



Wholesale Product Office | 33 Liberty Street | New York, New York 10045

Date: January 18, 2017
To: Fedwire® Securities Service Participants & Service Providers
Subject: Enhancing Automated Claim Adjustment Process (ACAP) in 2018

The Fedwire Securities Service currently offers the capability to automate fail, interim accounting, and repo-related “adjustments” to principal and interest (P&I) payments between participants through an Automated Claim Adjustment Process (ACAP)¹ for mortgage-backed securities issued or guaranteed by government agencies and government-sponsored enterprises (Agency MBS).

The Federal Reserve Banks will enhance ACAP in 2018 by providing additional tracking capabilities and aligning more closely the timing of effecting claim adjustment payments to the time at which P&I payments are made to participants. The following outlines the enhancements to ACAP we have planned, the expected impact of those enhancements on our customers, and the schedule we have targeted for implementing the enhancements. More details about ACAP-related technical and operational changes, as well as project schedule updates, will be provided in subsequent communications.

Please also share this communication with senior management of your institution’s government securities operations area.

ACAP Enhancements:

- 1. Add New Security Types:** Expand ACAP to additional types of Fedwire securities, including marketable securities issued by the U.S. Department of the Treasury and debt securities issued by other government agencies, government-sponsored enterprises, and international organizations over the Fedwire Securities Service.
- 2. Add a New Claim Type:** Expand ACAP to include securities lending tracking. A new, optional securities lending identifier will be introduced to enable securities lending tracking.

The following table reflects security types and claim types that will be tracked by ACAP once these two enhancements are made:

Claim Type	Security Type		
	Treasury	Non-Treasury Debt	Agency MBS
Fail	New	New	Existing ACAP functionality
Interim Accounting	n/a	n/a	Existing ACAP functionality
Repo	New	New	Existing ACAP functionality
Securities Lending	New	New	New

¹ An overview of the existing ACAP is available at: <https://www.frbservices.org/files/operations/pdf/FedwireBook-EntrySecuritiesService.pdf>.

- 3. Improve the Timing of Effecting Claim Adjustment Payments:** Currently, the Federal Reserve Banks make claim adjustment payments at approximately 4:30 p.m. ET on payment dates, even though P&I payments are typically posted to the master accounts of the Fedwire Securities Service participants that held those securities as of record date significantly earlier in the day.²

To enable Fedwire Securities Service participants to use funds credited to their master accounts as a result of claim adjustment payments sooner than 4:30 p.m. ET, we plan to make the following changes:

- Claim adjustment payments will be effected promptly after the distribution of an issuer's P&I payments (by increment, if the issuer has chosen to make such payments in multiple increments) to record-date holders. In support of this timing improvement, claim adjustment payments will be aggregated for each Fedwire Securities Service participant by claim type at the securities account level and effected promptly after an issuer funds each of its P&I obligations³ (by increment, if relevant) and the associated P&I payments are distributed. Fedwire Securities Service participants will receive separate claim adjustment payments if an issuer uses separate funder accounts to fund its P&I obligations. By contrast, in the current ACAP, while claim adjustment payments are aggregated for each Fedwire Securities Service participant by claim type at the securities account level, they are effected in a single payment rather than in increments and regardless of whether an issuer uses separate accounts to fund its P&I obligations.
- Fail tracking-related claim adjustment payments that are calculated for claims related to past P&I payments will be effected at 8:30 a.m. ET on the next Fedwire Securities Service business day after the securities transfer that is deemed to be a fail transaction is made over the Fedwire Securities Service.

Participants should anticipate an increased volume of claim adjustment payments being made throughout the day once the enhancement is implemented.

Customer Impact: The implementation of the ACAP enhancements may result in changes in how participants and their service providers interact with the Fedwire Securities Service, as well as changes in ACAP service fees. Depending on whether you use the FedLine Direct[®] or the FedLine Advantage[®] access solution to access the Fedwire Securities Service, you will need to manage the following technical or operational changes.

- 1. New Securities Lending Tracking Identifier** – A new, optional securities lending tracking identifier with multiple field tags (e.g., securities lending start, close) will be used to trigger securities lending tracking. If you use the FedLine Direct access solution, you will have to include an appropriate securities lending field tag in free-text line 1 or 2 of your transfer messages in order for ACAP to create or update securities lending and borrowing positions for the sender and receiver, respectively, and to make the appropriate claim adjustments. If you use the FedPayments[®] Manager–Securities through the FedLine Advantage access

² For securities that are obligations of, or fully guaranteed as to principal and interest by, the United States (e.g., Treasury securities, Ginnie Mae securities), P&I payments are posted to record-date holders' master accounts at 8:30 a.m. ET. For all other securities, P&I payments are posted to record-date holders' master accounts when issuers fund their P&I obligations (these payments may be made in multiple increments, if the issuer has decided to do so). In some instances, the record-date holder of a security may have designated the master account of another institution to receive P&I payments.

³ The Fedwire Securities Service treats securities that have the same record date and payment date and whose P&I is funded through the same issuer funder account as relating to the same P&I obligation.

solution, you will be able to select an appropriate securities lending field tag from the securities lending tracking identifier drop-down box in outgoing message templates.

2. **Changes to Be Made to the Fedwire Application Interface Manual (FAIM) for the Fedwire Securities Service** – If you use the FedLine Direct access solution, you will have to modify your applications that interface with the Fedwire Securities Service in order to process the new statements or statement changes listed below. If you use the FedLine Advantage access solution, you will be able to view and download the new or modified statements by navigating to the Statements folder in the FedPayments Manager– Securities.
 - A new securities lending balance statement will be available. The statement will contain details of daily securities lending transactions and the respective closing lending and borrowing positions tracked by ACAP. The securities lending balance statement will be modeled after the repo balance statement (MSG-ID: BA2080).
 - Tracking of repo positions will be reported on separate repo balance statements for each type of security (e.g., Treasury, Agency MBS). Tracking of securities lending and borrowing positions will also be reported on separate balance statements following the same security type segregation rule. Separate statement MSG-IDs will be used to segregate reporting of repo balances and securities lending and borrowing balances for different types of securities.
 - A new securities lending claim adjustment notification to inform participants of their upcoming securities lending claim adjustment debits and credits will be available. The new notification will be modeled after the repo claim adjustment notification (MSG-ID: BA2072).
 - The format of the current claim adjustment notifications for fail, interim accounting, and repo-related claim adjustments (MSG-IDs: BA2070, BA2071, BA2072) will be changed to reflect claim adjustment payments' being effected after issuers' P&I payments are distributed to record-date holders (by increment, if relevant).⁴ The new format will also be applied to the newly created securities lending claim adjustment notification.
3. **ACAP Service Fees Change:** As ACAP is enhanced to provide additional value to participants, we plan to change how we charge participants for using ACAP. All changes with respect to how the ACAP service is priced for participants are subject to the review and approval of the Board of Governors of the Federal Reserve System. We will provide additional information at a future date.

Claim adjustment payments will continue to be effected by the National Settlement Service (NSS) application; the terms governing ACAP are set forth in appendix D to Operating Circular 7.

Target Implementation Schedule: The high-level schedule below is based on currently available information; the Federal Reserve Banks will confirm or update the schedule as the enhancement project moves forward.

⁴ Currently, claim adjustment amounts are aggregated for each participant by claim type at the securities account level. After the ACAP enhancements are implemented, claim adjustment amounts will be aggregated by claim type, P&I obligation, and increment at the securities account level.

- Individual technical specifications detailing new statements and statement changes outlined in the **Customer Impact** section above will be made available in the FAIM layout in Q3 2017, which participants and their service providers using the FedLine Direct access solution will be able to use to begin making necessary technical changes to applications that interface with the Fedwire Securities Service. The technical specifications will be incorporated into the full FAIM at a later date; currently, we anticipate that the full FAIM will be published in Q1 2018.
- Participants and service providers will have three months to test the ACAP-related changes in the Depository Institution Testing (DIT) environment. A test calendar and script will be provided before the DIT environment is open for ACAP testing. Production cutover will follow completion of testing. Currently, we anticipate the ACAP enhancements to be implemented in the production environment in Q3 2018.

Additional Information

Questions regarding this communication should be directed to the Federal Reserve Bank of New York at 800-390-2788.

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