



Tri Party Exchange Discussion: Direct-to-Freddie Mac Exchange Path Update

September 13, 2018



- Update on Freddie Mac Exchange activity since our summer meetings
 - » Focus has been on fleshing out the two exchange paths with investors, dealers, custodians and various service providers including Tradeweb
 - » IRS published Revenue Ruling 2018-24 on August 17th:
 - Exchange of 45-day Gold PC securities for 55-day Freddie Mac mortgage-backed securities will not be taxable
 - Consult your tax professionals regarding taxability of the float compensation
 - » Freddie Mac began issuing mirror securities on August 7th, and has slowly ramped up to a steady state of about 5,000 per day (~70,000 securities total)
- Now that key decisions have been made, the focus shifts to development and implementation
 - » Detailed design and build for the two paths
 - » Testing – including industry testing for both paths
 - » Education and training to ensure that key players are ready to participate in the exchange
 - » Ensuring that Freddie Mac, Tradeweb and other key players are operationally ready to support the exchange when it opens
- We appreciate the feedback and insights you have all shared to get us to this point, and we count on your continued engagement so we are all ready for exchange next May

Two Exchange Paths



- Holders of Freddie Mac 45-day PCs/Giants will have the option to exchange for 55-day UMBS/Supers
- Freddie Mac will continue to offer the original path for exchange facilitated by Freddie Mac authorized dealers, through Freddie Mac’s Dealer DirectSM. Based on discussions with the industry, Freddie Mac has also developed a second path with a “trade-like” approach, alongside Tradeweb

1. Dealer-facilitated Exchange

Submit 45-day PC/Giant via DVP



Receive 55-day UMBS / Supers¹

- DVP delivery to Dealer
- DVP has potential accounting implications
- Investor instructs custodian at sub-account level
- Dealer may net float compensation from buy/sell price

2. Direct-to-Freddie Mac Exchange

Submit 45-day PC / Giant via Free Delivery



Receive 55-day UMBS / Supers + Float Comp

- Free delivery to Freddie Mac
- Investor instructs custodians at sub-account-level
- Float compensation paid to investor
- Separate cash wire for each transaction

Today's Focus

¹Float compensation may be netted out of price by dealers.

❑ Exchange checklist for holders of 45-day Gold PCs:

- ✓ Develop Exchange strategy – e.g., will you exchange, if so when, sequencing, etc.
- ✓ Determine which Exchange option works best for you – direct to Freddie, or through a Dealer
- ✓ Reach out to your Dealer(s) to work out the details if you choose that path
- ✓ Regardless of path, reach out to your Custodian to discuss how the process will work
- ✓ Assess impact of new codes and data elements (e.g., SWIFT message code to denote Gold PC exchange – specifics TBD in the next few months)
- ✓ Understand transaction data flow through your internal systems (e.g., trading, accounting, etc.)
- ✓ Begin conversations with your accounting, compliance and legal departments to discuss implications

❑ Dealers or Investors using the Direct-to-Freddie path will need to set up **Free Delivery / Free Receive** wire instructions:

- 1 Deliver the 45-day security to Freddie Mac's new holding account:
 - **FHLMC WASH/2BD7**
 - **ABA# 021033205**
- 2 Expect to receive the 55-day Mirror delivery from Freddie Mac from:
 - **FHLMC WASH/2BD5**
 - **ABA# 021033205**

What will the Investor be agreeing to?



- Before exchanging through the Direct-to-Freddie path, investors can expect an initial set up with Freddie Mac
 - » Each investor will undergo a Know-Your-Customer (KYC) process (performed by Tradeweb)
 - » Each investor using the Direct-to-Freddie path (thru Tradeweb) will enter into an agreement under which it:
 - Makes customary representations and warranties;
 - Acknowledges receipt of the exchange offering circular; and
 - Accepts the exchange offer
 - Makes certain tax withholding representations – specifics TBD
 - » It is expected that investors will be able to enter into this agreement electronically
- Consult your dealer for any agreements required to use the Dealer-facilitated path
- Freddie Mac shall hold any eligible Gold PCs or Giant PCs delivered to it in trust and as custodian for the exclusive benefit of the related investor until such time as the eligible securities are (i) exchanged for the corresponding mirror certificates and applicable float compensation, or (ii) returned to the investor

Direct-to-Freddie Mac Path Description



- The Direct to Freddie Mac path, facilitated by Tradeweb, should meet the needs of investors that do not wish to reveal their positions to a Dealer, and are open to the Free of Payment method for delivery
- We expect that the Direct-to-Freddie Mac path will be open for 3-5 years
- Key considerations when evaluating this path include:

Delivery

- Counterparty is Freddie Mac
- Delivery is Free of Payment (FOP)
- Custodians directly interface with Freddie Mac as the issuer
- Whole or partial CUSIPs may be exchanged, at the sub-account level

Capacity

- Capacity is around 50,000 exchanges / day across both paths
- Capacity will be viewable on Tradeweb prior to confirmation of the exchange transaction
- Booking will be available for the current month

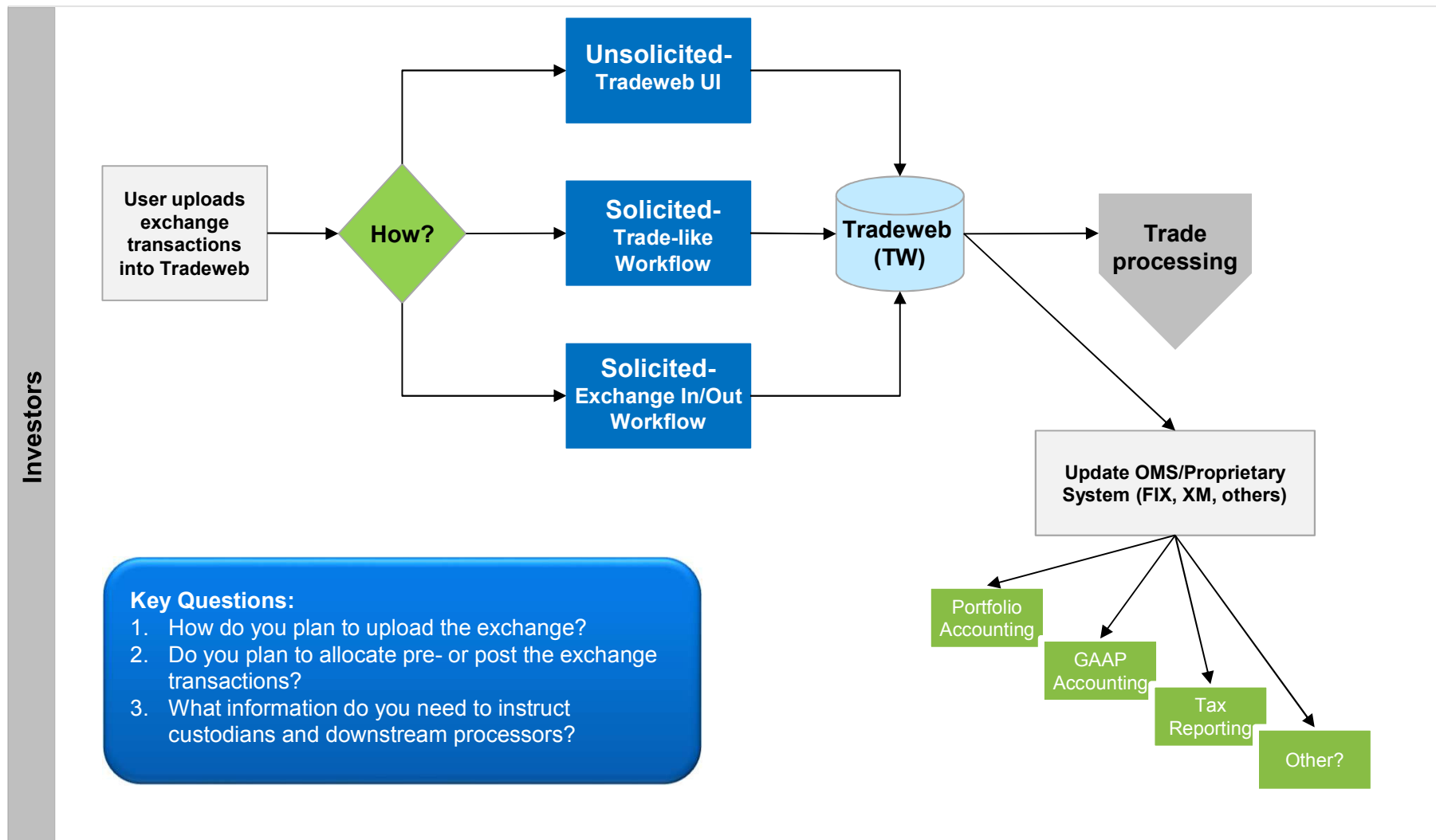
Cost & Accounting

- No fee
- The security exchange has been deemed non-taxable by the IRS. Please consult your tax advisors for guidance on taxability of the float compensation

Settlement

- Settlement is a minimum of T+1 (subject to change)
- Transactions booked by noon can be settled the next day
- All settlement activity takes place for both the security and cash same day
- Freddie Mac will have dedicated exchange accounts for the incoming 45 day securities and outgoing 55 day securities
- Freddie Mac will hold the 45-day security in trust for the investor until exchange is completed
- The float compensation will be paid via a separate cash wire

Direct-to-Freddie Mac via Tradeweb: High-level transaction booking flow



Tradeweb Booking: Options for entering exchange transaction in Tradeweb



- Tradeweb will leverage its List Trade functionality to facilitate the exchange. However, the way you enter the exchange transaction into Tradeweb will depend on your own internal trade booking and downstream processing

Unsolicited	Solicited	
Non-OMS / Tradeweb UI Entry	OMS Standard FIX Workflow	OMS Exchange In/Out Workflow
<ul style="list-style-type: none"> • User enters exchange “trade” directly into Tradeweb List Trade UI • Tradeweb will support a user entering an exchange ticket via paste or manual entry • Tradeweb will support STP (FIX or Flat File) • The exchange transaction will largely look like an everyday trade on Tradeweb • Exchanges may be pre or post allocated 	<ul style="list-style-type: none"> • Trade entry via OMS will interface with Tradeweb in a similar manner as it does today for a typical trade • Exchanges may be pre or post allocated • OMS entry examples include Bloomberg AIM, Charles River CRD and Fidessa Minerva 	<ul style="list-style-type: none"> • Some OMSs offer an exchange in/out workflow to allow for Free of Payment delivery • OMS will send a new FIX order message (EXCH IN and OUT) to Tradeweb • The “exchange out” message would be pre-allocated • Example includes Blackrock Aladdin

Tradeweb List Trade Screen:

- Once entered (via OMS or directly thru the UI), transaction will largely look like an everyday trade on Tradeweb
- Tradeweb will work with clients on solutions to individual concerns within their systems
- Regardless of OMS readiness, direct entry through Tradeweb UI’s will be ready at go-live

Possibilities for Communicating Float Compensation Back to OMS:

- Utilize a “Miscellaneous Cash” field
- Use a “fee” field
- “Drop copy” outside of trade flow
- Other “bespoke” options - TBD

Next Steps



- Review the additional detail on the two exchange paths in our latest update to the [Market Adoption Playbook](#), and reach out to the team at Freddie Mac with any questions about the exchange paths
- For the Direct-to-Freddie path, questions for Tradeweb can be directed to umbs@tradeweb.com
- We plan to continue our active communication with the stakeholder community to provide more detail on the two available paths
- This tri-party group has been vital to our exchange-related Single Security decisions and we will continue to share information and look for your insights
- You can also find materials and updates pertaining to Exchange at our new web page, www.freddiemac.com/mbs/html/exchange.html

Appendix

Follow Up Transaction Questions



Stakeholder	Questions
Investors	<ul style="list-style-type: none"> How will you upload your transactions into Tradeweb (OMS, excel upload, Tradeweb UI, etc.)?
Investors	<ul style="list-style-type: none"> If OMS, what OMS do you use? <ul style="list-style-type: none"> If proprietary, do you prefer solicited or unsolicited workflow?
Investors	<ul style="list-style-type: none"> What information do you need to update accounting and other systems? And instruct custodians?
Investors	<ul style="list-style-type: none"> Will you need to enter a price when exchanging? <ul style="list-style-type: none"> Can your system handle \$0 price? If not, how do you anticipate deriving the market price?
Investors	<ul style="list-style-type: none"> How do you plan to consume the output from Tradeweb? (e.g. what systems does it go through, what information is needed)
Investors	<ul style="list-style-type: none"> Do you need to know float compensation prior to booking the trade? <ul style="list-style-type: none"> If so, how do you anticipate getting it?
Investors	<ul style="list-style-type: none"> How do you want to see the float compensation in your system? <ul style="list-style-type: none"> Miscellaneous cash field, fee, drop copy file, etc
Investors	<ul style="list-style-type: none"> How and when do you plan on allocating your trades? <ul style="list-style-type: none"> Do you have a third party that handles allocation (CTM)? If you do pre-allocate, do you require that allocations be communicated, post exchange confirmation, on a platform other than Tradeweb (e.g., OMGEO)?
Investors	<ul style="list-style-type: none"> Will you enter both legs of the trade (e.g. a Sell of 45-day and a Buy of 55-day securities)?
Investors	<ul style="list-style-type: none"> Is receiving one FIX confirmation message from Freddie enough or are there additional systems that need notification via another communication type (i.e. SWIFT)?
Investors	<ul style="list-style-type: none"> Settlement <ul style="list-style-type: none"> This path currently has a capacity of 50,000 transactions a day. You will have to rebook the exchange request if there is not capacity on your desired day. Does this pose a problem for you?