Exchange Tabletop Exercise – Direct-to-Freddie Path

Fannie Mae FreddieMac

PROPOSED SCENARIOS OVERVIEW

	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	✓		✓	✓	✓	✓

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Scenario 2: Direct-to-Freddie Mac exchange

Exchange Key Steps

Exchange Process

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 failure 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

PRELIMINARY

"HAPPY PATH" – EXCHANGE PREPARATION

Activity	Primary actor(s)	Means of comm.	Data inputs	Data outputs	Timing	Key risks/points of failure/dependencies
1. Determine exchange strategy	Investor	N/A	Exchange eligible PC list, float comp tool, holdings, calendar, third party analytics, tax implications, Exchange offering documents (for review)	Exchange strategy and communication to key third parties	Prior to exchange	• Market volatility causing rapid float comp changes
2. Communicate process, specs and setup requirements for Tradeweb	Tradeweb	Various communications to client base , OMS vendors	Exchange process description, FIX message specs, setup process rqmts	Requirements for updates to investor, OMS systems	Prior to exchange	• Investors do not receive communications, setup timely, which delays exchange
3. Complete onboarding process with Tradeweb	Investor, Tradeweb	TW Account Manager or UMBS@tradeweb.com	Existing contract and setup details (if applicable), required KYC info, W8/W9, other rqmts TBD	Process details, confirmation specs, other info required for internal process setup	Prior to exchange	• Onboarding process will take time – if not completed well ahead, may delay ability to exchange
4. Set up FRE as counterparty for Exchange transaction (if applicable)	Investor	Various	Information required by investor CP processes FRE SSIs: 1 for incoming 45d, 2nd acct for outgoing 55d	Designated FRE CP code to signify exchange transaction Completed FRE CP setup	Prior to exchange	• Some clients / portfolios may have CP restrictions on trading Agency MBS – need to review (if applicable)
5. Determine interface with other third parties	Investor	N/A	Vendor readiness and custodian protocols	Testing completion, updated SLAs	Prior to exchange	• Coding/configuration changes
6. Determine accounting/ tax process	Investor	N/A	Straight through processing deviations	Requirements/plans for process and system updates	Prior to exchange	• Coding/configuration changes • Limited engagement with fund accounting firms
7. Design / build for exchange transaction handling processes	Custodians	N/A	Standard exchange codes (e.g., SWIFT messaging tags, SSI mneumonics – TBD)	Requirements/plans for process and system updates	Prior to exchange	• Coding/configuration changes
8. Publicize exchange offer via multiple channels	Freddie Mac	Press release, FRE website, email subscription list, etc.	Exchange offer details – including eligible PC list, 55-day Mirror list, float comp pricing grid	Various publication materials	Prior to exchange	• Risk the communications will not reach all Gold PC holders

* Show example for tabletop walkthrough

PRELIMINARY

"Happy Path" – Transaction Booking

Category/ Activity	Primary actor(s)	Means of comm.	Data inputs	Data outputs	Timing	Key risks/points of failure/dependencies
1. Enter exchange transaction in OMS or directly in Tradeweb	Investor	OMS, Tradeweb	CUSIPs, PAR, pool number, desired settlement date, allocations (if pre-allocated), FRE CP indicator, free of payment designation	List trade data populated in Tradeweb*	No later than one day prior to desired settlement date (S-1)	TBD
2. Review exchange transaction details and accept terms / submit	Investor	Tradeweb	Exchange details, expected float compensation, settlement date availability indicator	Submission to Freddie Mac	No later than one day prior to desired settlement date (S-1)	TBD
3. Submit exchange transaction date to FRE / Dealer Direct for validation	Tradeweb, Dealer Direct	Tradeweb, Dealer Direct	Exchange details	Issues for correction, or Confirmation	No later than one day prior to desired settlement date (S-1)	Settlement date not available
4. Provide confirmation of exchange transaction	Tradeweb	FIX message	Confirmation details from Freddie Mac	FIX message confirmation	No later than one day prior to desired settlement date (S-1)	TBD
Provide settlement instructions to Freddie Mac	Tradeweb	Tradeweb – Dealer Direct interface	Settlement instructions from investor's Tradeweb setup or from OASIS / CTM	Settlement instructions for security and cash	No later than one day prior to desired settlement date (S-1)	TBD
5. Receive confirmation and complete internal transaction booking	Investor	OMS, etc.	FIX message confirmation*	Feeds to settlement, accounting, other downstream systems	No later than one day prior to desired settlement date (S-1)	TBD
6. Instruct custodians	Investor	SWIFT message	Expect and deliver instructions for securities and cash		No later than one day prior to desired settlement date (S-1)	Instructions do not clearly denote an exchange transaction
7. Perform pre-settlement processing, accounting/tax reporting - e.g., create receivables, process trade instructions	• Custodians or other third party providers • Internal accounting or oversight teams	TBD	Trade instructions for processing to ensure readiness for settlement Float comp amount cash for receivable – method of communication TBD – e.g., fee, misc. cash, "drop file," etc.	45d security deliver, 55d security and cash receive files Generates a cash amount to be satisfied at settlement	No later than one day prior to desired settlement date (S-1)	Data feeds do not accurately reflect exchange transaction and trigger incorrect processing If the PC is not deliverable (e.g., out on loan or on collateral) – could cause fails, requiring cancelation and rebooking of exchange

* Show example for tabletop walkthrough

Direct-to-Freddie Mac Exchange Path

PRELIMINARY

"Happy Path" – Settlement

Category/ Activity	Primary actor(s)	Means of comm.	Data inputs	Data outputs	Timing	Key risks/points of failure/dependencies
1. Deliver 45d PC to Freddie	Investor's Custodian	Free delivery via Fedwire	Instructions from investor	45d security delivery to FRE	By 11am on settlement date	11am deadline may be too early for some, could increase fails
2. Match and send 55d UMBS	Freddie Mac	Free delivery via Fedwire	Expect files from Dealer Direct, security delivery from investor's custodian	55d security delivery back to investor	Immediately upon receipt of 45d PC	Risk – transaction cannot be completed same day
3. Send cash wire to investor	Freddie Mac	Cash wire	Cash wire file from Dealer Direct	Cash wire	Settlement day between 4-6pm	Risk – transaction cannot be completed same day
4. Post settlement confirmation to investor	Investor custodian	SWIFT, other (depending on client preference)	Successful exchange settlement	Settlement confirmation	Settlement day prior to COB	Risk – transaction cannot be completed same day Risk – because this transaction is not set up like a normal trade, monitoring systems may not pick them up

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Direct-to-Freddie Mac Exchange Path

PRELIMINARY

"Happy Path" – Accounting & Tax reporting

Category/ Activity	Primary actor(s)	Means of comm.	Data inputs	Data outputs	Timing	Key risks/points of failure/dependencies
1. Post-settlement disclosure	Freddie Mac	Standard disclosure files, Freddie website, vendors	Settled exchanges	Disclosure files* Vendor views of disclosure information*	Daily (6:30 am)	Risk – disclosures not produced timely
2. Publish updated eligibility and float comp grids	Freddie Mac	Freddie website, vendors	Bloomberg OAS pricing model, FRE exchange and resecuritization activity	Reports*	Daily	Risk – reports / grids not produced timely
3. Update NAV, portfolio value, etc.	• Internal accounting or oversight teams • Custodians or other third party providers	TBD	Exchange settlement confirmations	NAV, portfolio updates	Settlement day	Risk – transaction completion delayed, updates cannot be completed same day Fund accountants need to be engaged – are they OK with transaction being non-taxable and float comp taxable
4. Withholding and tax reporting	TBD	TBD	TBD	Tax withholding, 1099 reporting for domestic investors, 1042 for foreign	TBD	

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Exception Scenarios for discussion

- Exception #1: 45-day delivery from Investor is unsuccessful (either 45-day deliver is an error, or does not occur on settlement day) – exchange does not settle and must be rebooked by Investor as a new exchange transaction

- Exception #2: 45-day delivery from Investor is successful but Freddie Mac is unable to complete the exchange on settlement day
  - Freddie Mac will first attempt to DK 45-day back to Investor
  - If DK is not possible, Freddie Mac will hold the 45-day security in trust for the investor overnight
  - 45-day security will be DK'd back to Investor's Custodian the next day (or as soon as possible)

- Additional scenarios:
  - Exchange for greater than $50M – entire exchange has a single exchange ID and will receive one cash wire; only the security deliveries on settlement day are broken into pieces of $50M or less according to standard Fedwire delivery rules

EXCEPTION #1 – 45D DELIVERY FAILS, TRANSACTION MUST BE REBOOKED

Category/ Activity	Primary actor(s)	Means of comm.	Data inputs	Data outputs	Timing	Key risks/points of failure/dependencies
1. Delivery of 45-day PC fails on settlement day	Investor / Investor's custodian	Free delivery via Fedwire	Delivery instructions from investor	Unsuccessful 45-day delivery; Exchange transaction no longer viable in Dealer Direct	Settlement day	
2. Cancel exchange transaction in downstream systems, with custodians	Investor / Investor's custodian	?	CUSIPs, PAR, pool number of failed transaction	All info needed to rebook?	TBD	If not canceled, could incur fails charges from downstream trades on 55-day
3. Rebook as a new exchange transaction	Investor	OMS, Tradeweb	CUSIPs, PAR, pool number, desired settlement date, allocations (if pre-allocated), FRE CP indicator, free of payment designation	List trade data populated in Tradeweb*	No later than one day prior to desired settlement date (S-1)	TBD
Proceed to follow normal settlement flow with new exchange transaction and new settlement date						

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Exception #2 – 45d delivery is successful but Freddie is unable to complete exchange same day

Category/ Activity	Primary actor(s)	Means of comm.	Data inputs	Data outputs	Timing	Key risks/points of failure/dependencies
1a. If possible, **DK 45-day security** back to Investor	Freddie Mac	Free delivery via Fedwire	Inability to complete transaction	DK of 45-day back to Dealer	Settlement day – deadline TBD	
1b. IF Freddie Mac is unable to DK 45-day back to Dealer on settlement day, Exchange offer **trust receipt provision takes effect**	Freddie Mac	Exchange offer docs, email/phone?	Exchange Offering Circular	Notification to Dealer	OC issued prior to program inception, notification by COB	TBD
2b. DK 45-day security back the next day (or ASAP)	Freddie Mac	Free delivery via Fedwire	Inability to complete transaction	DK of 45-day back to Dealer	Day after settlement or ASAP	TBD
3. Cancel exchange transaction in downstream systems, with custodians	Investor / Investor's custodian	?	CUSIPs, PAR, pool number of failed transaction	All info needed to rebook?	TBD	If not canceled, could incur fails charges from downstream trades on 55-day
4. Rebook as a new exchange transaction	Investor	OMS, Tradeweb	CUSIPs, PAR, pool number, desired settlement date, allocations (if pre-allocated), FRE CP indicator, free of payment designation	List trade data populated in Tradeweb*	No later than one day prior to desired settlement date (S-1)	TBD
Proceed to follow normal settlement flow with new exchange transaction and new settlement date						

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