

<b>GOV #:</b>	GOV045-15
<b>Date:</b>	June 22, 2015
<b>To:</b>	Government Securities Division Members
<b>Category:</b>	Service Updates
<b>Subject:</b>	GSD Settlement Optimization Initiative

## Background

The Government Securities Division (“GSD”) of the Fixed Income Clearing Corporation (“FICC”) is proposing to change the logic for determining which clearing bank (The Bank of New York Mellon (“BNY Mellon”) and J.P. Morgan Chase (“JPM Chase”)) a netting member (“Member”) must deliver its obligations to, and receive its obligations from, as applicable. This change will increase settlement efficiency.

## Changes to the settlement logic

Currently, a clearing bank where GSD’s receive and deliver obligations (“obligations”) settle is determined by the product type. For example, Treasury Notes, Floating Rate Notes and TIPS Notes settle at BNY Mellon and all other GSD netting eligible products settle at JPM Chase. The new settlement logic will not use product types to determine which clearing banks may settle GSD obligations. Instead, the following will apply:

### I. Delivering obligations to GSD

- Members that use BNY Mellon (“clients of BNY Mellon”) or JPM Chase (“clients of JPM Chase”) as applicable, as their clearing bank will always deliver their Start of Day obligations and intra-day delivery versus payment (“DVP”) repo substitutions to GSD’s account within their respective clearing bank.
- Members who do not use either BNY Mellon or JPM Chase as their clearing bank (“clients of other banks”) will need to deliver their Start of Day obligations to GSD’s account at either BNY Mellon and/or JPM Chase. GSD’s End of Day obligations report (available in MRO, SWIFT and Print Image forms) will specify which clearing bank each deliver obligation will need to be sent to.
- Intra-day DVP repo collateral substitutions for the clients of other banks will always need to be delivered to GSD’s account at BNY Mellon.

	Obligations will have to be delivered to GSD’s account at	
	Start of Day	Intra-day Repo Substitutions
Clients of BNY Mellon	BNY Mellon	BNY Mellon
Clients of JPM Chase	JPM Chase	JPM Chase
Clients of other banks	BNY Mellon and/or JPM Chase	BNY Mellon

## II. Receiving Obligations from GSD

- Start of Day receive obligations for all Members will be sent from GSD’s account at either BNY Mellon and/or JPM Chase. The GSD’s End of Day obligations report (available in MRO, SWIFT and Print Image forms) will specify which clearing bank each receive obligation will be sent from.
- For the clients of BNY Mellon and JPM Chase the intra-day DVP repo collateral substitutions will be coming from GSD’s account at either BNY Mellon and/or JPM Chase.
- The clients of other banks will always receive their intra-day DVP repo collateral substitutions from GSD’s account at BNY Mellon.

	Obligations will be received from GSD’s account at	
	Start of Day	Intra-day Repo Substitutions
Clients of BNY Mellon	BNY Mellon and/or JPM Chase	BNY Mellon and/or JPM Chase
Clients of JPM Chase	BNY Mellon and/or JPM Chase	BNY Mellon and/or JPM Chase
Clients of other banks	BNY Mellon and/or JPM Chase	BNY Mellon

### Obligations Report

On each Business Day, GSD makes available to each Member an obligations report which, among other things, specifies a name and reference number of clearing bank or banks, and the third party contra information (i.e. “GSCC”) for each Start of Day deliver obligation or receive obligation. There are three forms in which the obligations report is available at the End of Day:

1. MRO: Record type “18” within a Netting MRO file.
2. SWIFT: MT548 SWIFT message.
3. Print Image: Open Orders Report available on the RTTM®’s Report Center.

For the intra-day DVP repo collateral substitutions, GSD generates MT548 SWIFT message.

### Member Impact

The Settlement Optimization Initiative will not change the formats of the obligations report. Those clients (or service bureaus) that create their deliver obligations and receive obligations based on the obligations report will not be affected by the settlement logic changes since all of the described logic changes will be automatically reflected in the report.

The described settlement logic changes will only impact those clients (or service bureaus) that do not create settlement obligations based on the GSD’s obligations report. In this case, the affected clients (or service bureaus) will need to configure their internal systems accordingly in order to properly deliver and receive GSD obligations.

There are several options available to Members for configuring their internal systems to ensure alignment with the new settlement logic changes:

1. All Members can utilize the following existing forms of GSD End of Day obligations report: MRO, SWIFT message and/or Print Image. Specifically, Members must be able to systemically read and process the following three fields (wire instructions) contained therein: (1) clearing bank ABA number, (2) Fed Address and (3) third party contra information. These fields indicate which clearing bank GSD obligations will need to be delivered to or received from.

The settlement information for the intraday DVP repo collateral substitutions is provided by GSD in the MT548 SWIFT messages.

2. The clients of BNY Mellon and JPM Chase can also elect the following:

*Delivering obligations to GSD:* Members should configure their system to always deliver all obligations (start of day and intra-day DVP repo substitutions) to GSD’s account within the Member’s respective clearing bank.

*Receiving obligations from GSD:*

- Clients of BNY Mellon: can utilize BNY Mellon’s “Alter Mode Flag” functionality which would allow the acceptance of receives based only on the 3<sup>rd</sup> party mnemonic (“GSCC”), ignoring the ABA number and bank name. Members will need to add “GSCC” into the “Ignore Sending Bank For” section of the Alter Mode Flag screen.

Members should contact their bank’s relationship manager for further questions on how to use this functionality.

- Clients of JPM Chase: JPM Chase is in the process of implementing a systemic solution to allow their clients to automatically match all receives from “GSCC” regardless of the ABA number and bank name. Clients will not need to do any manual changes.

Members should contact their bank’s relationship manager for any questions regarding this functionality.

3. The clients of other banks:
  - a. To create Start of Day obligations you will need to read one of the three forms of obligations report as described in #1 above
  - b. For Intra-day DVP repo substitutions you can configure your system to always deliver to, and receive from, GSD’s account at BNY Mellon

Summary of the options described above is presented in the following table:

	Start of Day	Intra-day Repo Substitutions
Clients of BNY Mellon	Option 1: Process one of the following: a. MRO 18 b. SWIFT 548 c. Open orders report	Option 1: Process SWIFT 548

	<p>Option 2: Use the following configurations: Always deliver to GSD's account at BNY Mellon Utilize Alter Mode Flag to match incoming receives from GSD only on 3<sup>rd</sup> party mnemonic</p>	<p>Option 2: Use the following configurations: Always deliver to GSD's account at BNY Mellon Utilize Alter Mode Flag to match incoming receives from GSD only on 3<sup>rd</sup> party mnemonic</p>
Clients of JPM Chase	<p>Option 1: Process one of the following: a. MRO 18 b. SWIFT 548 c. Open orders report</p> <p>Option 2: Always deliver to GSD's account at JPM Chase Receives from GSD will be matched automatically on 3<sup>rd</sup> party mnemonic</p>	<p>Option 1: Process SWIFT 548</p> <p>Option 2: Always deliver to GSD's account at JPM Chase Receives from GSD will be matched automatically on 3<sup>rd</sup> party mnemonic</p>
Clients of other banks	<p>Process one of the following: a. MRO 18 b. SWIFT 548 c. Open orders report</p>	<p>Option 1: Process SWIFT 548</p> <p>Option 2: Always deliver to, and receive from, GSD's account at BNY Mellon</p>

## Plans for Member Testing

FICC is currently in the process of implementing and testing the new settlement logic internally. We anticipate that this initiative will go into production in late Q4 2015.

Member testing is currently planned to start at the end of July 2015 and will consist of the following:

- GSD will create and distribute test cases (“test scripts document”) covering various deliver and receive obligation to, and from, GSD in accordance with the new settlement logic. The obligations will consist of all products that GSD currently clears;
- Based on the test cases, GSD will generate MRO and SWIFT messages. MRO and SWIFT messages will be used for testing Start of Day obligations settlement, and SWIFT messages will be used for testing Intra-day DVP repo substitutions settlement. The formats of these messages will stay the same as in the current production environment;
- Both, the MRO and SWIFT messages, will be posted into the PSE region of RTTM's Report Center daily during the testing period;
- Members will be able to download these messages from the PSE region of RTTM's Report Center and load them into their test settlement systems in order to generate expected receive and pending deliver obligations;

- The test script document will show the details of the output (expected receive and pending deliver obligations) that should be generated as a result of processing the messages;
- It is important that Members and/or their service bureau verify that the settlement instructions on the expected receive and pending deliver obligations are generated according to the settlement instructions specified in these messages and as described in the test scripts document;
- Members using service bureaus will need to coordinate this testing with their service bureaus;
- GSD will require every Member's written affirmation that the test was successful. The affirmations should be emailed to your GSD's Relationship Manager. Service Bureaus can affirm on behalf of their clients; and
- GSD will begin generating the messages, as described above, at the end of July 2015 and will continue posting them daily into the PSE region of RTTM's Report Center for a period of 1 month. The exact dates will be published as soon as they become available.

Member firms will be able to download the messages and test them in their internal systems at any time during the testing period. Coordination and testing with GSD's Testing Group is not required.

### **Next Steps**

**Below is a list of steps that Members and service bureaus must take in order to prepare for testing.**

1. If you are using GSD End of Day and/or Intra-day obligations report, as described in Section 1 of the Member Impact section, to automatically set up receive and deliver obligations, you need to make sure that you are reading all the fields contained therein, i.e. Clearing bank ABA number, Fed Address and the third party contra information (i.e. "GSCC")
2. Clients of BNY Mellon can contact their bank representative in order to familiarize themselves with the Alter Mode flag functionality described in Section 2 of the Member Impact section.
3. Clients of JPM Chase can contact their bank representative to familiarize themselves with the automatic match functionality that is being developed for GSD
4. It is recommended that clients immediately verify that they can access the PSE region of RTTM's Report Center. To obtain a login to the application or for issues with usernames and passwords each firm should work with their Remote Access Coordinator (RAC)

If you have any questions regarding this initiative or to send in the successful testing affirmation, please contact your Relationship Manager, or contact the undersigned at 212-855-5226 or bsolovey@dtcc.com.

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