

Fixed Income Clearing Corporation:

MBS Novation - Split/Splice Interactive Messaging Overview

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Table of Contents

MBS Novation - Split/Splice Interactive Messaging Overview	1
1 Split/Splice Processing Overview	4
1.1 Splice Example	4
1.2 Split Example.....	4
1.3 Combo (Splice and Splice) Example	5
2 Split/Splice Messaging Overview	6
2.1 Exact Match Flow	8
2.2 Splice Flow	9
2.3 Split Flow.....	10
2.4 Combo (Split and Splice) Flow.....	11

Version Control Page

Date	Version #	Name	Description of Change
09/14/2016	1.0	C. Swords	Initial version

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.

Split/Splice Processing and 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 existing business processes for **net position (split/splice) matching**, highlighting changes made to interactive messaging to support this within the context of Novation. **Please note that this document only provides summary of existing and changes to split/splice messages and is not intended to be an exhaustive source of all changes.**

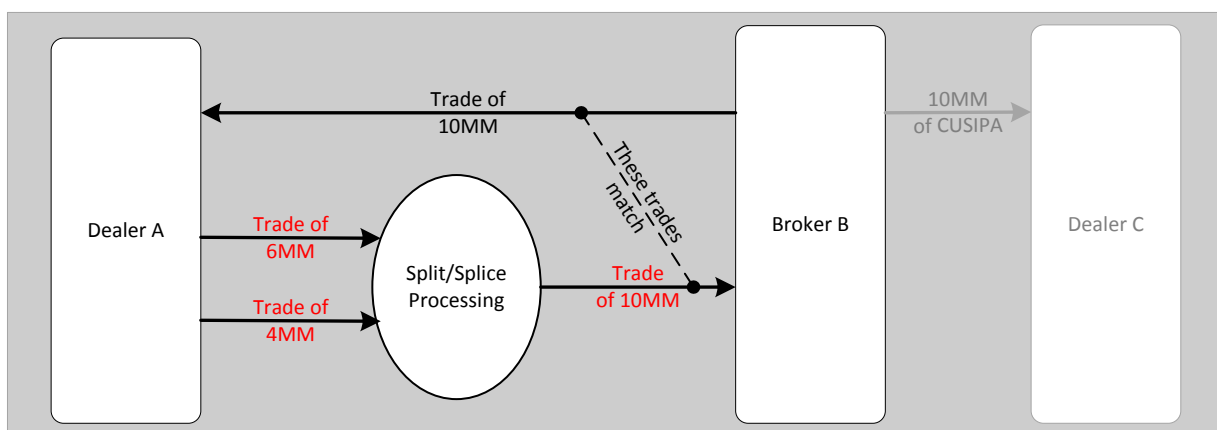
1 Split/Splice Processing Overview

A unique business practice associated with Broker trading is “ticket splitting and splicing.” This occurs when trades with matching terms submit by a Broker and Dealer do not match on par value on a trade-by-trade basis, but they do match on a net par basis. In this case, “split-splice processing” occurs, which will “split” or “splice” the Dealer trades as necessary to match to the Broker trades. Specifically, MBSD will cancel the Dealer trades, and create new Dealer trades that exactly match the Broker’s submissions. SPT and STIP trades are excluded from split/splice processing. Examples help clarify this process.

1.1 Splice Example

A “splice” occurs when multiple dealer trades are matched against a single broker trade. In this simple example, the following occurs:

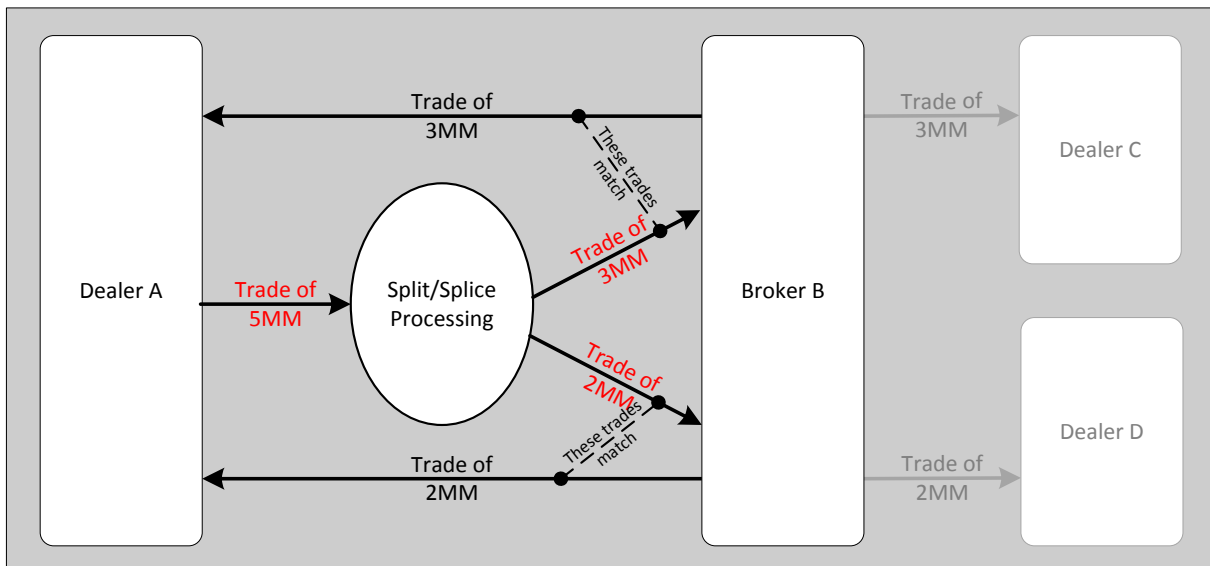
1. Broker B submits a trade where they buy 10MM from Dealer A and sells 10MM to Dealer C.
2. Dealer A submits a sell of 6MM and 4MM. Neither trade exactly matches the broker trade; however, the total par of 10MM (6+4) does match.
3. The two dealer trades are combined (“spliced”) into a single trade by MBSD by cancelling the original trades submit by Dealer A, and automatically creating new trade for 10MM.
4. The new trade of 10MM is now matched against the original broker trade of 10MM.



1.2 Split Example

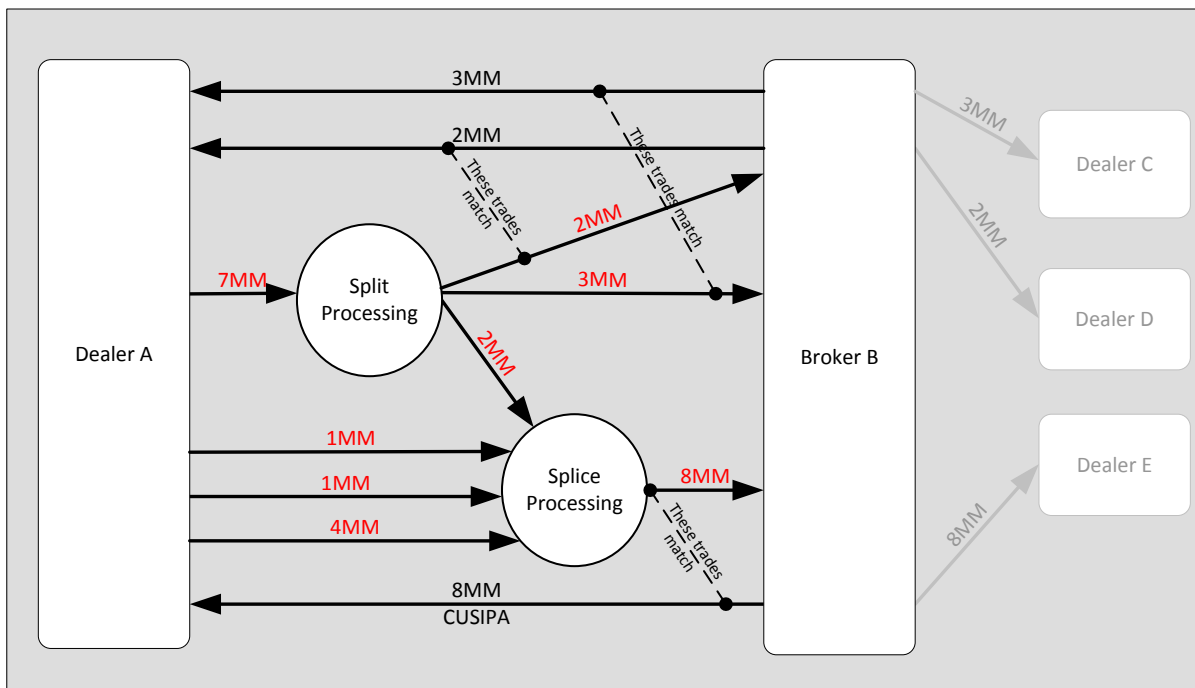
A “split” occurs when a single dealer trade is matched against multiple broker trades. In this simple example, the following occurs:

1. Broker B submits two trades, where they buy 3MM from Dealer A and sells to Dealer C, and another trade where they buy 2MM from Dealer A and sells to Dealer D.
2. Dealer A submits a single sell of 5MM. This trade does not exactly match to either broker trade; however, the total par of the broker’s trades does match (3+2=5).
3. The dealer trade is “split” by MBSD by cancelling the original trade submit by Dealer A, and automatically creating two new trades of 3MM and 2MM.
4. The new trades of 3MM and 2MM are now matched against the original broker trades of equal par value.



1.3 Combo (Splice and Splice) Example

A “split/splice” or “combo” occurs when multiple dealer trades are matched against multiple broker trades. This can get quite complex as both “split” and “splice” occurs in the same set of trades, as indicated in example below.



2 Split/Splice Messaging Overview

This section highlights certain messages/tags and how they are populated in a split/splice matching scenario. The tags COMM, MAST and CTRD are existing; the tag BASK is new with Novation.

NOTE: As described, only dealer trades are split/spliced – the broker trades remain in original form and are not processed differently depending on type of match occurring. As such, the below refers to dealer messages only.

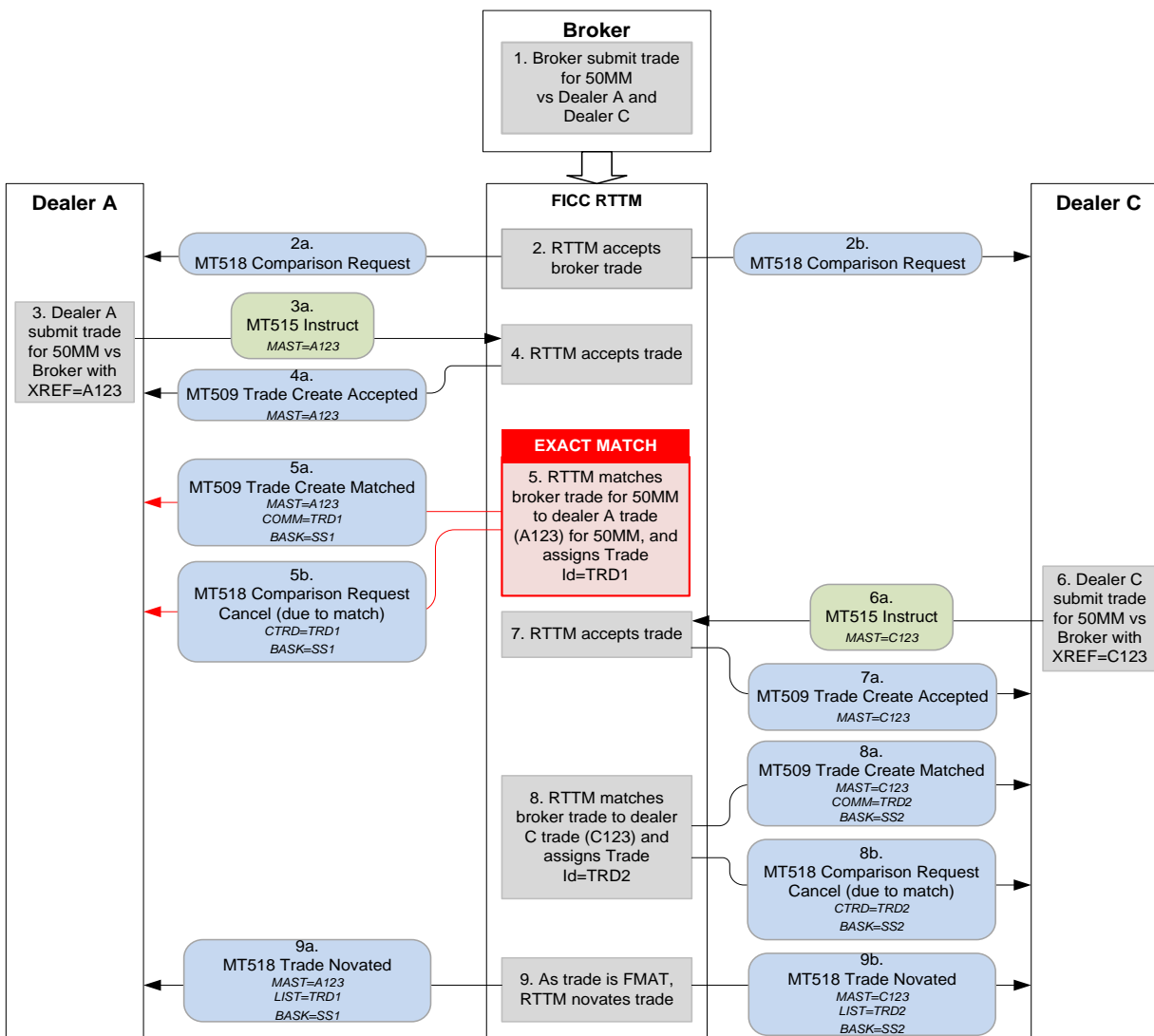
Tag	Type of Match				Comment
	Exact	Split	Splice	Combo	
MT509 Trade Matched					
COMM	Yes	No	No	No	If the trade was matched via exact match, this message will have tag COMM that contains the RTTM assigned Trade Id. If matched via split/splice, this tag will NOT be present.
BASK	Yes – if versus broker	Yes	Yes	Yes	If the trade is matched against a broker, this message will have tag BASK that contains the “broker match identifier” linking all broker and dealer trades together; noting that this could be an exact match (so only 1 dealer trade and 1 broker trade will have same BASK) or split/splice match (so a set of dealer and broker trades will have the same BASK).
MAST	Yes	Yes	Yes	Yes	This message will always have MAST that contains the member-defined reference number (XREF) for the matched trade (e.g. original trade that was submitted by member)
MT518 Comparison Request Advisory (due to match)					
CTRD	Yes	Yes	Yes	Yes	This message will always have the CTRD tag that contains the RTTM assigned Trade Id associated with the (contra) trade that was matched (and therefore resulting in this advisory being canceled). It’s important to note that as RTTM Trade Id is the same between two matching parties, the Trade Id in this field is also the same as assigned to the recipient’s trade. NOTE: when a split/splice situation occurs and RTTM cancels dealers original trades and creates replacement trades to match the brokers, it is in this CTRD tag that can get the trade id of the new dealer’s trades.
BASK	Yes – if versus broker	Yes	Yes	Yes	BASK is present when associated with broker trade, as described with MT509 Trade Matched.

Tag	Type of Match				Comment
	Exact	Split	Splice	Combo	
MAST	No	No	No	No	MAST is not present.
MT518 Trade Novated					
MAST	Yes	Yes	No	No	MAST is present when there is a non-blank XREF on the trade. When this trade resulted from exact match, or split situation, the XREF is non-blank so will be returned in this MAST tag; when trade resulted from splice or combo match, the XREF is blank so this tag is not present.
BASK	Yes – if versus broker	Yes	Yes	Yes	BASK is present when trade matched to broker, as described with MT509 Trade Matched.
LIST	Yes	Yes	Yes	Yes	LIST is always returned and will have RTTM Trade Id – noting that this is the same as returned in CTRD in the MT518 Cancel Request Cancel (due to match) mentioned above.

In the sections that follow, various messaging flows are shown, with the tags mentioned above highlighted.

2.1 Exact Match Flow

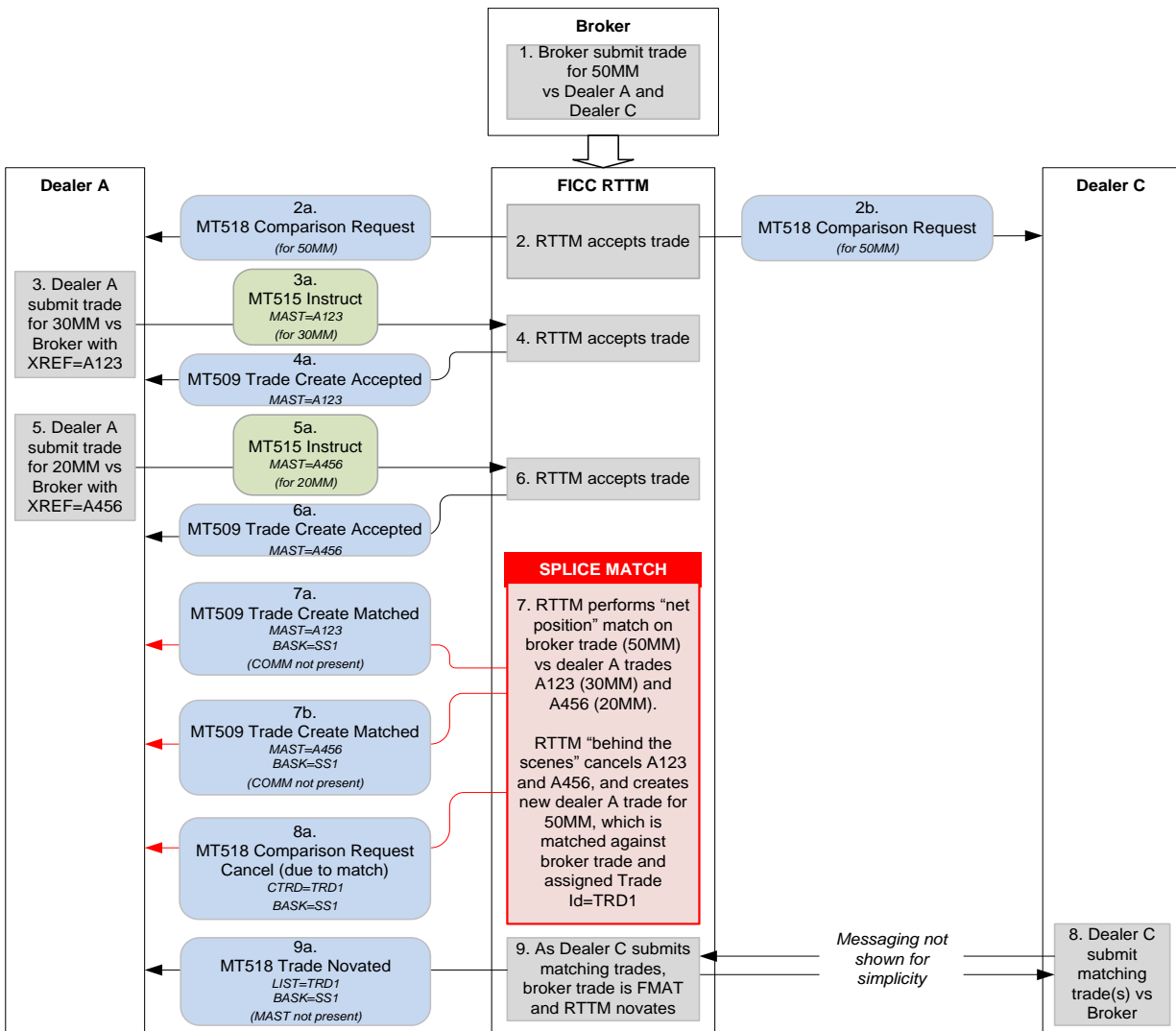
In this example, Dealer A submits one trade (50MM) that is matched to a single broker trade (50MM), as follows:



Note: for exact match, as split/splice has not occurred, the BASK is assigned with the Trade Id value. In other words, SS1=TRD1, and SS2=TRD2.

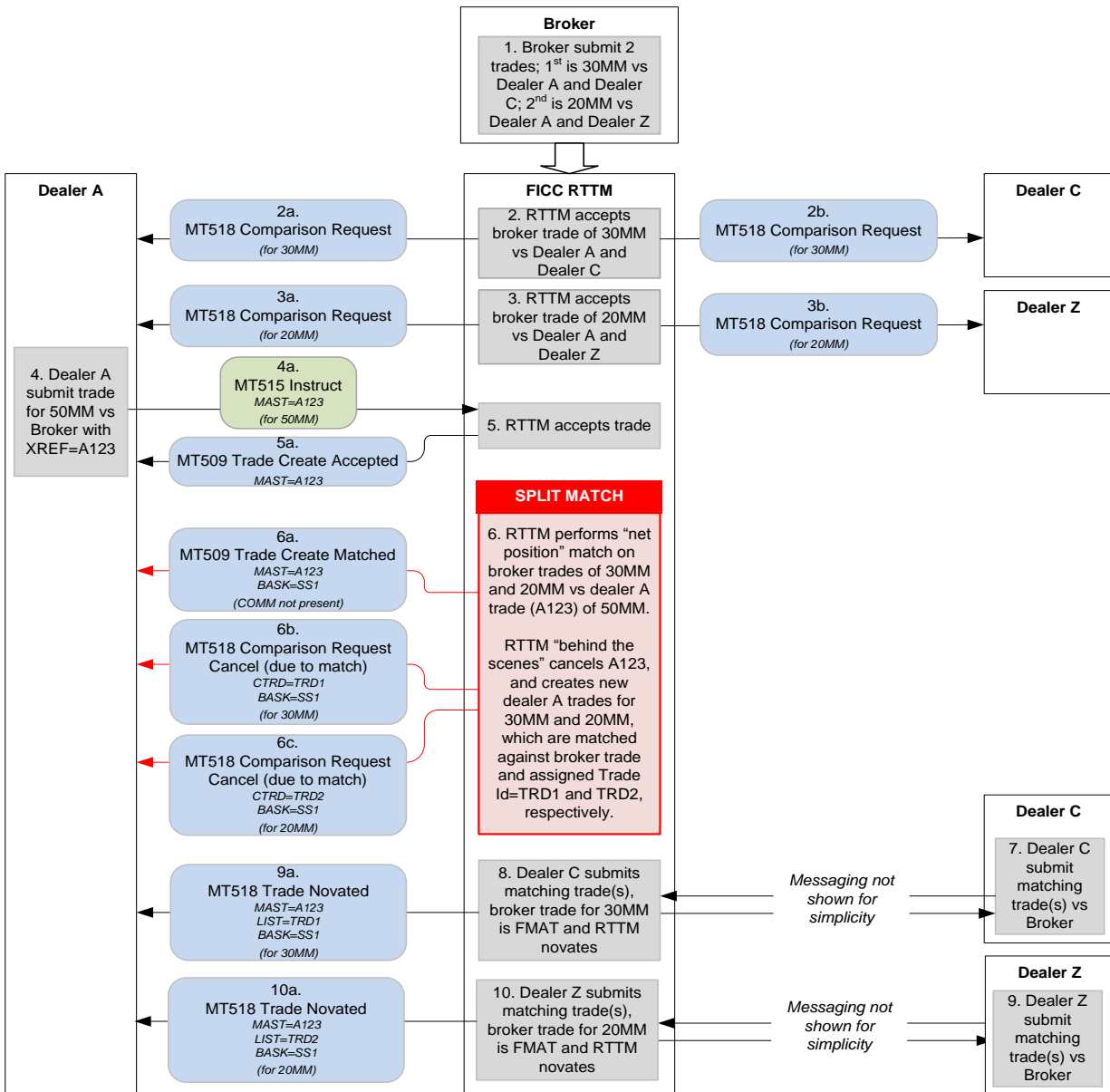
2.2 Splice Flow

In this example, Dealer A submits two trades (30MM and 20MM) that are matched against a single broker trade (50MM), as follows:



2.3 Split Flow

In this example, Dealer A submits one trade (50MM) that is matched against a two broker trades (30MM and 20MM), as follows:



2.4 Combo (Split and Splice) Flow

In this example, Dealer A submits two trades (40MM and 10M) that are matched against a two broker trades of different sizes (30MM and 20MM), as follows:

