FIXED INCOME CLEARING CORPORATION
GOVERNMENT SECURITIES DIVISION

PRIME BROKER NETTING SERVICE

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FICC GSD PRIME BROKER NETTING SERVICE

OVERVIEW

In an effort to support prime brokerage, the Government Securities Division (“GSD”) of the Fixed Income Clearing Corporation (“FICC”) enhanced its Real-Time Trade Matching (RTTM®) service to provide all Dealer Netting Members who are also prime brokers the flexibility to have “comparison-only” or “comparison and netting” of government securities trades both by customer and by product (i.e. cash vs. repo).

Using the 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 for comparison-only or for comparison and netting. 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 be for comparison-only or comparison and netting.

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 GSD’s netting process.

BACKGROUND

Historically, prime brokers in government securities—such as U.S. Treasuries—that are eligible for netting by FICC GSD, have intended 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 indicated to FICC that they preferred to submit such trades to FICC.

Several participants, anticipating the potential netting benefits as outweighing the potential risks, had also 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 moved ahead to initiate such a service and this document describes the procedures required for use of the Prime Broker Netting 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 brokers 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”.

[DTCC Public (White)]
The prime broker will be designated 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 setup of that symbol on the FICC database for that particular prime broker (to be comparison-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 contra-party’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.

<table>
<thead>
<tr>
<th>Executing Broker 95XX submission</th>
<th>Prime Broker 96YY submission (PB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Submitter</td>
<td>95 R (SELL) <strong>95XX</strong></td>
</tr>
<tr>
<td>Submitter CORR</td>
<td>70E (SELL/CORR) <strong>[ ]</strong></td>
</tr>
<tr>
<td>Contra</td>
<td>95R (BUYR) <strong>96YY</strong></td>
</tr>
<tr>
<td>Contra CORR</td>
<td>70E (BUYR/CORR) <strong>HA001</strong></td>
</tr>
</tbody>
</table>

**TRADE MATCHING**

Matching logic for these trades will be the same as it is for regular trades submitted to GSD. Today, GSD’s matching logic seeks to match trades based on the symbol, among other matching criteria as outlined in the GSD Rulebook. 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 also developed an “exact-match” capability. Implementation of an exact-match requires that all executing brokers submit with symbols. If some executing brokers cannot or will not submit with symbols, then prime broker trades submitted would remain unmatched.

GSD’s end-of-day matching logic (phased comparison) has remained the same. 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 Membership for their prime broker activity will receive the information for this account on their DVP activity reports. Prime brokers that choose to commingle their prime broker activity with their regular netting account will have, in addition to their current DVP activity reports, another set of reports that displays data on just their prime broker universe of trades.

TESTING

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

FEES

All current transaction processing, position management, clearance, passthrough and other fees will apply. There are no new or additional fees for this service.

For more information, contact your FICC Relationship Manager.