



Fedwire® Securities Service Update

Bank Depository User Group Annual Meeting
September 23, 2014

Chris Burke, VP and Head of Fedwire Securities Service

Agenda

- About the Fedwire Securities Service (FSS)
- Fedwire Modernization update
- FSS' post-Modernization product development
- Two questions on potential enhancements

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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About the Fedwire Securities Service

Fedwire Securities Service (FSS)

- The Federal Reserve Banks maintain, in electronic form, all marketable U.S. Treasury securities, as well as many securities issued by federal government agencies, government sponsored enterprises and certain international organizations
- As of year-end, the system contained \$66 trillion in assets across over 1.2 million CUSIPs (see http://www.federalreserve.gov/paymentsystems/fedsecs_ann.htm)
- To-date in 2014, an average \$1.4 trillion in “Fedwire eligible” securities is transferred each day
- FSS is a real-time securities-transfer system that allows for the immediate, simultaneous transfer of securities against payment on a gross basis. Once processed, transactions are final and irrevocable.

Fedwire Securities Service

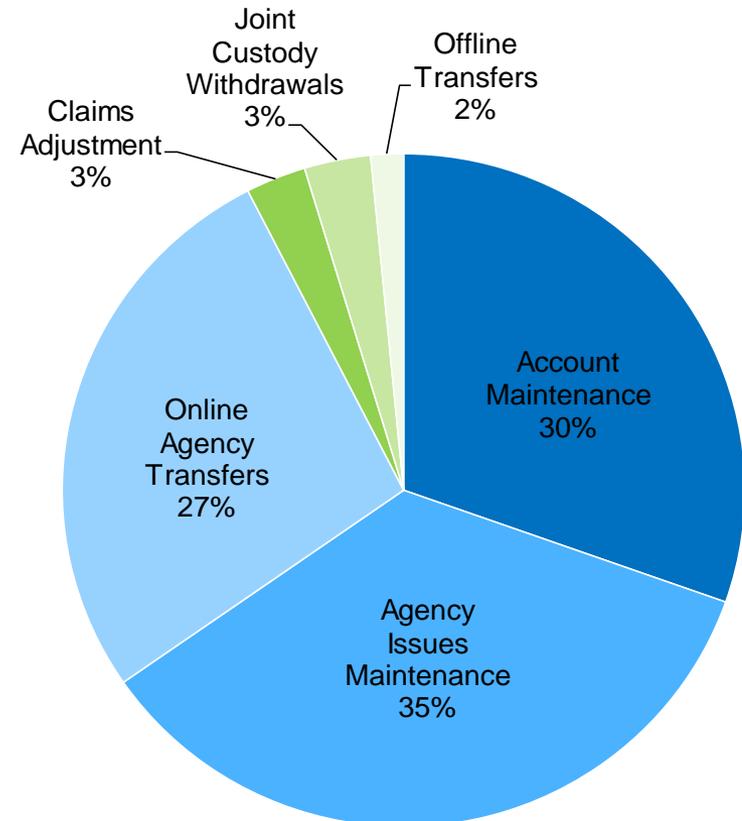
Core Services

- **Fedwire Securities Transfer and Settlement of Securities**, including
 - Original issue transactions
 - Secondary market transactions
 - Principal and interest payments and maturity redemptions
- **Securities Account Maintenance**
 - Unlike master accounts, participants may maintain as many securities accounts as needed
 - There are two types of securities accounts
 - Unrestricted: participants use as they wish and may transfer securities freely
 - Restricted: transfers from restricted accounts generally require involvement by a Reserve Bank; participants use to pledge collateral to secure obligations related to Treasury programs, discount window loans, payment system risk requirements, and state and local government deposits
- **Services to Fiscal Principals**
 - Issuance and related fiscal agent support, including payment of P&I, call notices, stripping and reconstitution, and redemption
- **Serve as a central securities depository for securities issued on the Service**

One Service, Six Products

- **Account Maintenance:** Fedwire Securities accounts, as of the end of each month
- **Agency Issues Maintenance:** agency debt and MBS issues (CUSIPs) held in Fedwire Securities accounts, as of the end of each month
- **Online Agency Transfers:** secondary market agency MBS and agency debt transfers, originated and received
- **Claims Adjustments:** agency MBS adjustments during the month, comprised of fail tracking claims, interim claims, and repo tracking claims
- **Joint Custody Withdrawals:** withdrawals of collateral from joint custody accounts
- **Offline Transfers:** transfers originated via phone or fax, requiring manual processing

2013 Product Revenue Breakdown



Transfer Fees

Service	Billing Code	Agency Securities Fee	Treasury Securities Fee
Basic Transfer Origination	20121	\$ 0.54	\$ 0.67
Basic Transfer Received	20122	\$ 0.54	\$ 0.67
Basic Reversal Origination	20123	\$ 0.54	\$ 0.67
Basic Reversal Received	20124	\$ 0.54	\$ 0.67
Off-Line Origination and Receipt Surcharge	20131/20132	\$ 66.00	\$ 40.00

Monthly Account Maintenance Fees

Service	Billing Code	Agency Securities Fee	Treasury Securities Fee
Per Account	20107	\$ 40.00	N/A
Per Issue	20108	\$ 0.54	N/A

Claims Adjustment Fees

Service	Billing Code	Agency Securities Fee	Treasury Securities Fee
Fail Claim Adjustment Fee	20141	\$ 0.75	N/A
Interim Claim Adjustment Fee	20142	\$ 0.75	N/A
Repo Claim Adjustment Fee	20143	\$ 0.75	N/A

Additional Fees

Service	Billing Code	Fee
GNMA Serial Note CUSIP Fee	20133	\$ 9.00
Joint Custody Origination Surcharge	20134	\$ 40.00
Delivery of Reports – Hard Copy Reports to On-Line Customers	20115	\$ 50.00

Fedwire Modernization Update

Fedwire Modernization Project

- A multi-year effort to modernize the Fedwire® Funds and Securities Service
- Seeks to create Fedwire® Services that are more nimble and flexible in responding to stakeholder needs
- Legacy systems' (Funds and NBES) foundation of mainframe/COBOL/IMS is over 25 years old
- New applications will be deployed on the IBM pSeries platform using the AIX operating system
- Completing overall Fedwire Modernization by the end of 2015 is expected to cost ... a lot

Fedwire Funds Service Modernization

- Next phase of modernization for the Fedwire Fund Service will be implemented in the **4th quarter 2014**
 - Specific date should be announced within the coming weeks
- Majority of changes will be invisible to customers, except for changes to the Funds Subsidiary Statement
- FedLine Direct “Tier 1” customers and vendors will be **“expected”** to test in the DIT to ensure no disruption to their payment applications
 - Tier 1 customers are required to participate in 3 of 4 contingency tests per year
 - Tier 1 customers are also invited to participate in a Production test on **Saturday, September 27, 2014**
 - Sign up for testing at: <http://www.frbservices.org/app/capture/survey.do?id=124>

FSS Modernization Project

FSS modernization will be “like-for-like,” with a single cutover to new hardware and software in late 2015

Rationale for the Securities Modernization Program

- Existing code has layers upon layers of modifications made over the intervening 25 years, making it difficult and risky to implement changes to the legacy system
- Current system lacks flexibility to support evolving fixed income market needs
- Upgraded “technology stack” – security, through-put, interoperability, etc.

Migration Strategy Core Components

- Business Requirements: define detailed functional and non-functional requirements
- Like-for-Like functionality: replicate only existing functionality in the first production release
- Infrastructure Improvements: use new strategic platform and enhance test environments
- Testing: employ comparative and production parallel testing techniques, in addition to traditional testing techniques
- Single Production Cutover: test code in multiple iterations, but deploy entire system at once

FSS' Post-Modernization Product Development

New Product Development Process

- FSS is preparing to institute new internal processes which will support the necessary collection of change requests, evaluation, elaboration, cost estimation and approvals required to move forward with a specific release cycle that supports the strategic direction of the business
- To support the new processes, significant organizational and technology changes will be required

Software Releases

- Develop an approach to functional and maintenance releases, including frequency, timing and size of releases
 - Ideally, will have two tracks: one faster-moving for internal-facing changes, one slower-moving for external-facing changes
- Discuss with other institutions how they treat their releases – FSS Customer Advisory Group, SWIFT, Target2 Securities, FICC/DTCC, BNYM/JPMC, etc.
- Assess pros and cons of Fedwire Securities releases being coordinated with other industry roll-outs (Fedwire Funds, annual SWIFT changes, etc.)

Change Request Generation & Evaluation

Develop

- Change request submission process for fixes and enhancements, leveraging the user community a la SWIFT and T2S
- High-level criteria for use in evaluating change requests
- Processes for evaluating potential changes against the criteria (criteria weights, who has a say, frequency, etc.)

Apply

- New processes and criteria to the existing list of current change requests (validate prioritization completed to date)
- New processes on an ongoing basis to new requests

Release Management and Implementation

- Develop processes for assessing the business and technical effort required for potential post-Modernization enhancements, and turning the highest priority items into an approved project
- Develop an efficient and nimble IT project model (what, who, when, how) to support the development, testing and implementation of new releases on a pre-defined roll-out frequency
- Evaluate the existing project activities (e.g., elaboration, construction, testing, implementation, etc.) and identify how greater efficiency and nimbleness can be introduced into the existing process to support a repeatable product rollout cycle

New Product Development Process

- There are high internal and external expectations for 100 percent success rate when it comes to changes to the US payment system
- This is not unreasonable, but all involved must explicitly recognize that the pursuit of perfection is time-consuming and very expensive
- Need to determine the level of acceptable risk and trades-off with things like nimbleness and flexibility

Two Questions on Potential Enhancements

Receiver Controls

- Market participants have expressed demand for enhanced functionalities that support the customers' ability to better manage incoming securities and any resulting credit risk or liquidity constraints
- What does this mean to you? How would you define “receiver controls”? How would you envision it would function within the existing Fedwire Securities application?
- How important is this capability to you?
- From your organizations' perspective, what are the potential benefits and challenges, if any, of Fedwire Securities providing “receiver controls” functionality?

Expanded Automated Claims Adjustment Process (ACAP)

- Customers, including this group, have requested that FSS expand existing ACAP services – repo tracking, fails tracking and interim reporting – from MBS securities to U.S. Treasury and Agency debt securities
 - Is expanded ACAP still a high priority for this group?
 - Does you see any issues with FSS expanding this service?

Contact Information

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