



Fedwire® Securities Service Modernization

Bank Depository User Group Annual Meeting
October 24, 2012

Introduction

- The Federal Reserve Banks' Wholesale Product Office has embarked on an effort to modernize Fedwire® Securities Service software so that we can be more flexible in meeting customer and policy stakeholder needs.
- We plan for a “like-for-like” cutover to the modernized software in late 2015.
- Modernization in and of itself is not the goal. Rather, we are beginning the process of evaluating and prioritizing enhancements suggested by customers and policy stakeholders that could be implemented once the cutover is complete.
- To date, we have interviewed several external customers and multiple internal stakeholders.

Important Note

Meetings like these are an important means by which we solicit stakeholder feedback on the services we provide.

However, we cannot and do not guarantee that any features or functionality discussed today will be developed or implemented.

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Agenda

1. Background.
2. Overview of customer and stakeholder suggested and industry recommended post-modernization enhancements.
3. The post-modernization roadmap.

Background - Key Activities

- **Transfer of Securities**
 - Delivery Versus Payment (DVP) – Securities transactions involve a simultaneous exchange of valuables.
 - Transfers are initiated by sender of securities.
 - Secondary market activity accounts for most transfers.
- **Account Maintenance**
 - Includes securities account maintenance.
- **Fiscal Agent Responsibilities**
 - Securities issuance support.
 - Payment of principal and interest and securities redemption.

Background - Customers

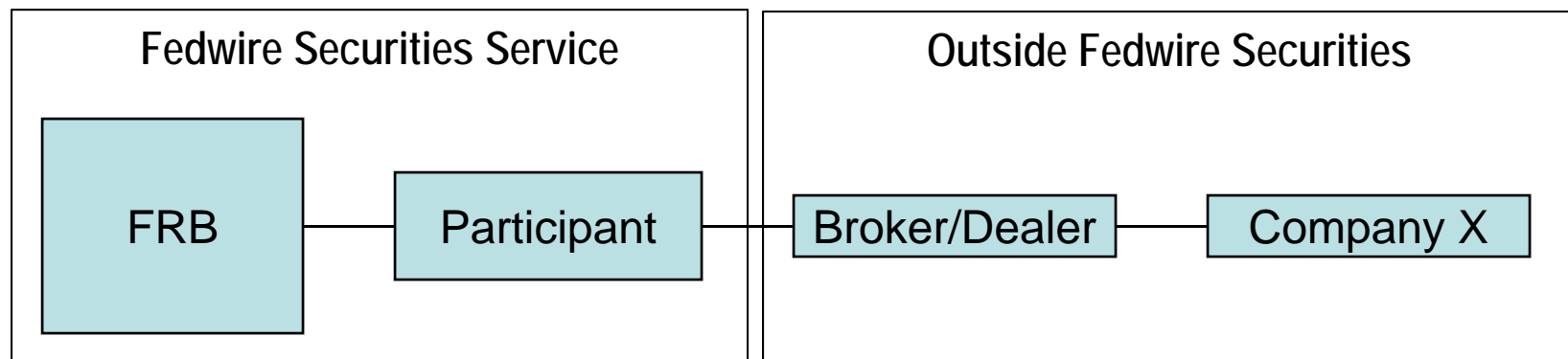


- **Access to the Fedwire services is provided to:**
 - U.S. depository institutions
 - commercial banks
 - savings banks
 - credit unions
 - The U.S. Treasury, other federal agencies, government-sponsored enterprises, and certain international organizations,
 - Agreement and Edge Act corporations, and
 - U.S. branches and agencies of foreign banks.

Background - Account Maintenance



- **Account balances are maintained via a tiered structure**
 - Reserve Banks maintain securities accounts for direct customers (participants) of the service. Most participants are depository institutions.
 - Those participants, in turn, maintain records of holdings for their customers (e.g. broker/dealers) on their “books” or systems.
 - These entities, in turn, maintain records of holdings for their customers (e.g. individuals, institutional investors).



Background – Eligible Securities

- The service facilitates the maintenance of securities accounts and transfer of:
 - all marketable U.S. Treasury securities, including
 - Bills, notes, and bonds
 - most government-sponsored enterprise (GSE) securities (e.g. Fannie Mae and Freddie Mac) and some federal agency securities (e.g. Ginnie Mae),
 - Debt and mortgage-backed securities
 - certain international organization securities (e.g. Asian Development Bank).

Background - Key Volume and Value Statistics



2011 Fedwire Securities Origination Volume and Value¹

Average Daily Transfer Volume	74,000
Average Transfer Value	\$15.7 million
Average Daily Transfer Value	\$1.2 trillion
Total Annual Dollar Value	\$292 trillion
Total Annual Volume ²	18.6 million

¹ Source: PACS Database.

² 99.97% of Securities volume was originated online (electronically). The remainder was originated offline (via telephone).

Background - Customer Statistics

Fedwire Securities Service Customers (2011)

- Approximately 6,600 participating accounts.
- The top 25 customers account for 97 percent of the total transfer volume and 98 percent of the total transfer value originated.
- The top 2 customers account for 66 percent of the total transfer volume and 73 percent of the total transfer value originated.

Background – Eligible Securities Statistics



Securities Outstanding – December 2011

	Par (\$ in Billions)	Number of CUSIPS
U.S. Treasury	\$9,930	312
MBS	\$47,600	1,176,253
Agency Debt	\$2,483	10,588
International Organizations	\$132	265
Totals	\$60,145	1,187,418

Background - Fedwire Securities Service Functionality



1. Customer Directory
 2. Securities Directory
 - CUSIP[®] Information
 - Factor File Processing
 3. Custody
 - Par Holdings
 - Repo Balances
 - Merger Support
 4. Transfer & Settlement
 5. Conversion (Strip & Reconstitution)
 6. Collateral Processing
 - Pend Withdrawals
 - Remit/Suspend Maturity Proceeds
 7. Principal & Interest Payments
 8. Automated Claim Adjustment Process
 - Fail Tracking
 - Interim Accounting
 - Repo Tracking
 9. Customer Statements
- Administrative Functionality
8. End of Day Processing
 9. Application Control & Monitoring
 10. Billing
 11. Interfaces

"CUSIP" is a registered trademark of the American Bankers Association.

Key Customer Interviews



- Issuers
- Clearing Banks
- Financial Market Utilities
- Fedwire Securities Service Participants

Key Customer Themes

1. Accounts and Mapping
2. Adjustments/Billing
3. Controls
4. Fedwire Securities Service Messaging
5. Inquiry Capability/Analytics
6. International Standards
7. Product Capability
8. Statements
9. Transaction Size
10. Transaction Tracking

Key Customer Detail

1. Accounts and Mapping

1. **Third-Party Name Mapping** - Publish the Third-Party Name Mapping List.
2. **DTCC Broker Codes and SWIFT Codes** - Facilitate the ability to map DTCC broker codes and SWIFT codes to the respective Fedwire delivery instruction.
3. **Account Structure Capabilities** - Enhance account structure capabilities.

2. Adjustments

1. **Fails Penalty Charges** – Facilitate fails penalty charges.
2. **Anticipated Repo Adjustments** - Provide advance notice of anticipated repo adjustment information.
3. **Unilateral/Bi-Lateral Repo Adjustments** – Enhance unilateral & bilateral repo adjustment capability.
4. **P&I Adjustments** - Automate the manual P&I adjustment process.

“SWIFT” is a trademark of S.W.I.F.T. SCRL.

Key Customer Detail

3. Controls

1. **Receiver Controls** - Provide receiver control capabilities.
2. **Revoking Transactions** - Enhance rules around revoking transactions.
3. **Trade Confirmation** - Make Fedwire securities eligible for the DTCC confirmation/affirmation process.

4. Fedwire Securities Service Messaging

1. **CUSIP Broadcast Capabilities** - Enhance CUSIP broadcast capabilities to facilitate capturing individual CUSIP updates.
2. **Fedwire Extensions** - Facilitate more automation around Fedwire extensions.
3. **MBS Novation Support** - Support FICC's settlement changes due to MBS novation.

Key Customer Detail

5. Inquiry Capability

1. **Balance Inquiry** - Provide real-time repo balance inquiry and account cash balance inquiry.
2. **Search Capability** - Provide capability to search past messages by date range.
3. **Import Capability** - Allow customers to import multiple files with the same file name without going through the steps of selecting the file name repeatedly.
4. **Securities Master Self-Service** - Provide customers with the capability to pull CUSIP information.
5. **Security Holder Identification** - Provide issuers with the capability to identify holders of their securities.

6. International Standards

1. **Message Format** - Consider mapping Fedwire messages to the SWIFT message format.
2. **Foreign-Denominated Securities** – Support securities issued in foreign currencies.

Key Customer Detail

7. Product Capability

1. **New Product Introduction** - Shorten the timeframe for introducing new products.
2. **Same-Day Issuance** - Support the same-day issuance of securities.
3. **Partial Calls** - Effect partial calls by decreasing the holder's outstanding holdings.

8. Statements

1. **Third-Party Name** - Include the third-party name on Fedwire Securities Service statements, where applicable.
2. **Statement Routing** - Have the flexibility to route statements to different endpoints.

Key Customer Detail

9. Transaction Size

1. **\$50 Million Limit** - Consider raising the \$50 million limit on book-entry secondary market transactions.

10. Transaction Tracking

1. **Repo Tracking** - Expand repo tracking to include Treasury securities and agency debt securities.
2. **Fails Tracking** - Expand fails tracking to include Treasury securities and agency debt securities.
3. **Loan Tracking** - Provide more loan tracking capability.

Key Customer Request Summary

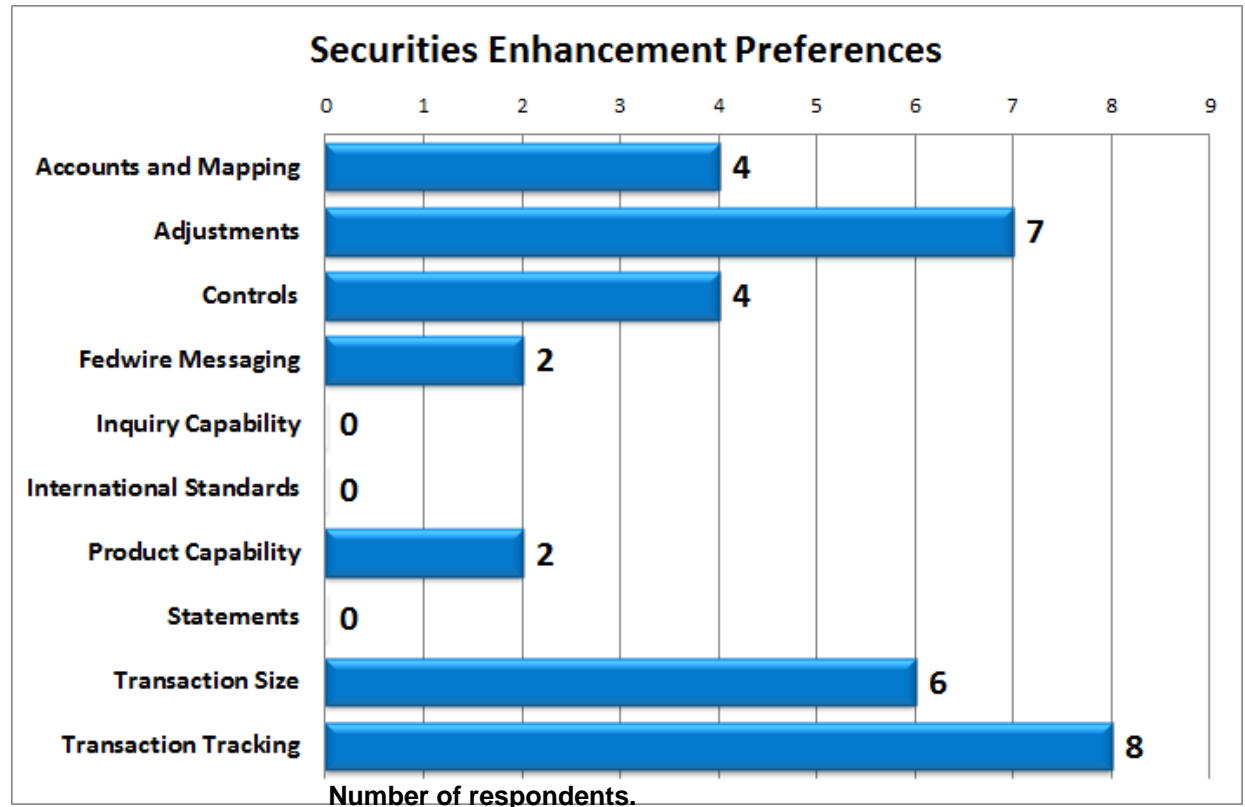


- Accounts and Mapping
 - Account structure capability
 - Third-party name mapping
 - DTCC/SWIFT broker code mapping
- Adjustments/Billing
 - Fails penalty charges
 - Unilateral/Bilateral adjustments
 - Anticipated repo adjustments
 - P&I adjustments
- Controls
 - Receiver controls
 - Revoking transactions
 - Trade confirmation
- Fedwire Securities Service Messaging
 - CUSIP broadcast capability
 - Fedwire service extensions
 - MBS novation support
- Inquiry Capability/Analytics
 - Balance inquiry
 - Search capability
 - Import capability
 - Securities master self-service
 - Security holder identification
- International Standards
 - Message format
 - Foreign-denominated securities
- Product Capability
 - New product introduction
 - Same-day issuance
 - Partial calls
- Statements
 - Third-party name
 - Statement routing
- Transaction Size
 - \$50 million limit
- Transaction Tracking
 - Repo tracking
 - Fails tracking
 - Loan tracking

BDUG Webinar



The Federal Reserve Banks hosted a webinar for the BDUG. As part of the webinar, we conducted an informal survey to gauge BDUG member preferences for the most desired post-modernization enhancements.



Seeking Views from a Variety of Perspectives



Stakeholder Themes (To Date)



1. Access
2. Account Capability
3. Adjustments & Billing Options
4. Credit Risk Management/Controls
5. Financial Market Reforms
6. Inquiry Capability/Analytics
7. International Standards/Issues
8. Product/Issuance Capability
9. Operating Hours

CPSS Principles for Financial Market Infrastructures (PFMIs)



- The PFMIs are a set of international standards for financial market infrastructures (FMIs) published in April 2012 that harmonize and strengthen existing international standards.
- FMIs include systemically important payment systems (PSs), central securities depositories (CSDs), securities settlement systems (SSSs), central counterparties (CCPs), and trade repositories (TRs).

Developing the Post-Modernization Roadmap



Beginning in 2013, we plan to prioritize any post-modernization system enhancements and create the post-modernization roadmap.



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