

Automated Claim Adjustment Process Depository Institution Testing FedLine Direct® Customers

The Federal Reserve Banks will launch the Automated Claims Adjustment Process (ACAP) enhancements in 2023 through two implementation phases. These phases are designed to provide market participants with additional time to prepare for the new functionalities associated with each phase. A separate Depository Institution Testing (DIT) period will be allocated for participants to validate their operational readiness for the new ACAP functionalities for each phase prior to production implementation.

Phase 1 will implement the shift in timing and method of settling claim adjustments. ACAP claim adjustments will settle throughout the day over the Fedwire Securities Service at security/CUSIP® level using the new Type code 8908 and 8909 messages. In addition, the new Unprocessed Claim Notification and existing ACAP statements with the new reporting format will also be implemented through this phase.

Phase 1 will continue fail, interim accounting and repo tracking only for coupon paying agency mortgage-backed securities (agency MBS) currently eligible for ACAP. The expansion of security types and transaction types will occur in subsequent phases.

Participants and service providers will have approximately six months, Thursday, July 7, 2022, to Thursday, December 29, 2022 (the first ACAP testing window), to test Phase 1 ACAP functionality in the DIT environment. We recommend that all customers test, to the degree possible, Phase 2 functionality in this six-month window.

Phase 2 will expand eligibility for ACAP tracking to all coupon-paying securities issued over the Service and expand ACAP tracking to securities lending transactions across all coupon-paying securities issued over the Service. The new Securities Lending Balance Statement and Claim Adjustment Notification for Securities Lending will also be implemented through this phase.

Participants and service providers will have approximately seven months, Wednesday, January 4, 2023, to Monday, July 31, 2023 (the second ACAP testing window), to test Phase 2 ACAP functionality in the DIT environment.

To prepare for each testing period in the DIT, please review the following customer testing requirements and test plan. Phase 1 deployment in production will be on Saturday, January 28, 2023, effective Monday, January 30, 2023. Phase 2 will be effective on Monday, August 7, 2023.

To validate FedLine Direct® customers' readiness for the implementation of the ACAP enhancements, the Federal Reserve Banks **require** all FedLine Direct participants and their

service providers to participate in the first DIT period to test Phase 1 enhancements and **highly recommend** testing in the second DIT period to test Phase 2 enhancements.¹

Participants and service providers who test before the ACAP enhancements go into effect will be prioritized for support in the event of an issue after implementation.

ACAP Enhancements Testing Registration:

Participants and service providers are required to register for ACAP testing by submitting the [Test Request Form](#) for each testing period. Please check “**Other Testing**” and provide in the comments section either “**ACAP Enhancements Testing**” for the initial DIT period or “**ACAP Enhancements Testing 2**” for the second DIT period.

The Federal Reserve Banks require customers who participate in ACAP testing to complete an attestation form indicating their institution has completed testing for each phase. The provided attestation forms will be required and must be submitted no later than a week after receiving the attestation form.

Testing Scope

Test participants will be required to exercise an ACAP enhancements test script which will be provided by your designated [Wholesale Testing Unit](#) after you register for the test.

Phase 1 test script will cover the following test categories:

- Send and receive fail, interim accounting and repo ACAP tracking transactions on agency MBS securities
- Receive and process the new claim adjustment messages (Type Code 8908 – Claim Adjustment Debit Message and Type Code 8909 – Claim Adjustment Credit Message).
- Receive and process the new and the modified ACAP statements.
- Validate end-to-end reconciliation of Fedwire Securities Service transactions and end-of-day reporting.

It is important for participants and service providers to ensure that receiving ACAP-related messages (i.e., messages with an ACAP tracking tag and the new claim adjustment messages) will not have an adverse impact to your Fedwire Securities Service interface applications even if you do not plan to use ACAP services.

Phase 2 test script will cover the following test categories:

- Send and receive transactions on other coupon-paying securities (i.e. Treasuries and agency debt) with fail and repo ACAP tracking tags.
- Send and receive transactions on all coupon-paying securities with a securities lending field tag.

¹ Even if a participant does not intend to use ACAP services, the participant may receive securities transfer messages with an ACAP tag from other participants, which automatically triggers ACAP tracking. If Fedwire Securities Service determines that a transaction, or repo/securities lending positions created via a transaction, will result in claims, those claim adjustments will be made automatically on the adjustment date. The Fedwire Securities Service will notify participants of their upcoming claim adjustments via the Adjustment Notification statement transmitted the evening of the business day prior to the adjustment date. Once a claim adjustment debit or credit is made, the participant will be notified of the debit or credit to its master account via a new incoming claim adjustment credit/debit message.

- Receive and process the new and the modified ACAP statements.
- Validate end-to-end reconciliation of Fedwire Securities Service transactions and end-of-day reporting.

In addition to the test categories listed above, the Federal Reserve Banks highly recommend that test participants also conduct their own test cases to further affirm their institution is positioned for the production implementation of Phase 1 on Monday, January 30, 2023 and implementation of Phase 2 on Monday, August 7, 2023.

Highlights of the DIT Operations to Support the ACAP Enhancements Testing:

The following additional operational features will be made available in the DIT to support the enhancements testing during the ACAP testing window.

- DIT environment open time for the Fedwire Securities Service ACAP enhancements will be at 8:30 a.m. ET
- Refresh the DIT environment – To begin, the DIT environment will be refreshed with production data as of the close of business on June 30, 2022. During the enhanced ACAP testing windows, the DIT environment will be closed for database refreshes. Refresh dates will be provided for each quarter in the [DIT Operating Hours and Test Schedule webpage](#). Test participants' repo and securities lending positions will be retained in the DIT environment until each time the DIT is refreshed.
- Distribute principal & interest (P&I) payments – P&I payments for both agency MBS and debt securities will be made to the master account of record-date holders on payment dates.
- Publish P&I payment date schedule – A P&I payment date schedule will be available to inform test participants of coupon-paying Fedwire securities scheduled for P&I payments during the ACAP testing window.
- Deliver Fedwire Securities Service statements – Fedwire Securities Service statements created from the test cycle date will be delivered to test participants upon request on the next business day. Test participants that receive Fedwire Securities statements via the FedLine Direct File or FedLine Command® Solution need to make appropriate configurations to your Fedwire Securities Service interface applications to receive and process your ACAP statements. See the table below for technical identifiers for ACAP statements.

New ACAP statements and existing ACAP statements with new reporting format content types

| Statement Name | Content Type | MSG-ID |
|---|------------------------------------|---|
| Unprocessed Claim Notification (<i>New</i>) | BAUC | BA2074 |
| Claim Adjustment Notification | BAAF/BAAI/BAAR/BAAS (<i>New</i>) | BA2070/BA2071/BA2072/BA2073(<i>New</i>) |
| REPO Balance Statement | BARB | BA2080 |
| Securities Lending (<i>New</i>) | BASB | BA2081 |

Please be aware that participants and service providers conducting any Fedwire Securities Service testing unrelated to the enhanced ACAP testing during the ACAP

testing window may receive ACAP tracking transactions initiated by other test participants and claim adjustment messages.

Additional Information:

Participants are encouraged to report any issues encountered during testing to their designated [Wholesale Testing Unit](#) as soon as possible.

If you have questions regarding this communication, please contact your designated [Wholesale Testing Unit](#).

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