

<b>GOV #:</b>	GOV059-15
<b>Date:</b>	August 12, 2015
<b>To:</b>	Government Securities Division Members
<b>Category:</b>	Service Updates
<b>Subject:</b>	Member Testing of 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.

## Testing of GSD Settlement Optimization Initiative

As a follow up to the DTCC’s Important Notice GOV045-15<sup>1</sup> published on June 22, 2015, GSD would like to provide details on the member test approach and announce testing dates for the GSD Settlement Optimization Initiative.

## Test Objective

The objective of the test is to provide members with an opportunity to confirm that the new settlement logic will not adversely impact the settlements of their deliver obligations and receive obligations against GSD. As a result, GSD is requesting that members process applicable obligations reports (as explained below) that are produced using the new settlement logic. This will ensure that member generated obligations are created with correct settlement instructions.

## Obligations Reports

During the testing period, GSD will post the following Obligations Reports into the PSE region of RTTM’s Report Center:

- End of Day obligations reports in the MRO (records type “18”) and SWIFT 548 formats:  
MRO18\_BusinessDate\_BusinessDate.txt and MT548\_BusinessDate\_BusinessDate.txt
- Intraday substitutions reports in SWIFT MT548 and SWIFT MT518 formats:  
MT548\_INTRADAYSUBS\_BusinessDate\_BusinessDate.txt and  
MT518\_INTRADAYSUBS\_BusinessDate\_BusinessDate.txt

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<sup>1</sup> <http://dtcc.com/~media/Files/pdf/2015/6/22/GOV045-15.pdf>

Obligations Reports will be posted each business day at 9:00 a.m. (EST). As previously stated, the format of the Obligations Reports will not differ from those that are currently generated in the GSD production environment.

The Obligations Reports will contain obligations representing product types that are eligible for clearing at GSD. These obligations will be the same every business day during the testing period. Each obligation will either be a deliver obligation or receive obligation destined to or originating from the settlement bank based on the new settlement logic. The settlement date for the obligations will be the next business day. The Obligations Reports for clients of BNY Mellon and clients of JPM Chase will each contain 30 different obligations. For members that settle their obligations at banks other than BNY Mellon or JPM Chase, there will be a total of 40 different obligations. All of the obligations, along with the testing instructions are listed in clearing bank specific testing documents available for download at the following links:

1. For members that settle at BNY Mellon:  
<http://www.dtcc.com/~media/Files/Downloads/Clearing-Services/FICC/GOV/SO-BNY-testcases.pdf>.
2. For members that settle at JPM Chase:  
<http://www.dtcc.com/~media/Files/Downloads/Clearing-Services/FICC/GOV/SO-JPM-testcases.pdf>.
3. For members that settle at banks other than BNY Mellon or JPM Chase:  
<http://www.dtcc.com/~media/Files/Downloads/Clearing-Services/FICC/GOV/SO-External-testcases.pdf>.

For any login related questions regarding the PSE region of RTTM's Report Center, members should contact [FICCSUPPORT@DTCC.COM](mailto:FICCSUPPORT@DTCC.COM).

## **Member Testing**

During the testing period, members can login into the PSE region of RTTM's Report Center to download pertinent Obligations Reports, depending on which format is being systemically utilized - MRO or SWIFT. Members will need to load these reports into their internal system in order to verify that the resulting deliver obligations and receive obligations are generated with the correct settlement instructions. As mentioned in the previous section, clearing bank specific test case documents include all of the obligations contained in the Obligations Reports.

JPM Chase and BNY Mellon provide their clients with the functionality to match receive obligations from GSD based only on the 3rd party mnemonic, i.e. "GSCC" ("mnemonic suppression functionality"). Therefore, the clients of JPM Chase and clients of BNY Mellon do not need the settlement instructions on the created receive obligations to match what is specified in the test document as long as the settlement instructions say "JPMCHASE/GSCC" or "BK OF NYC/GSCC".

JPM Chase has the mnemonic suppression functionality implemented systemically. BNY Mellon has it available within their system’s “Alter Mode Flag” screen. GSD strongly encourages clients of BNY Mellon to begin using this functionality in their production environment as soon as possible. Members should contact their respective clearing bank’s relationship manager to ensure the functionality is properly set up.

Members who use service bureaus to generate obligations will need to provide the downloaded files to their service bureaus for testing on clients’ behalf. Members should contact their service bureau representative to arrange testing.

Members who do not perform any intraday substitutions will only be required to test start of day obligations creation.

Members who use GSD’s Open Orders Report to manually create their obligations will not be required to test but are required to send in their affirmations confirming their readiness.

**Mnemonic suppression functionality and mapping tables**

Members who are relying on the mnemonic suppression functionality in general utilize some form of an internal mapping table to link each product type with the appropriate settlement instruction for the purpose of creating receive and deliver obligations. For example, clients of BNY Mellon and clients of JPM Chase may currently have the following sample mapping table:

<b>Product type</b>	<b>Receive From</b>	<b>Deliver To</b>
Agency	JPMCHASE/GSCC	JPMCHASE/GSCC
Treasury Bills	JPMCHASE/GSCC	JPMCHASE/GSCC
Treasury Bonds	JPMCHASE/GSCC	JPMCHASE/GSCC
Treasury Notes	BK OF NYC/GSCC	BK OF NYC/GSCC
<i>rest of product types</i>	<i>depending on product type</i>	<i>depending on product type</i>

For the purposes of testing, the mapping tables should be updated to reflect the new settlement logic. Clients of BNY Mellon will need to update the mapping table as shown below:

<b>Product type</b>	<b>Receive From</b>	<b>Deliver To</b>
Agency	BK OF NYC/GSCC	BK OF NYC/GSCC
Treasury Bills	BK OF NYC/GSCC	BK OF NYC/GSCC
Treasury Bonds	BK OF NYC/GSCC	BK OF NYC/GSCC
Treasury Notes	BK OF NYC/GSCC	BK OF NYC/GSCC
<i>rest of product types</i>	BK OF NYC/GSCC	BK OF NYC/GSCC

Clients of JPM Chase will need to update the mapping table as shown below:

<b>Product type</b>	<b>Receive From</b>	<b>Deliver To</b>
Agency	JPMCHASE/GSCC	JPMCHASE/GSCC
Treasury Bills	JPMCHASE/GSCC	JPMCHASE/GSCC

Treasury Bonds	JPMCHASE/GSCC	JPMCHASE/GSCC
Treasury Notes	JPMCHASE/GSCC	JPMCHASE/GSCC
<i>rest of product types</i>	JPMCHASE/GSCC	JPMCHASE/GSCC

**Test dates.**

The test period will begin on August 13, 2015 and will run through September 18, 2015.

**Affirmation of testing**

Upon completion of the testing, GSD requires that every member send an email affirmation to its GSD Relationship Manager. Such email should contain the following, as applicable:

1. Results of the test.

For start of day obligations creation test choose one of the three responses:

- a. All test cases passed. All settlement instructions matched.
- b. All test cases passed. Some settlement instructions on the receive obligations did not match but we are relying on the mnemonic suppression.
- c. Some or all test cases failed. Please provide details and the expected resolution date.

For intraday obligations creation test choose one of the five responses:

- a. All test cases passed. All settlement instructions matched.
- b. All test cases passed. Some settlement instructions on the receive obligations did not match but we are relying on the mnemonic suppression.
- c. Some or all test cases failed. Please provide details and the expected resolution date.
- d. We manually create obligations for intraday substitutions
- e. We do not perform intraday substitutions

2. Services bureaus can attest on behalf of their clients by providing details of the test as shown above and listing account numbers of those clients.

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.

Boris Solovey  
 Director, Product Management