The Single Security Initiative Industry Tabletop Exercise Planning Session 1

July 30th, 2018
Bloomberg - New York City
# Single Security Tabletop Planning Agenda

<table>
<thead>
<tr>
<th>Time</th>
<th>Duration</th>
<th>Topic</th>
<th>Presenter</th>
</tr>
</thead>
<tbody>
<tr>
<td>10:00 AM – 10:15 AM</td>
<td>15 mins.</td>
<td>Welcome</td>
<td>Barbara Pak</td>
</tr>
<tr>
<td>10:15 AM – 10:30 AM</td>
<td>15 mins.</td>
<td>Goals &amp; Objectives</td>
<td>Kathi Chun-Owens</td>
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<tr>
<td>10:30 AM – 11:00 AM</td>
<td>30 mins.</td>
<td>Tabletop Overview &amp; Testing Needs</td>
<td>Kathi Chun-Owens</td>
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<tr>
<td>11:00 AM – 11:45 AM</td>
<td>45 mins.</td>
<td>Identifying Scenarios</td>
<td>Stephanie Milner</td>
</tr>
<tr>
<td>11:45 AM – 12:00 PM</td>
<td>15 mins.</td>
<td>Break/Serve Lunch</td>
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<tr>
<td>12:00 PM – 12:45 PM</td>
<td>45 mins.</td>
<td>Working Lunch – Exchange Scenario</td>
<td>Jamie Miller</td>
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<tr>
<td>12:45 AM – 1:00 PM</td>
<td>15 mins.</td>
<td>Next Steps &amp; Takeaways</td>
<td>Kathi Chun-Owens</td>
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</tbody>
</table>
TODAY’S PARTICIPANTS

GSE
- Fannie Mae
- Freddie Mac
- CSS

Regulatory Agency & Trade Group
- FHFA
- SIFMA
- The Fed

Custodians
- BNY Mellon
- JP Morgan
- Pershing

Seller / Servicers
- Land Home
- Power Seller
- Quicken
- Wells Fargo

Investors
- Annaly
- BlackRock
- Chase
- JP Morgan
- Mesirow Financial
- NY Fed
- PGIM
- Pimco
- Prudential
- RBC

Dealers
- BNP Paribas
- Citi
- JP Morgan
- Wells Fargo

3rd Party Vendors
- 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/Servicer 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

Planning

- Flow Charts
- Stakeholder Inputs and Outputs
- Roles & Scripts
- Scenarios

Live Exercise

- Investor
- Custodian
- Dealer
- 3rd Party Vendor
- Facilitator
- Seller/Servicer
- The Fed
- GSE

Outcome

- Industry-Wide Readiness
- Recorded Presentation
- Understand Roles, Responsibilities, & Dependencies
- Exercise Read Out & Communications

Today’s Working Session & Upcoming Sessions
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?**

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Investor</th>
<th>Seller Servicer</th>
<th>Custodians</th>
<th>Dealers</th>
<th>3rd Party Vendors</th>
<th>GSE</th>
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<tbody>
<tr>
<td>Consumer Pricing and Secondary Market Activity</td>
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<td>✔️</td>
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<td>✔️</td>
<td>✔️</td>
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<tr>
<td>UMBS End to End TBA Trade</td>
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<td>✔️</td>
<td>✔️</td>
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<tr>
<td>End to End Exchange Process (45-day to 55-day)</td>
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<td>Dollar Roll/Swap</td>
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<tr>
<td>UMBS Commingling Re-securitization</td>
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**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.

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**Step 1: Outline high-level key steps**

1. Exchange Preparation
2. Transaction Booking Date
3. Settlement Date
4. Accounting & Tax Reporting

**Step 2: Discuss end-to-end flow**

**Step 3: Deep dive into roles**
**SCENARIO EXAMPLE: DEALER-FACILITATED EXCHANGE**

**KEY STEPS**

1. **Exchange Preparation**
   - **Description**: Review 45-day holdings and determine strategy
   - **Risks**: Operational issues during exchange due to improper preparation

2. **Transaction Booking**
   - **Description**: Submit valid collateral list for exchange, accept float compensation & choose a settlement date
   - **Risks**: Inability for custodians to deliver on settlement day due to lack of timely instructions from investors

3. **Settlement**
   - **Description**: Deliver 45-day securities, receive 55-day securities + float comp cash
   - **Risks**: Exchange not completed in one day due to Dealers failing to deliver 45-day securities by 11am

4. **Accounting & Tax Reporting**
   - **Description**: FRE discloses exchange activity
     - Complete fund accounting, tax reporting, update NAVs, other reporting as needed
   - **Risks**: Improper accounting/tax treatment due to lack of industry standard codes
Single Security 2019: Will You Be Ready?

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

### 1. Exchange Preparation
- Determine exchange strategy
- Determine dealer(s) to facilitate exchange

**Request exchange & submit collateral information**
- Book 45d sale trade w/ Dealer
- Book 55d purchase trade w/ Dealer

### 2. Transaction Booking
- Book exchange on DD
- Book 45d purchase trade ticket w/ Investor
- Book 55d sale trade ticket w/ Investor

- *At 45d purchase price less float comp
- Book exchange trade ticket w/ FRE

### 3. Settlement
- Deliver by 11am

- Settle 45d PC purchase
- Deliver 45d PC to FRE
- Receive and match 55d security
- Deliver 55d security to Inv Custodian
- Receive security in account

- Deliver 55d security to Inv
- Receive wire for float comp

### 4. Accounting & Tax Reporting
- Perform GAAP Accounting on behalf of Inv
- Perform GAAP Accounting

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**Notes:**
- Interaction between Investor & Dealer (& their Custodians)
- Interaction between Dealer (& their Custodian) and Freddie Mac
- Interaction between Investors and their Custodians only
### INVESTORS

#### Category Step (#) & Description

<table>
<thead>
<tr>
<th>Category</th>
<th>Step (#) &amp; Description</th>
<th>Primary actor(s)</th>
<th>Means of comm.</th>
<th>Data inputs</th>
<th>Data outputs</th>
<th>Timing</th>
<th>Key risks/points of failure/dependencies</th>
<th>Other?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exchange preparation</td>
<td>1. Determine exchange strategy</td>
<td>Portfolio Manager, Trader</td>
<td>N/A</td>
<td>Pricing grid, float comp, investor-dealer communication, list of exchange-eligible CUSIPs, third-party analytics, research, tax implications, specific client regulatory constraints</td>
<td>Exchange planning and timing</td>
<td>Prior to submitting exchange requests</td>
<td>Unaware of each client type’s regulatory constraints (40’ act vs. SMA)</td>
<td></td>
</tr>
<tr>
<td>Exchange preparation</td>
<td>2. Determine dealer(s) to facilitate exchange</td>
<td>Portfolio Manager, Trader</td>
<td>Phone, email, BBG msgr.</td>
<td>List of dealers on Dealer Direct platform, potential dealer costs</td>
<td>Selected dealer(s) to facilitate exchange</td>
<td>Prior to submitting exchange requests</td>
<td>Investor does not have SLA with a qualified Dealer</td>
<td></td>
</tr>
<tr>
<td>Transaction booking date</td>
<td>3. Request exchange &amp; submit collateral information</td>
<td>Portfolio Manager, Trader</td>
<td>Phone, email, BBG msgr.</td>
<td>CUSIP, Par, Settlement Date, sub-accounts</td>
<td>A reservation to exchange</td>
<td>For next day settlement, must submit before 11am</td>
<td>Desired capacity is not available Request is submitted post 11am</td>
<td></td>
</tr>
<tr>
<td>Transaction booking date</td>
<td>4. Book 45d sale trade w/ Dealer</td>
<td>Portfolio managers, traders</td>
<td>OMS, EMS, Phone, BBG msgr.</td>
<td>CUSIP, Par, Settlement Date, sub-accounts, price netting to accommodate float comp.</td>
<td>An executed Buy transaction</td>
<td>For next day settlement, must submit before 11am</td>
<td>Trade economics are incorrect and needs amendment</td>
<td></td>
</tr>
<tr>
<td>Transaction booking date</td>
<td>5. Book 55d purchase trade w/ Dealer</td>
<td>Portfolio managers, traders</td>
<td>OMS, EMS, Phone, BBG msgr.</td>
<td>CUSIP, Par, Settlement Date, sub-accounts</td>
<td>An executed Sell transaction</td>
<td>For next day settlement, must submit before 11am</td>
<td>Trade economics are incorrect and needs amendment</td>
<td></td>
</tr>
<tr>
<td>Transaction booking date</td>
<td>6. Provide instructions to Custodians</td>
<td>Middle office</td>
<td>SWIFT</td>
<td>CUSIP, Par, Settlement Date, sub-accounts, exchange identifier</td>
<td>A swift outbound message to Custodian containing...</td>
<td>For next day settlement, must submit before 11am</td>
<td>If investor does not properly instruct Custodian of exchange, custodian may not be able to deliver securities</td>
<td></td>
</tr>
<tr>
<td>Settlement date</td>
<td>7. Receive security in account</td>
<td>N/A</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Failed trades</td>
<td></td>
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<tr>
<td>Accounting &amp; Tax Reporting</td>
<td>8. Perform GAAP accounting</td>
<td>Back office</td>
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**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

- **July**: Create Plan, Establish Goals
- **August – September**: Workstream Meetings, Build & Share Scenarios
- **October**: Workstream Meetings, Conduct Dry Run
- **November**: Live Exercise