Fedwire® Securities Service Automated Claims Adjustment Process (ACAP)

Overview

The Fedwire Securities Service offers the capability to automate claims adjustment payments among participants. The features facilitate adjustments and are referred to as:

- **Fail Tracking**
- **Interim Accounting**
- **Repo Tracking**

Clearing Memoranda

A description of each feature is included in this newsletter. Further details on the new features are available at www.frbservices.org in the following clearing memos:

#219 — Fail Tracking
#220 — Interim Accounting
#221 — Repo Tracking
#226 — Additional Information on the New Functionality
#236 — Additional Information on Repo Tracking
   and Interim Accounting
#237 — Bilateral Repo Adjustments
#238 — Unilateral Repo Adjustments
#240 — Implementation of Claim Adjustment Fee
#243 — Final Payment on Repo Tracking Transactions

Additional clearing memos and updates to existing memos will be published as needed.

Fail Tracking

Description of Fail Tracking

Fail tracking is an automated process that takes place when the actual settlement date of a transaction is beyond the contract date. An adjustment is made when one or more beneficiary dates fall between the contract date and the settlement date. The adjustment results in the payment of funds from the message originator to the message receiver through the Federal Reserve's National Settlement Service (NSS).

Benefits of ACAP Functionality

The addition of fail tracking, interim accounting and repo tracking to the Fedwire Securities Service yields the following benefits to investors:

- Eliminates a cumbersome manual process for tracking and clearing adjustments from securities transaction counter-parties.

- Impacts all Fed-eligible mortgage-backed securities, including Freddie Mac, Fannie Mae and Ginnie Mae.

Process

Securities transfer messages (type code 20) support the inclusion of a contract date. When originating a securities message, participants have the option of entering a field-tag in either free text line 1 or 2 to indicate the contract date. The format for the contract date is as follows: {98A:CNTR/yyyymmdd}. Although this is not a required field, the Fedwire Securities Service performs certain edits to ensure proper formatting when the field-tag is used. *Note: If the contractual settlement date is not included on a failed trade, it is considered a DK'able event according to the Bond Market Association's Uniform Practices Code.*

To aid in reconcilement, a report, *"BE Adjustment Notification – Fail,"* is transmitted the evening prior to the date of adjustment for failed trades indicating the net adjustment amount and supporting details. Reports are transmitted using the same medium as the "Immediate Principal and Interest Notifications" report.

Adjustment Related Specifications

Key facts regarding adjustments include:

- Only failed transactions that span over one or more record dates result in an adjustment.

- Principal and interest is always paid to the record holder first, followed by separate debit and credit adjustments for the failed trades later in the day on payment date.

- Fail tracking adjustment details are supplied at the end of each day for the next day's adjustment payment.

Interim Accounting
Description of Interim Accounting

Interim accounting is an automated tracking process for principal and interest when the beneficiary date occurs on a different date than the record date (i.e., zero-day delay bonds). Interim accounting processing occurs when the settlement date falls between the record date and the beneficiary date (accrual end date). The adjustment results in the payment of funds through the NSS.

Process

Adjustments due to interim accounting transactions are netted by securities account. The net debits and credits are functioned using the NSS and posted to the customer's account on the NSS line in the Account Balance Monitoring System (ABMS). Adjustments occur at approximately 2:00 p.m. ET on the payment date.

To aid in reconcilement, a report, *"BE Adjustment Notification – Interim Acctg,"* is transmitted the evening prior to the date of the adjustment indicating the net adjustment amount and supporting details. Reports are transmitted using the same medium as the "Immediate Principal and Interest Notifications" report.

Adjustment Related Specifications

Key facts regarding adjustments include:

- Principal and interest are always paid to the record date holder first, with separate debit and credit adjustments made later in the day on the payment date.

- Interim accounting adjustments are made on the payment date.

- If the transaction is both a multiple-month fail and subject to interim accounting, the Federal Reserve will track both fail and interim accounting.

Repo Tracking
Description of Repo Tracking

Repo tracking is also an automated process for tracking principal and interest as well as for recording "repo-in" and "repo-out" balances of each participant. Fedwire system participants are able to identify, for the purpose of repo tracking, securities transfer messages involving repurchase agreements through the use of new field tags. This allows the Federal Reserve to record and maintain two balances — *Repo Out* (total par value of repo collateral delivered) and *Repo In* (total par value of repo collateral received) — for each participant. These balances are maintained in terms of the contra for all participants. On record date, an adjustment occurs based upon a participant's repo balances. An adjustment results in the payment of funds from the holder of a *Repo In* balance to the holder of a *Repo Out* balance through the NSS.

Process

Securities transfer wires (type code 20) support a repo-tracking indicator. When originating a securities transfer message, a Fedwire participant has the option to enter a field-tag in free text line 1 or 2 to indicate the repo tracking identifier. These field-tags affect *Repo Out* and *Repo In* balances; however, the use of these field-tags does not alter the way par and cash are transferred under the securities transfer message type codes. The six field tags that support repo transactions are:

- RPST — Repo start
- RPRV — Repo start reversal
- CLRP — Repo close
- CLRV — Repo close reversal
- ADRP — Repo adjustment
- ADRV — Repo adjustment reversal

When processing messages with these repo tracking identifiers, the Federal Reserve ensures that sufficient balance is held to return or reverse the repo.

The Federal Reserve tracks information on repo transactions based on a DI's ABA number and securities accounts. To aid in reconcilement, the Federal Reserve sends out two reports: 1) *"BE Repo Balance Statement,"* which is transmitted to customers, each evening, in the same medium they receive their Holdings Statements, and 2) *"BE Adjustment Notification – Repo,"* which is sent the evening prior to the date of the adjustment in the same medium they receive their "Immediate Principal and Interest Notifications" report.

Adjustment Related Specifications

Key facts regarding adjustments include:

- Daily repo balance report is delivered at the end of the day.
- On the record date, the repo balance is used to trigger payment date adjustments.
- Proceeds are always paid to the record date holder, with separate debit and credit adjustments on the payment date.

Customer Impact
Pricing

The Federal Reserve assesses a surcharge for each Fail Tracking, Interim Accounting and Repo Tracking adjustment. Detailed information is provided in Clearing Memo #240, Implementation of Claim Adjustment Fee. The current fees can be found in the fee schedule for the Fedwire Securities Service at www.frbservices.org.

Automation Changes

The Federal Reserve attempted to limit the number of customer changes required to use these features by utilizing field-tags in the current free text fields. For computer interface customers, Computer Interface

Protocol Specifications (CIPS) changes were necessary to automate receipt of the new adjustment reports. Computer interface customers should contact their local Account Executive to discuss the necessary changes and to schedule testing as necessary.

Testing

The Depository Institution Testing (DIT) region is available for customer testing.

What Did Not Change?

The Federal Reserve did *not* change its current principal and interest processing or make changes to the *transfer* component of the CIPS.

The features described in this document are available at a securities product level, e.g., FMPC, FNMS. All mortgage-backed securities on the Fedwire Securities System are included. A full list of the securities products eligible for these features is available in Clearing Memo #226, Additional Information on the New Functionality.

Whom to Call with Questions

If you have any questions, please contact the Federal Reserve Bank of New York at (201) 531-3341.

Glossary

Beneficiary Date: The date on which the accrual period ends. On the Fedwire system, the beneficiary date is reflected as the start of business on the day following the end of the accrual period.

Claim Adjustment: A transfer of funds from one Fedwire participant to another Fedwire participant.

Contra: The offsetting ABA and securities account on a securities transfer message with a Repo tracking indicator.

Contract Date: The date specified by the participant as the initially agreed upon contractual settlement date.

DK (Don't Know): A transaction that is reversed (DK'd) because the receipt of the original security was not expected/known.

Payment Date: The date that a dividend will be paid to the holder of record.

Record Date: The date on which the holder of record is identified for payment of principal and interest. On the Fedwire system, the record date is reflected as the start of business on the next day.

Repo In Balance: The record created for each participant that reflects the accumulation of Repo activity which will result in a debit claim adjustment.

Repo Out Balance: The record created for each participant that reflects the accumulation of Repo activity which will result in a credit claim adjustment.

Settlement Date: The date upon which the securities transaction is processed by the Fedwire system (clearance date).