

# Fixed Income Clearing Corporation:

## MBS Novation - Pool (PID) Conversion

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## Version Control Page

Date	Version #	Name	Description of Change
05/05/2017	1.0	C. Swords	Initial version
6/26/2017	1.01	C. Swords	Updated as follows: <ul style="list-style-type: none"> <li>Renamed document from “STIP Pool Conversion” to “Pool (PID) Conversion”, as this now includes allocations to generic TBA that are non-SIFMA compliant.</li> <li>Streamline bidlist conversion rules to be at “lot level”.</li> <li>Add exception processing for generic TBA for over-variance SIFMA exception.</li> <li>Clarified CC processing rules</li> </ul>
11/29/2017	1.02	C. Swords	Updated as follows: <ul style="list-style-type: none"> <li>Clarified in Overview Section that allocations to generic TBA trades result in POIDs at either system price (for netted PIDs) or trade price (for direct conversions).</li> </ul>

## 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 us to eliminate 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.

## Document Purpose

FICC has generated this document to provide further details on the pool conversion process for generic TBA and STIP trades.

## 1 Overview

In the novation system, all trades, including those with stipulations, will be settled through FICC. Members submit allocations via EPN, which will automatically be fed to the Pool Net system and result in associated PIDs.

For generic TBA trades, on day before delivery date (or earlier), these PIDs are netted or directly converted into Pool Obligations (POIDs). This results in: 1) automatic draw down of the TBA trade open position using internal FICCNOS and 2) automatic generation of a corresponding POID(s) versus FICC at either system price (for netted PIDs) or trade price (for direct conversions).

To support stipulations, members submit trades with TFTD sub-type “STIP” which identifies that a TBA trade has stipulations attached. Pool allocations for these trades are submitted via EPN in the usual manner, but must identify the specific trade to target, using the RTTM-assigned Trade Id. As with all pool allocations, these will automatically be fed to the Pool Net system and result in associated PIDs, although STIP allocations are not subject to netting. On day before delivery date (or earlier), these PIDs are directly converted to Pool Obligations (POIDs) resulting in: 1) automatic draw down of the STIP trade open position using internal FICCNOS and 2) automatic generation of a corresponding POID versus FSTI at the trade’s execution price.

In all cases, the generated POIDs are sent to the Clearing Banks for settlement on the delivery day of the corresponding PID.

While PIDs in a lot typically have the same delivery date (and thus are converted at same day), CC and/or delivery date changes can cause mixed delivery dates within a lot. In the next sections of this document, the specific rules governing when a PID is converted, on day before delivery date (DD-1) or earlier, are explained.

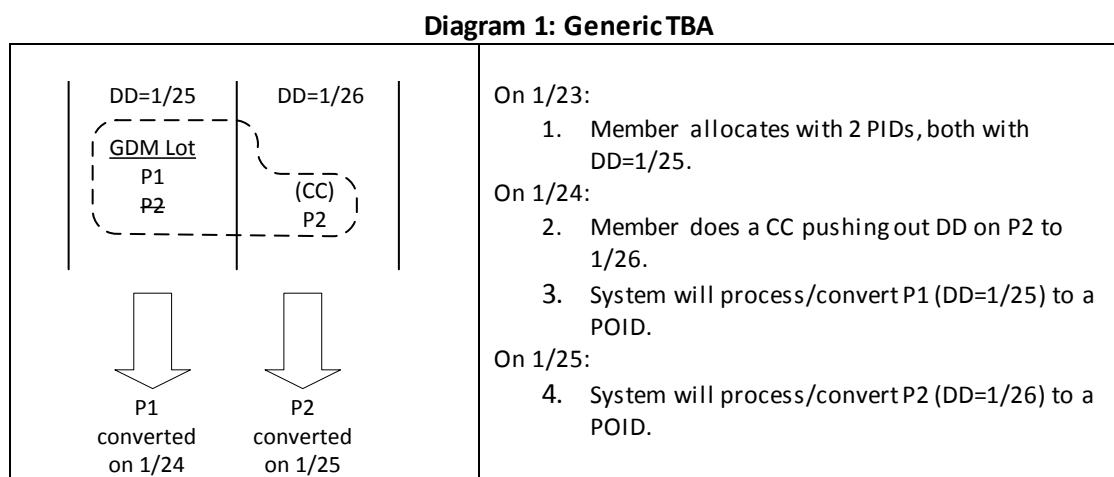
## 2 Generic TBA

PIDs targeting generic TBA trades are converted to POIDs on the individual PIDs DD-1<sup>2</sup>.

- This conversion occurs as part of the 2pm Pool Net process or 4:30pm Pool Conversion Process (for PIDs with delivery date = NBD that missed daily pool net cycle<sup>3</sup>). In addition, this conversion can occur intra-day when a pool DD is changed to current business day.

### 2.1 GDM/Tail Lot Allocations

Presume a member allocates a GDM/Tail with 2 PIDs and then does a CC pushing out the DD on one of the pools. Each of these pools will be processed/converted to a POID on their individual DD-1, as shown below.



### 2.2 GDM/Tail Lot Allocations with SIFMA Exception

An exception to the generic TBA conversion rule is when a member requests a SIFMA exception allocation and/or CC to be processed<sup>4</sup> that is over-variance and the DD within the lot are different. In this case, the PIDs in the lot are not converted individually, but rather converted at the same time on the minimum DD-1 of the pending PIDs in the lot (referred to as “lot level” DD-1). This is done to prevent the situation where a subset of the pools in the lot have earlier DD and reach within variance, thereby causing the TBA trade to be drawn prematurely as the pool(s) with later DD has not yet been processed.

For example, presume a member allocates a GDM/Tail with 3 PIDs and then does a CC pushing out the DD on one of the pools. A sub-set of the pools allocate the GDM/Tail within variance. Each of these

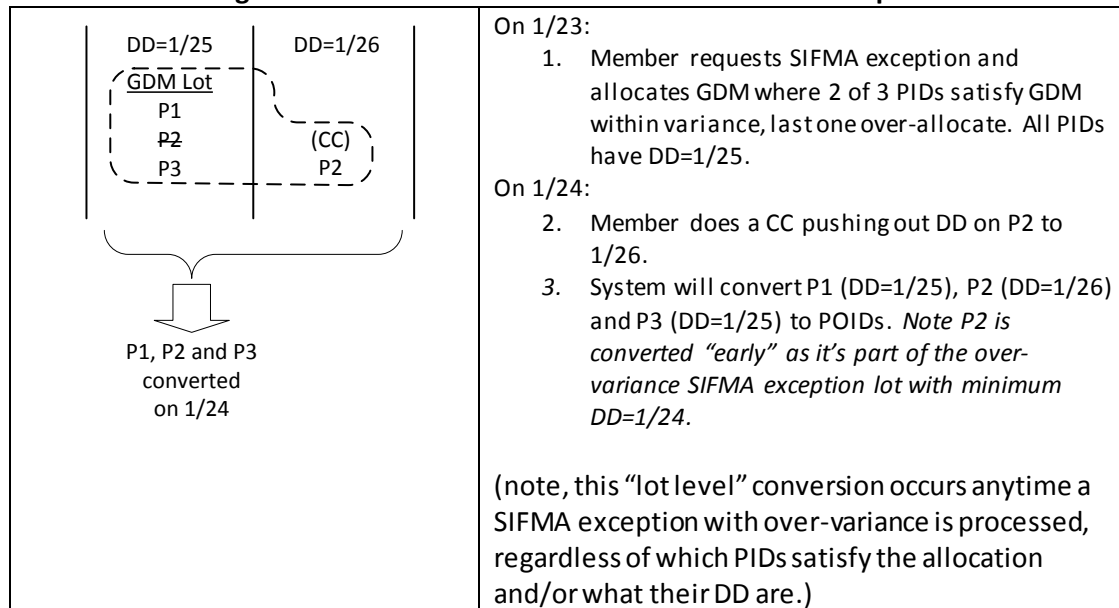
<sup>2</sup> Note: bound buyer and seller PIDs are converted at the same time; in the situation where a late turnaround occurs (buyer DD is a day later than seller DD), the buyer PID will be converted based on the seller PID’s DD.

<sup>3</sup> This can occur due to operations DD update, or processing of DK on pre-net CC.

<sup>4</sup> Non-SIFMA compliant allocations and CC are accommodated at member’s request through the assistance of FICC operations.

pools will be processed/converted to a POID on a the minimum DD-1 of the pools within this lot, as shown below.

**Diagram 2: Generic TBA with Over-Variance SIFMA Exception**



### 3 STIP Trades

In contrast to generic TBA trades, PIDs targeting STIP trades are always converted to POIDs on the lot level DD-1. In other words, the PIDs are converted at the same time on the minimum DD-1 of PIDs in the lot<sup>5</sup>.

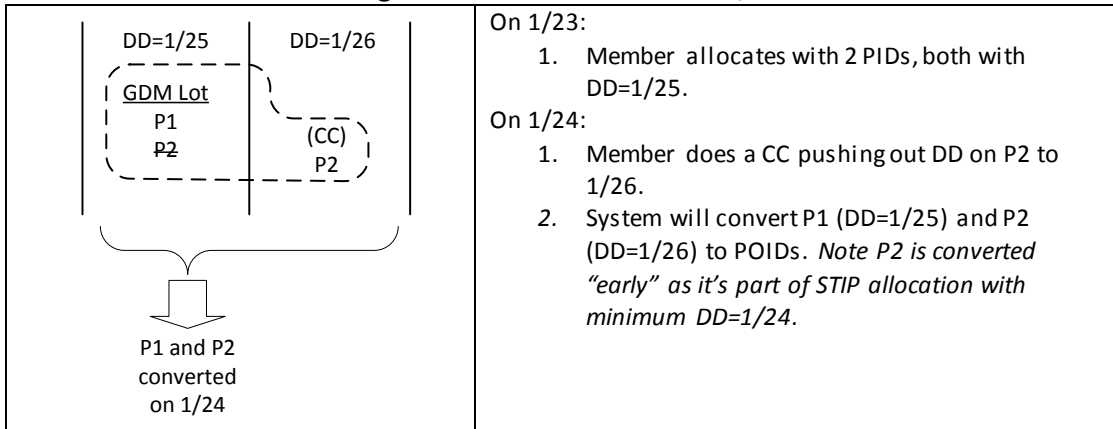
- This conversion occurs as part of the 4:30pm Pool Conversion Process or intra-day when a pool DD is changed to current business day.

#### 3.1 GDM/Tail Lot Allocations

Presume a member allocates a GDM/Tail with 2 PIDs and then does a CC pushing out the DD on one of the pools. Each of these pools will be processed/converted to a POID on the minimum DD-1 of all PIDs in the lot, as shown below.

<sup>5</sup> Note: bound buyer and seller PIDs are converted at the same time; in the situation where a late turnaround occurs (buyer DD is a day later than seller DD), the buyer PID will be converted based on the seller PID's DD.

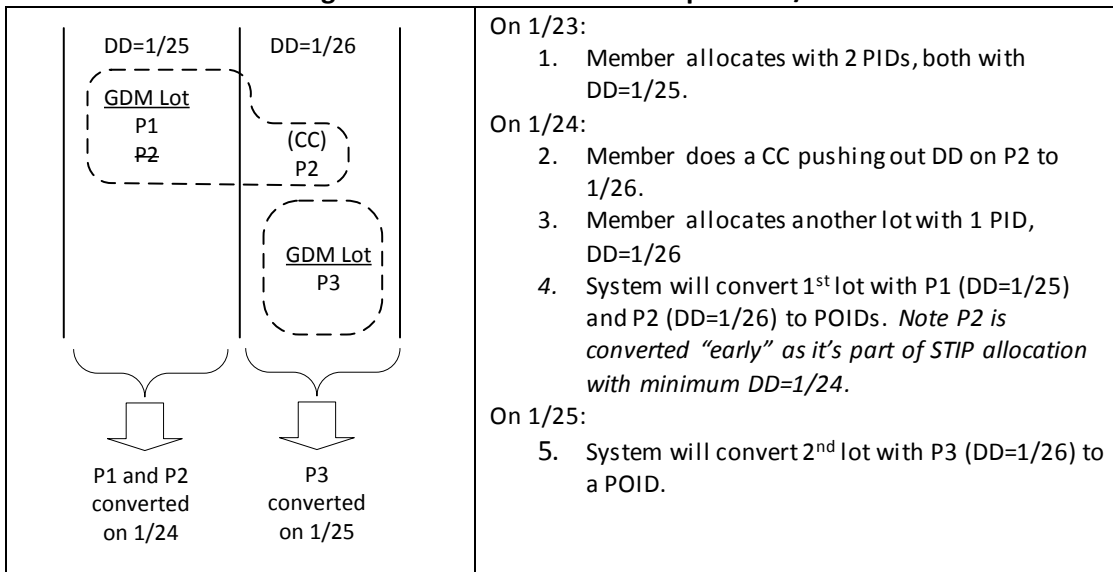
**Diagram 3: STIP Trade with GDM/Tail**



Note that each GDM/Tail lot is treated separately, so that if multiple lots exist with overlapping DD, they are converted individually and do not impact each other.

Continuing from example above, presume member submits another GDM lot with a 3<sup>rd</sup> PID, which has same DD as the CC'ed pool. The PIDs in each lot will be processed/converted to POIDs as shown below.

**Diagram 4: STIP Trade with Multiple GDM/Tail**



### 3.2 Bidlist Allocations

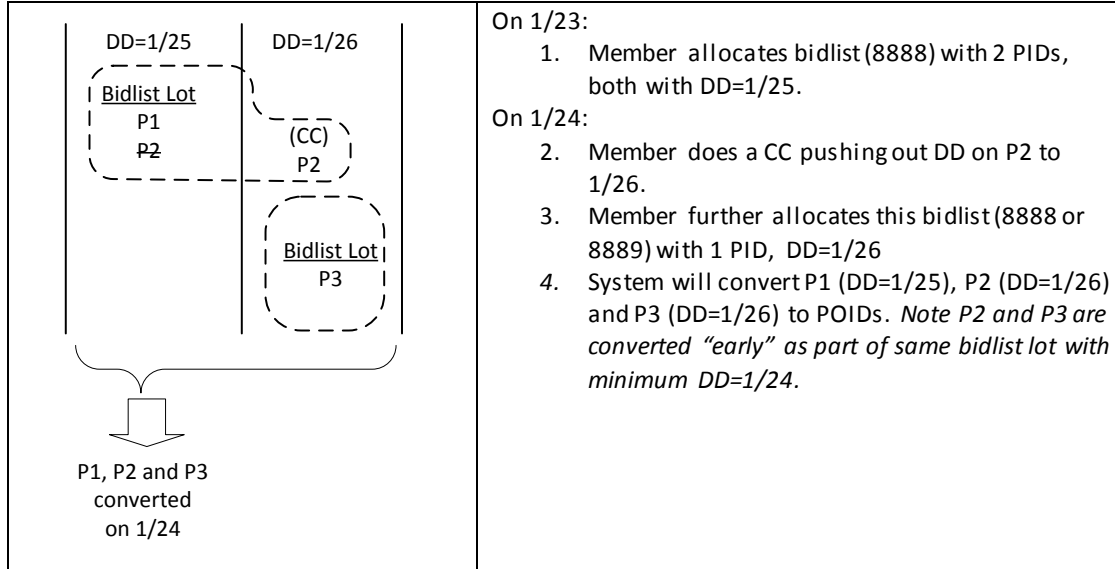
For bidlists (which are only applicable to STIPs), PID are also converted at the minimum DD-1 of all pending PIDs. However, it is important to note that a bidlist is considered a single large lot, regardless of the number of individual submissions (one or more 8888, followed by a single 8889) or number of days the bidlist spans. As such, when the DD in multiple bidlist submissions overlap, the conversion of PIDs in



one submission may be triggered by the DD in a separate bidlist submission.

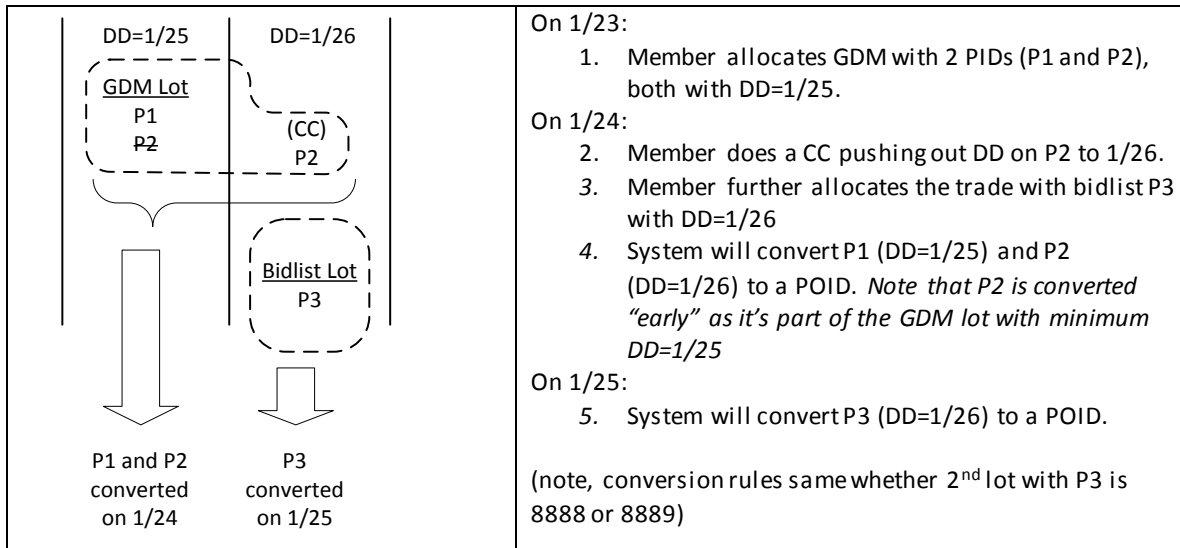
Consider the previous example, but presume the submissions are part of a bidlist, rather than GDM lot. Note that 2<sup>nd</sup> bidlist submission is converted based on DD-1 in 1<sup>st</sup> bidlist submission. This occurs regardless of whether the 2<sup>nd</sup> submission is 8888, or 8889 (final submission).

**Diagram 5: STIP Trade with Multiple Bidlist Submissions**

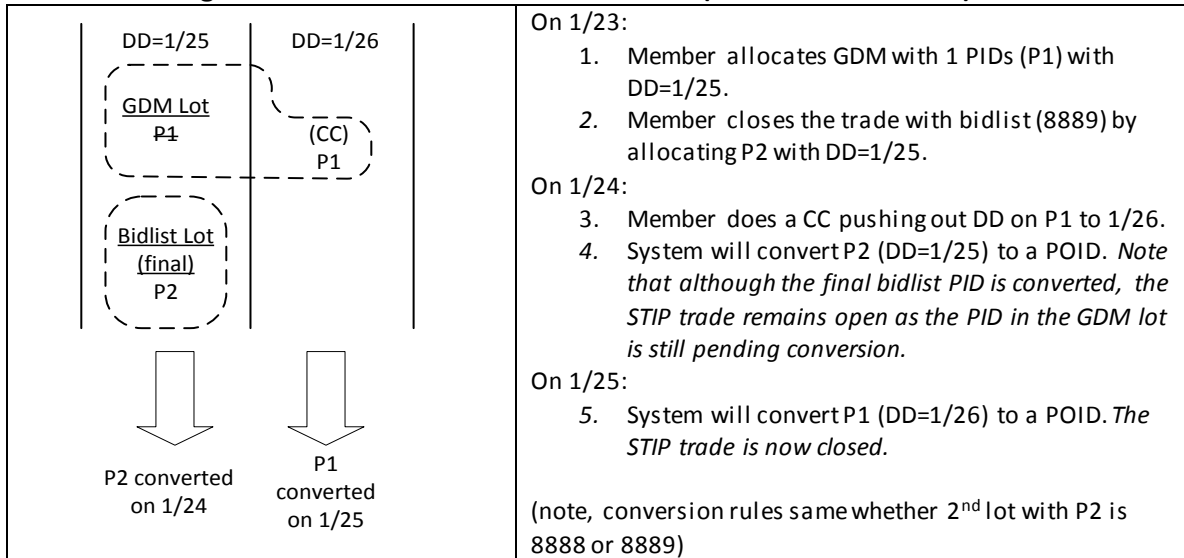


It's important to note that the conversion rules for bidlists do not affect GDM allocations; in other words, if a STIP is allocated with GDMs and bidlist, the GDM PIDs will be converted on minimum DD-1 within the GDM lot as usual and is not impacted by DD in the bidlist.

**Diagram 6: STIP Trade with GDM and Bidlist (GDM DD < Bidlist DD)**



**Diagram 7: STIP Trade with GDM and Bidlist (GDM DD > Bidlist DD)**



### 3.3 CC Processing

In addition to converting PIDs to POIDs on DD-1 (or earlier) as part of the normal STIP pool conversion process (as described above), PIDs in a bidlist may be converted to POIDs as part of CC processing under certain scenarios:

1. **Pools targeted in CC are mix of PIDs and POIDs in an open bidlist lot:** CC processing requires that pools targeted in a CC are the same type; either all PIDs or all POIDs. When a CC targets a mix of PIDs and POIDs, the system will first convert the PIDs into POIDs (regardless of DD) and then perform the CC on the resulting POIDs<sup>6</sup>.

*Note: only bidlist “lots” can have a mix of DD – this occurs when a bidlist is submitted across multiple days, DD change and/or when a CC pushes out DD. As such, it is possible that at certain times a bidlist has a mix of both PIDs and POIDs.*

2. **CC on finalized bidlist where bidlist is mix of PIDs and POIDs:** When a CC occurs on a finalized bidlist lot (8889 received) and this lot is a mix of PIDs and POIDs, if the CC targets at least 1 POID, then all outstanding PIDs in the bidlist are converted to POIDs before the CC occurs. This occurs regardless of whether these PIDs were targeted for CC, or not.

<sup>6</sup> If the CC targets PIDs only, the PIDs are not converted, regardless of whether the associated bidlist is “mixed”.