruct has been Unmatched” (25D::MTCH//NMAT) message will be used to inform the member that their Pool Instruct is no longer compared, with reason code (NMAT//CPCA) indicating that this is due to counterparty (FICC) action.

- **Delivery Date Change:** RTTM® may update the delivery date on a Pool Instruct. This is typically done at the request of member, or due to industry-wide change of processing date.

 To communicate to members a delivery date change, the existing MT518 “Post-Comparison Modification Advice (of the recipient’s trade)” will be used (22F::PROC/DTCY/MDAD).

6.5 Customer Delivery Requests

A Customer Delivery Request (“CDR”) may be submitted by member to preclude selected Pool Instructs from being “netted away” via netting, resulting in the settlement of a pool obligation between the member and FICC. The CDR feature was developed by FICC to support members’ trading and delivery strategies. Members have the ability to submit CDRs globally at either the Pool Number level (to preclude all Pool Instructs in that Pool Number from being netted away) or at the TBA CUSIP level (to preclude Pool Instructs for all Pool Numbers associated with that TBA CUSIP from being netted away).

A CDR indicator can be submitted on the Pool Instruct or it can be applied to a Pool Instruct post-submission at any time prior to Pool Netting. CDRs are always unilateral actions taken by the submitter.

CDR “release” is also available to remove a previously applied CDR from a Pool Instruct at any time prior to Pool Netting. This action will make the targeted Pool Instruct available for netting, and may be submit at the individual instruct level, or globally at either the Pool Number or TBA CUSIP level.

7 Pool Netting

Pool Instructs allocated to TBA obligations stemming from TBA Netting (SBON positions) and TBA Trade-for-Trade (TFTD¹⁴) activity are processed through MBSD’s pool netting service. This service nets instructs deemed netting-eligible within a particular Pool Number, and then converts them into receive and delivery pool obligations versus FICC at a system price¹⁵. Pool Instructs determined to be ineligible for netting are directly converted into receive and delivery pool obligations, also versus FICC at the same system price.

Note that all pool obligations resulting from TBA activity (TFTD/TBA and SBON) are generated versus FICC’s TBA settlement account, referred to as FICC.

 As part of the Novation service, all Pool Instructs will result in pool obligations versus FICC, regardless of whether netting eligible or not. Members are no longer required to settle non-

¹⁴ SPT trades and STIP allocations are not eligible for pool netting.

¹⁵ The system price is assigned by FICC and is the previous day’s end-of-day price of the pool at the TBA CUSIP level.

netting eligible Pool Instructs outside of FICC.

All receive and delivery pool obligations generated from the pool netting service are delivered to the Clearing Banks for settlement on the pool obligation delivery date. In addition, the cash difference between the system price and corresponding TBA Obligation (Pool Instruct) price is calculated and results in a pool “TAP” cash obligation, payable on the next business day.

Although Pool Netting runs daily, the majority of pool netting activity follows the SIFMA calendar.



An additional pool net cycle is run on SIFMA CSD-1 in support of DNA Settlement and TBA Reprice processing. This cycle includes all Pool Instructs with delivery date greater than the next business date. See *Section 9:DNA Settlement / TBA Reprice* for details.

In order for a Pool Instruct to be eligible for this service, the Pool Instruct must be compared and have a delivery date equal to the next business day¹⁶. Pool Instructs with CSD in the current month are eligible for net position process; those falling outside this range or otherwise deemed ineligible¹⁷ for netting are converted directly.



All Pool Instructs included in the pool netting service receive a MT509 “Pool Bound to Net” message, followed by an “In Net” message (for those included in the net position process) or “Non-Net Converted” message (for those excluded from the net position process and directly converted).

The “Non-Net Converted” message is new (25D::IPRC/DTCY/NECV) and replaces the now obsolete “Out of Net” message (25D::IPRC/DTCY/NNCT).

8 Pool Conversion

As part of the Novation service, all pool settlements, including those specified in SPT trades, allocated to STIP trades, or submit as cash (same-day) trades, are settled through FICC.



Previously, SPT and STIP trades were settled outside of FICC and their actual settlement communicated to FICC via Notifications of Settlement (NOS) submitted into RTTM®.



The Pool Conversion process is a new service introduced in Novation. The start and end of this process is announced via new MT599 messages “Start of Pool Conversion, DNA Settlement and TBA Reprice” (DTCY/SDNR) and “End of Pool Conversion, DNA Settlement and TBA Reprice” (DTCY/EDNR), and is expected to run at 4:30pm after EPN close.

¹⁶ In some instances, a Pool Instruct is included in the current day Pool Netting service even though it’s delivery date is > next business day (NBD). This occurs for late turnaround (buyer Pool Instruct will be processed same day as seller’s) and pools part of over-variance SIFMA exception (all Pool Instructs in lot are processed same day).

¹⁷ Reasons for a pool instruct to be ineligible for netting include (but not limited to) late turnaround or pools part of a SIFMA over-variance exception.

STIP Allocations

Pool Instructs targeting STIP trades, which are not eligible for the pool netting service, are directly converted into pool obligations on the day before “lot-level” delivery date¹⁸ or, in some cases, as a result of CC processing on bidlists¹⁹. Resulting receive and delivery obligations will be versus FICC’s STIP settlement account (referred to as FSTI) at trade price, and delivered to the Clearing Banks for settlement on the delivery day.



The new MT509 “STIP Pool Instruct Converted” message (25D::IPRC/DTCY/PDCV) notifies the member that their Pool Instruct was converted to a corresponding pool obligation.

SPT Trades

Specified Pool Trades are directly converted into pool obligations on the day before contractual settlement date. In a similar manner to STIP allocations, resulting receive and delivery obligations will be versus FICC’s SPT settlement account (referred to as FSPT) at trade price, and delivered to the Clearing Banks for settlement on CSD.

Cash (Same day) Trades

Allocations submit as cash trades for same day settlement, or SPT trades bilaterally matched with CSD less than or equal to the current business day, will be immediately converted to pool obligations and sent to the Clearing Banks for settlement. These obligations will at trade price versus the appropriate FICC settlement account (FICC, FSPT or FSTI), depending on type of activity.



For Pool Instructs booked for same-day settlement that target SBON or TTFD/TBA trade, a MT509 “Non-Net Converted” (25D::IPRC/DTCY/NECV) message will be generated; for allocations targeting STIP trades, a MT509 “STIP Pool Instruct Converted” (25D::IPRC/DTCY/PDCV) message will be generated.

Conversions associated with SPT trades occur post-CSD and therefore do not generate messaging.

9 DNA Settlement / TBA Reprice

As part of the Novation service, when members have two or more offsetting SBON and/or TTFD/TBA trades with the same terms²⁰ (not including price), they may “pair-off” these positions and exclude them from the allocation process, thereby avoiding the need to make delivery of these pools. The process of identifying offsetting positions to exclude from allocation is called “Do Not Allocate (DNA)” (see *Section 4: Do Not Allocate (“DNA”)* for details on DNA submissions via RTTM).

DNA requests are “settled” on the day before SIFMA CSD, meaning that the associated TBA position is

¹⁸ STIP PIDs are converted at the “lot” level, meaning that all PIDs in a lot are converted at the same time; specifically, on the day before the minimum delivery date within the lot. Regardless of when a PID is converted, the resulting POID will have the delivery date as on the original PID.

¹⁹ When a bidlist with a mix of PID and POIDs is targeted in a CC, the outstanding PIDs may first be converted to POIDs allowing the CC to operate on pools of the same type (all POIDs).

²⁰ The “terms” are: account, buy/sell indicator, TBA CUSIP and SIFMA CSD.

marked as settled and cash obligations generated that are payable on CSD. To support the cash settlement of DNA requests, a secondary process called “Reprice” is employed which will reprice open trades (unallocated and not DNAed) to the system price and generate offsetting cash obligations, also payable on CSD. Note that prior to repricing, an “expanded” pool net cycle (in addition to the daily cycle) will be run that will process all allocations regardless of delivery date, thereby resolving all Pool Instructs prior to the TBA reprice event. As part of these netting cycles on 24hr day, cash differences on the variance on all allocated positions is also determined and, combined with the reprice cash obligations, will support the DNA cash settlement.



The DNA Settlement / TBA Reprice process is a new service introduced in Novation. The start and end of this process is announced via new MT599 messages “Start of Pool Conversion, DNA Settlement and TBA Reprice” (DTCY/SDNR) and “End of Pool Conversion, DNA Settlement and TBA Reprice” (DTCY/EDNR), and is expected to run at 4:30pm after EPN close.

DNA Settlement

On the day before CSD, DNA requests are “settled” by drawing down targeted trades TBA position²¹ and generating a “DNA” cash differential to account for the associated price differences, payable on the next business date.

Expanded Pool Net Results

In order to prepare for the TBA Reprice process, an “expanded” Pool Net cycle is run which includes all compared Pool Instructs targeting SBON and TFTD/TBA trades with delivery date >= next business day and CSD on the next business day.



New Administrative MT599 “Start of Expanded Pool Net” (DTCY/SXPN) and “End of Expanded Pool Net” (DTCY/EXPN) messages announce the start and end of this process.

In same manner as daily Pool Net, compared Pool Instructs that are netting-eligible will be run through a netting process and result in pool obligations versus FICC’s TBA settlement account (FICC) at the system price, whereas instructs not netting-eligible²² will converted directly into pool obligations, also versus FICC at system price. These obligations will be sent to the Clearing Banks for settlement on the associated delivery date. An “EXP” cash differential is created to account for the associated price differences.



As with daily Pool Net, Pool Instructs included in the expanded pool netting service receive a MT509 “Pool Bound to Net” message, followed by an “In Net” message (for those included in the net position process) or “Non-Net Converted” message (for those excluded from the net position process and directly converted).

Allocation Variance TAP

²¹ This is executed via generation of a new kind of system-generated NOS, referred to as “DNA NOS”.

²² For example, PID targets trade with CSD in prior month, or late turn-around.

The cash obligations generated from the daily Pool Net (“TAP”) and expanded Pool Net cycle (“EXP”) are based on the current face of the pools, which may be slightly over/under the targeted position due to variance. A “VAR” cash differential is created to account for the associated price differences on this variance, payable on the next business day.

TBA Reprice

Once the DNA Settlement and Expanded Pool Net processes have completed, the TBA Reprice process will fully settle open TBA trades²³, automatically generate replacement trades at system price and create “RPC” cash differentials to account for the associated price differences, payable on the next business date.



The sum of the cash obligations generated from the daily pool net (“TAP”), expanded pool net (“EXP”), allocation variance (“VAR”) and reprice (“RPC”) are used to offset cash obligations generated from the DNA settlement process (“DNA”), thereby leaving FICC flat from a cash perspective.

10 Administrative Messages

RTTM® notifies member systems regarding various system events, such as start and end-of-day processing. These are communicated via MT599 messages.

RTTM® Trade Matching and Netting Service Messages

1. **RTTM® Start-of-day** (/GSCC/GSOD/) – Notify members that the RTTM® system is available for submission of transactions to be included in that day’s matching process.
2. **AM Pass Submission Cutoff** (/GSCC/APSC/) – Notify members that any transaction submitted after this point will not be included in the clearing system AM pass. On Netting days, submissions that were received by RTTM® after this point, which were due to net that day, will be rejected by RTTM®.
3. **Start of Pool Conversion, DNA Settlement and TBA Reprice** (/GSCC/SDNR) – Notify members that the daily Pool Conversion process has started and, for SIFMA 24hr day, the DNA Settlement and TBA Reprice Process has begun. Cancel of compared SPT trades and DNA submissions with CSD of next business day are no longer accepted by RTTM® and will be rejected.
4. **End of Pool Conversion, DNA Settlement and TBA Reprice** (/GSCC/EDNR) – Notify members that Pool Conversion, DNA Settlement and TBA Reprice Process has completed.
5. **End-of-day Matching Submission Cutoff** (/GSCC/EDCS/) – Notify members that RTTM® will not accept any more transaction submissions for inclusion in that day’s matching process. Any transactions submitted after this point will be held and included in the next business day’s matching process.
6. **End-of-day Interactive Output Completed** (/GSCC/EODC/) – Notify members the RTTM® system

²³ This is executed via generation of a new kind of system-generated NOS, referred to as “RPC NOS”.

has completed matching processing, and that no more interactive comparison messages will be sent by the system for that business day.

Pool Comparison and Netting Service Messages

7. **Pool Comparison/Netting Start-of-day** (/DTCY/GSOD/) – Notify members that the pool comparison and netting system is available for submission of transactions to be included in that day's comparison process.
8. **Pool Net Start** (/DTCY/SOPN/) – Notify members that the daily pool net service has begun. Inputs received after this will still be included in the current day's comparison process, but not eligible for the current day's daily pool netting process.
9. **Pool Net End** (/DTCY/EOPN/) – Notify members that the daily pool net service has completed.
10. **Expanded Pool Net Start** (/DTCY/SEPN/) – Notify members that the expanded pool net service has begun.
11. **Expanded Pool Net End** (/DTCY/EEPN/) – Notify members that the expanded pool net service has completed.
12. **End-of-day Pool Comparison/Netting Submission Cutoff** (/DTCY/EDCS/) – Notify members that RTTM® pool comparison and netting service will not accept any more transactions for inclusion in that day's matching process. Any transactions submitted after this point will be held and included in the next business day's matching process.
13. **End-of-day Pool Comparison/Netting Interactive Output Completed** (/DTCY/EODC/) – Notify members the RTTM® pool comparison and netting service has completed matching processing, and that no more interactive comparison messages will be sent by the system for that business day.



The MT599 “Start of Pool Conversion, DNA Settlement and TBA Reprice” (/GSCC/SDNR), “Start of Expanded Pool Net” (DTCY/SEPN), “End of Expanded Pool Net” (DTCY/EEPN) and “End of Pool Conversion, DNA Settlement and TBA Reprice” (/GSCC/EDNR) are new messages introduced in Novation.