

Single Security Initiative

The Single Security Initiative Industry Tabletop Exercise Planning Session 1

July 30th, 2018
Bloomberg - New York City



SINGLE SECURITY TABLETOP PLANNING AGENDA

Time	Duration	Topic	Presenter
10:00 AM – 10:15 AM	15 mins.	Welcome	Barbara Pak
10:15 AM – 10:30 AM	15 mins.	Goals & Objectives	Kathi Chun-Owens
10:30 AM – 11:00 AM	30 mins.	Tabletop Overview & Testing Needs	Kathi Chun-Owens
11:00 AM – 11:45 AM	45 mins.	Identifying Scenarios	Stephanie Milner
11:45 AM – 12:00 PM	15 mins.	Break/Serve Lunch	
12:00 PM – 12:45 PM	45 mins	Working Lunch – Exchange Scenario	Jamie Miller
12:45 AM – 1:00 PM	15 mins.	Next Steps & Takeaways	Kathi Chun-Owens

TODAY'S PARTICIPANTS

 GSE	 Regulatory Agency & Trade Group	 Custodians	 Seller / Servicers	 Investors	 Dealers	 3rd Party Vendors
<ul style="list-style-type: none">• Fannie Mae• Freddie Mac.....• CSS	<ul style="list-style-type: none">• FHFA• SIFMA.....• The Fed	<ul style="list-style-type: none">• BNY Mellon• JP Morgan• Pershing	<ul style="list-style-type: none">• Land Home• Power Seller• Quicken• Wells Fargo	<ul style="list-style-type: none">• Annaly• BlackRock• Chase• JP Morgan• Mesirow Financial• NY Fed• PGIM• Pimco• Prudential• RBC	<ul style="list-style-type: none">• BNP Paribas• Citi• JP Morgan• Wells Fargo	<ul style="list-style-type: none">• BlackRock Solutions• Bloomberg• Broadridge• Charles River• DTCC• FICC• The ICE• TradeWeb

LEVEL-SETTING

Market stakeholders asked for some sort of **industry-wide testing** exercise to better prepare them for **Single Security go-live** on June 3, 2019 due to limited system-to-system testing across diverse institutions.

Fannie and Freddie will **facilitate** the discussion between industry participants but we need your input as we work together and **develop a plan** towards an industry-wide testing exercise.

System to System testing are **planned** for (out of scope for today):

- *Disclosure data vendor testing*
- *Freddie Dealer Direct customer testing*
- *Seller/Service testing*
- *Other institution specific testing*

SESSION OBJECTIVES AND GOALS:

Objectives of the planning sessions are intended to help the Industry participants **prepare for UMBS** go-live and transition without disruption by:

- identifying potential gaps, risks, or failure points that may interrupt their day to day operations
- thinking through their organization processes including inputs, outputs and dependencies

Today's Goals are to **brainstorm** ideas, **share** operational challenges, **identify** relevant scenarios and **create a plan** for developing the actual Live Exercise. At the end of today's session, participants should walk away knowing:

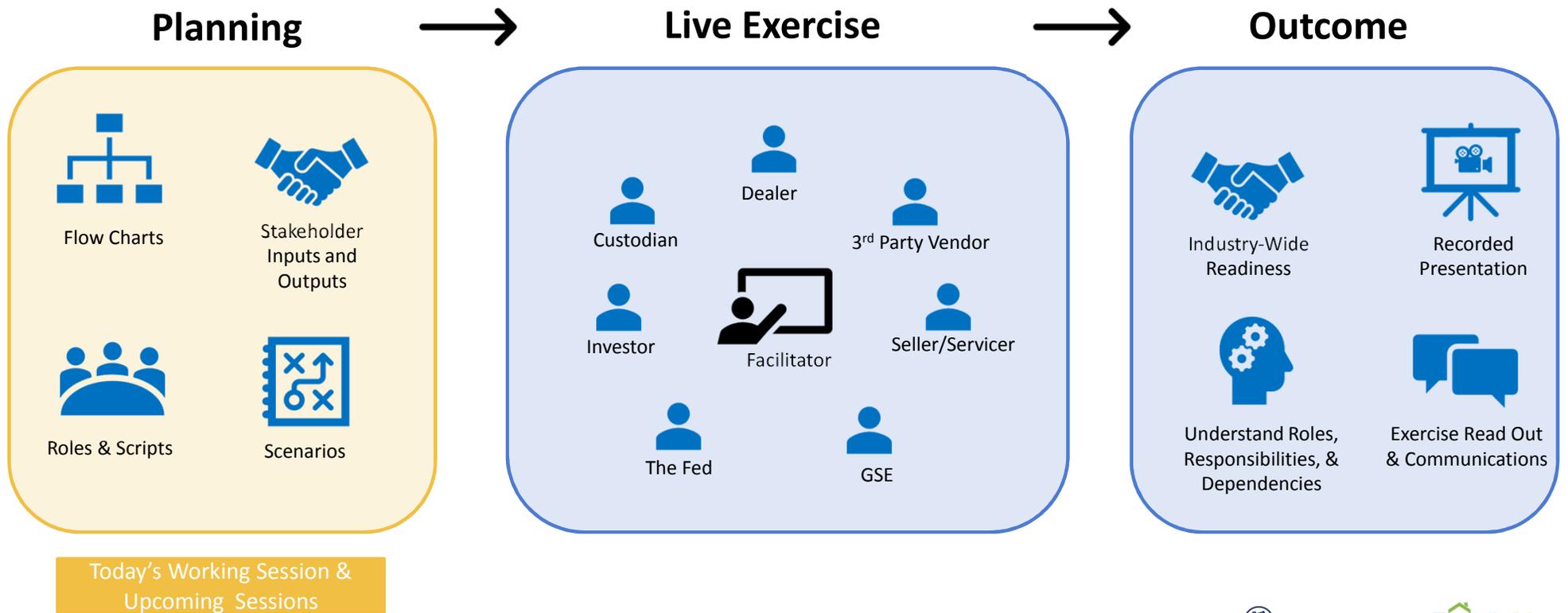
- your contributions were **heard**
- **confident** that the exercise will work and be beneficial
- understand your **role and expectations** in this exercise
- the **right participants** are involved
- what to **prepare and bring** to the next session



WHAT IS A TABLETOP EXERCISE?

- **Tabletop exercises** are **discussion-based** where parties meet in an open setting or in breakout groups to discuss their roles in a particular situation. A facilitator presents a scenario and asks the participants questions related to the scenario, which initiates a discussion of roles, responsibilities, coordination, and decision-making.
- **This is also a functional exercise** that will allow participants to validate **operational readiness** for the UMBS by “performing” their activities in a **simulated environment** (through discussion). This process will demonstrate interaction between all industry parties and help identify failure points.

TABLETOP EXERCISE APPROACH



TODAY'S DISCUSSION

- What is your experience with managing through an industry-wide operational change initiative? (what worked and what didn't?)
- What does a simulated testing exercise look like to you (non- system-to-system)?
- What are your greatest operational concerns or challenges moving to Single Security? (inside and outside your organization)
- What other expectations or needs do you have around testing?

PROPOSED SCENARIOS OVERVIEW

****What are the most relevant scenarios to test? Are there specific steps to cover?***

	Investor	Seller Servicer	Custodians	Dealers	3rd Party Vendors	GSE
Consumer Pricing and Secondary Market Activity	✓	✓		✓	✓	
UMBS End to End TBA Trade	✓	✓	✓	✓	✓	✓
End to End Exchange Process (45-day to 55-day)	✓		✓	✓	✓	✓
Dollar Roll/Swap	✓		✓	✓	✓	
UMBS Commingling Re-securitization	✓		✓	✓	✓	✓

SCENARIO EXAMPLE: DEALER-FACILITATED END-TO-END EXCHANGE APPROACH

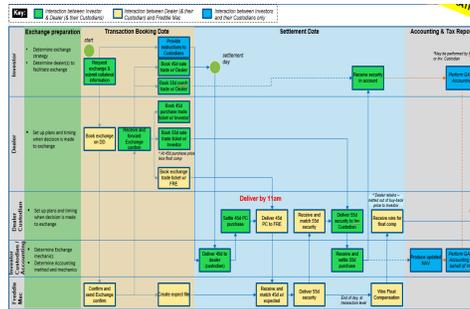
Freddie Mac will facilitate learning exercises to build operational understanding of key steps in the Exchange process.

Step 1: Outline high-level key steps

Step 2: Discuss end-to-end flow

Step 3: Deep dive into roles

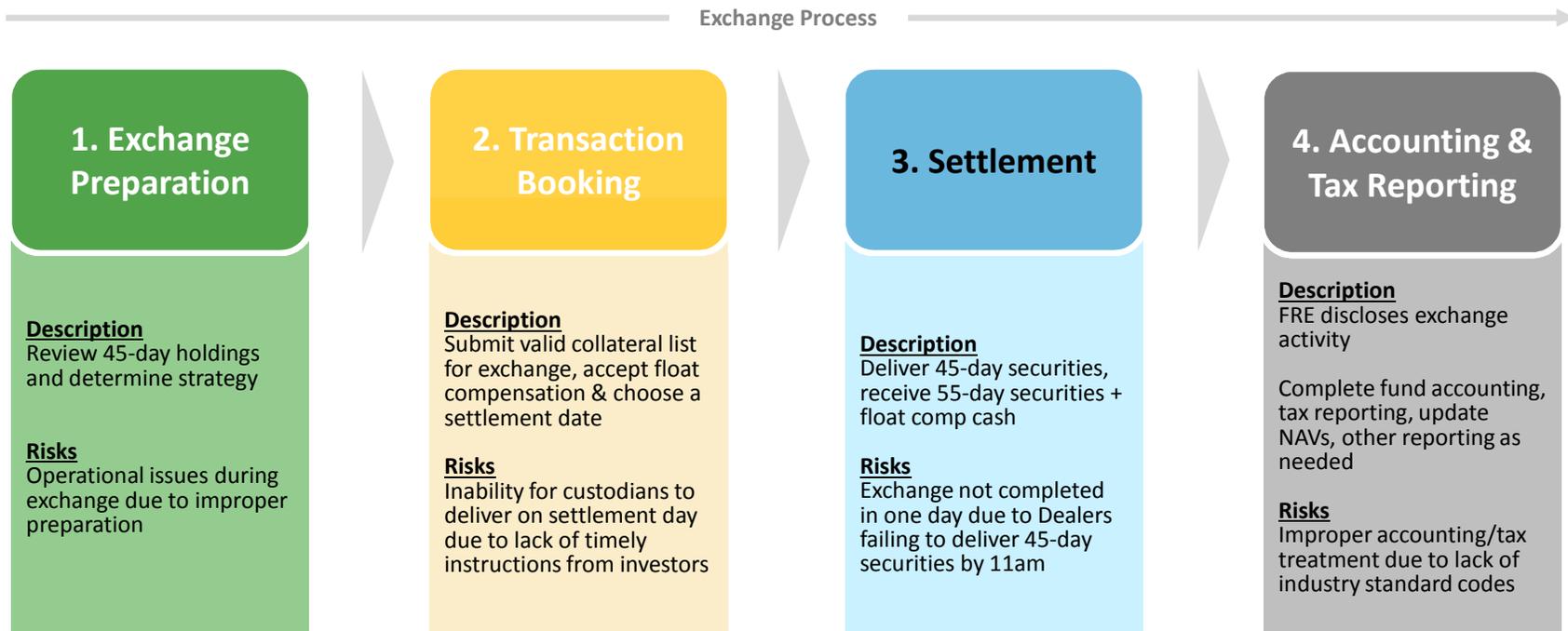
Exchange Process



INVESTORS

Step #	Description	Primary Contact	Means of Comm.	Time/Inputs	Data outputs	Timing	Key risks/Issues of Safety/Assessments	Other?
1	Exchange preparation	Portfolio Manager, Trader	Phone, email, Web (CRM)	Request exchange strategy, pricing and terms, investor-state communication, for exchange agent, CUSIP, and program details, request for information, identify cash regulatory potential issues	Exchange planning and timing	Prior to submitting exchange request		
2	Transaction Booking Date	Portfolio Manager, Trader	Phone, email, Web (CRM)	Request exchange strategy & submit additional information	Request order to facilitate exchange	Prior to submitting exchange request		
3	Settlement Date	Portfolio Manager, Trader	Phone, email, Web (CRM)	Request order to facilitate exchange	Request order to facilitate exchange	Prior to submitting exchange request		
4	Accounting & Tax Reporting	Back Office	Back Office	Accounting & Tax Reporting	Accounting & Tax Reporting	Accounting & Tax Reporting		

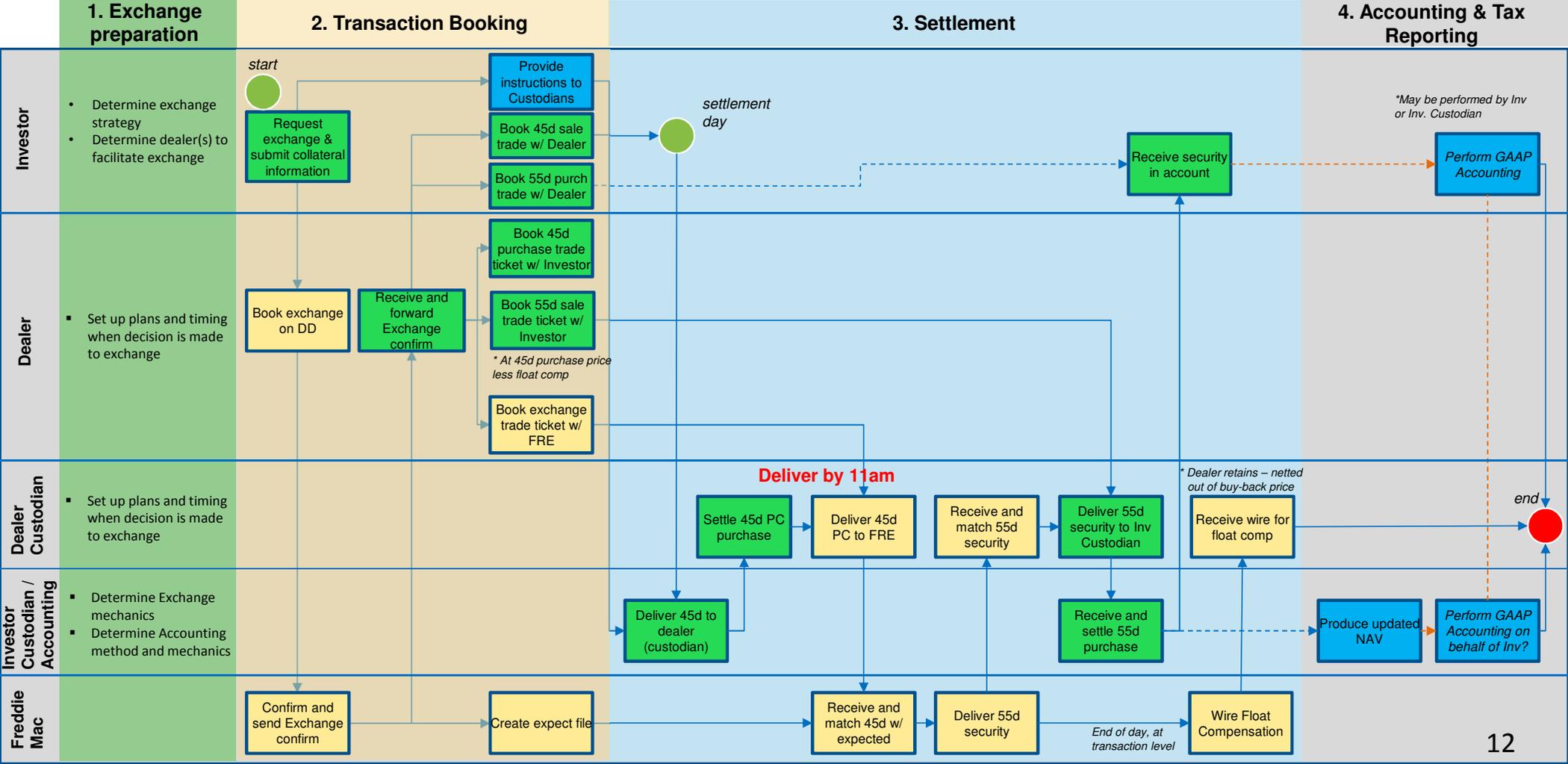
SCENARIO EXAMPLE: DEALER-FACILITATED EXCHANGE KEY STEPS



Single Security 2019: Will You Be Ready?

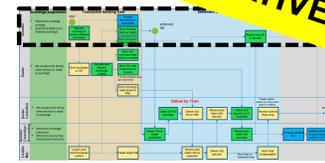
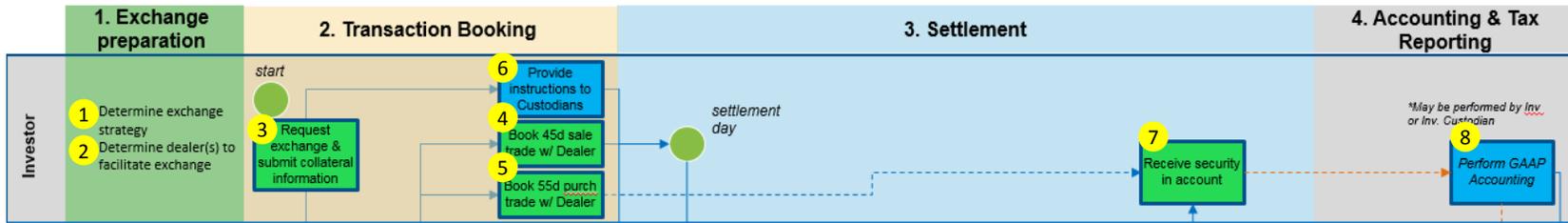
ILLUSTRATIVE

Key: ■ Interaction between Investor & Dealer (& their Custodians) ■ Interaction between Dealer (& their Custodian) and Freddie Mac ■ Interaction between Investors and their Custodians only



ILLUSTRATIVE

INVESTORS



Category	Step (#) & Description	Primary actor(s)	Means of comm.	Data inputs	Data outputs	Timing	Key risks/points of failure/dependencies	Other?
Exchange preparation	1. Determine exchange strategy	Portfolio Manager, Trader	N/A	Pricing grid, float comp, investor-dealer communication, list of exchange-eligible CUSIPs, third-party analytics, research, tax implications, specific client regulatory constraints	Exchange planning and timing	Prior to submitting exchange requests	Unaware of each client type's regulatory constraints (40' act vs. SMA)	
Exchange preparation	2. Determine dealer(s) to facilitate exchange	Portfolio Manager, Trader	Phone, email, BBG msgr.	List of dealers on Dealer Direct platform, potential dealer costs	Selected dealer(s) to facilitate exchange	Prior to submitting exchange requests	Investor does not have SLA with a qualified Dealer	
Transaction booking date	3. Request exchange & submit collateral information	Portfolio Manager, Trader	Phone, email, BBG msgr.	CUSIP, Par, Settlement Date, sub-accounts	A reservation to exchange	For next day settlement, must submit before 11am	<ul style="list-style-type: none"> Desired capacity is not available Request is submitted post 11am 	
Transaction booking date	4. Book 45d sale trade w/ Dealer	Portfolio managers, traders	OMS, EMS, Phone, BBG msgr.	CUSIP, Par, Settlement Date, sub-accounts, price netting to accommodate float comp.	An executed Buy transaction	For next day settlement, must submit before 11am	Trade economics are incorrect and needs amendment	
Transaction booking date	5. Book 55d purch trade w/ Dealer	Portfolio managers, traders	OMS, EMS, Phone, BBG msgr.	CUSIP, Par, Settlement Date, sub-accounts	An executed Sell transaction	For next day settlement, must submit before 11am	Trade economics are incorrect and needs amendment	
Transaction booking date	6. Provide instructions to Custodians	Middle office	SWIFT	CUSIP, Par, Settlement Date, sub-accounts, exchange identifier	A swift outbound message to Custodian containing...	For next day settlement, must submit before 11am	If investor does not properly instruct Custodian of exchange, custodian may not be able to deliver securities	
Settlement date	7. Receive security in account	N/A					Failed trades	
Accounting & Tax Reporting	8. Perform GAAP accounting	Back office						

NEXT STEPS & TAKE-AWAYS

- How should working group sessions be structured to meet our goals and objectives?
 - Monthly?
 - Working Groups based on scenarios?
 - Workstreams and Leads assigned?
- Who should attend the working sessions?
- Did we meet our goals today?
 - your contributions were **heard**
 - **confident** that the exercise will work and be beneficial
 - understand your **role and expectations** in this exercise
 - the **right participants** are involved
 - *what to **prepare and bring** to the next session*

PROPOSED SCHEDULE

