



## Federal Reserve Banks

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Boston	Richmond	Minneapolis
New York	Atlanta	Kansas City
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Cleveland	St. Louis	San Francisco

February 9, 2001  
Clearing Memo #219

TO: All Fedwire Book-Entry Securities Participants

SUBJECT: Expansion of Services for the National Book-Entry System – Fail Tracking  
(Revised 08/14/01)

In our ongoing efforts to improve the service level of the securities transfer system and meet our customers' needs, we plan to implement an operational enhancement referred to as "Fail Tracking," which may result in a "Claim Adjustment." We will make this service available for customer testing on July 16, 2001, and implement production on September 10, 2001.

A "fail" occurs when a Contract Date, indicated on a securities transfer message, is prior to the Settlement Date. A Claim Adjustment will be made when the following condition is met: when one or more Beneficiary Dates fall between the Contract Date and the Settlement Date. A Claim Adjustment will result in a transfer of funds from the message originator to the message receiver. It should be noted that Claim Adjustments associated with Fail Tracking will not apply to repurchase transfer messages. (For further information on repurchase transfer messages, refer to Clearing Memo #221.)

The Federal Reserve is **not** changing its current principal and interest processing or making changes to the transfer component of the Computer Interface Protocol Specifications ("CIPS"). The enhancement described in this clearing memo is in addition to our existing services. This enhancement will be activated at a securities product level, e.g., FMPC, FNMS. Initially, this feature will be used for all mortgage-backed securities on the Fedwire<sup>®</sup> securities transfer system. Prior to implementation, we will publish a list of the securities products eligible for this feature.

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<sup>®</sup> Fedwire is a registered trade mark of the Federal Reserve Banks.

## A. PROCESS

When originating a securities transfer message, a Fedwire participant has the option to enter a field-tag in free text line 1 or 2 to indicate the Contract Date, {98A:CNTR/yyyyymmdd}. (See Attachment 1.) This is not a required field for a securities transfer message. However, if the field-tag is found in the message, the securities transfer system will perform the following edits:

<u>EDIT</u>	<u>ACTION</u>
1. Field-tag without Contract Date value	Message will be processed using the current Fedwire business date
2. Invalid date format	Message will be rejected to originator
3. Contract Date is beyond the current Fedwire business date	Message will be rejected to originator
4. More than one Contract Date field-tag	Message will be rejected to originator
5. For non-secondary market transactions where the Contract Date is not the same as the current Fedwire business date	Message will be rejected to originator. Note: non-secondary market transactions include original issue messages, strip and reconstitution requests, and conversion requests to and from definitive form

New error codes will be provided in a subsequent clearing memo. As with any securities transfer message, the receiver reserves the right to reverse the transaction.

## B. CLAIM ADJUSTMENTS

Claim Adjustments due to fail transactions will be netted by securities account. The net debits and credits will be functioned using the Federal Reserve's enhanced Net Settlement Service ("NSS") and posted to the customer's account on the NSS line in the Account Balance Monitoring System ("ABMS"). Claim Adjustments occur at approximately 2:00 pm ET, either the next business day after the settlement date or the next payment date.

Claim Adjustments will only be made for Beneficiary Dates that fall within six months prior to the fail transaction settlement date. Six months of historical data may not be available at the time this service is implemented. The number of months will be determined at a later date and published in a subsequent clearing memo.

## **C. REPORTS**

To help customers reconcile the Claim Adjustments, the Federal Reserve will transmit a report, **“BE Adjustment Notification—Fail,”** the evening prior to the date of the adjustment indicating the net adjustment amount and supporting details. (See Attachment 2.) This report will be transmitted to customers in the same medium they currently receive their Immediate Principal and Interest Notifications. The CIPS for this report are being published and made available to affected parties separately.

## **D. PRICING/FEEES**

The Federal Reserve will assess a surcharge for each fail transaction that results in a Claim Adjustment. Additional information will be provided in a subsequent clearing memo.

## **E. EXAMPLES OF CLAIM ADJUSTMENT SCENARIOS**

See Attachment 3 for examples of Claim Adjustment scenarios. Also included is a decision tree that the Federal Reserve will use to determine if a securities transaction results in a Claim Adjustment. (See Attachment 4.)

Questions regarding this announcement should be directed to the Federal Reserve Bank of New York at (201) 531-3341.

Glossary and Attachments (4)

## Glossary

**Beneficiary Date** – The date on which the accrual period ends. On the Fedwire system, the beneficiary date is reflected as the start of business on the day following the end of the accrual period.

**Claim Adjustment** – A transfer of funds from one Fedwire participant to another Fedwire participant.

**Contract Date** – The date specified by the participant as the initially agreed upon contractual settlement date.

**Record Date** – The date on which the holder of record is identified for payment of Principal & Interest. On the Fedwire system, the record date is reflected as the start of business on the day following.

**Settlement Date** – The date on which the securities transaction is processed by the Fedwire system. (Clearance Date)

**Fedwire securities transfer message**  
**(with Contract Date field-tag)**

BA Incoming Message

Receiver	Type	Reference Input Key
021000021	2000	

Sender	Reference Number	Amount
021000018	5680	\$4,957,357.75

BK OF NYC	/ DEAN WITTER	/ sender info .....
CHASE NYC	/PAINE	/ receiver info .....
{98A:CNTR/yyymmdd}	Free Text.....	Free Text .....Free Text.....
Free Text .....	Free Text .....	Free Text..... Free Text....

CUSIP	Description	Par	DEAL	15:04
912810DX3	7 1/2 BOND 16	\$5,000,000.00		

IMAD	URC	OMAD
0622 B1Q1339K 5310 06221503		0622 B1Q0216K 06221504 BA1B

Example of a Claims Adjustment Notification

MSG-ID    LN-TYPE  
 BA2070    0 PAGE 1 11/20/00 19:07:45 BE ADJUSTMENT NOTIFICATION--FAIL  
 1  
 Z CITIBANK, N.A.  
 Z 111 WALL STREET  
 Z NEW YORK, NY 10043  
 Z  
 2 DI: 0210-0008-9        ACCT: 1010 DEALER  
 Z  
 3 ADJUSTMENT DT: MM/DD/CCYY        ADJ AMT: \$891,262,000.00 DR  
 Z  
 Z DETAILS  
 4 SNDR: 021000089 / BEAR STERN        RCVR: 021000018 / GOLDMAN  
 Z    CUSIP NUM    CUSIP DESCRIPTION    BENEFICIARY DT    RECORD DT  
 5    3133MBAP2    7.01 FHLB 01-02 1I        MM/DD/CCYY    MM/DD/CCYY  
 6    PAR AMT: \$3,820,000.00        ADJ AMT: \$137,711,000.00 DR  
 Z  
 7                    INT: 35.050000000                    \$133,891,000.00  
 7                    MAT: 1.000000000                    \$3,820,000.00  
 7                    BV: 1.000000000                    3,820,000.00  
 Z  
 8 STL DT: MM/DD/CCYY CNTRT DT: MM/DD/CCYY IMAD: 0915B1LTERM000075  
 Z  
 4 SNDR: 021000089 / BEAR STERN        RCVR: 021000018 / GOLDMAN  
 Z    CUSIP NUM    CUSIP DESCRIPTION    BENEFICIARY DT    RECORD DT  
 5    3133MBAP2    7.01 FHLB 01-02 1I        MM/DD/CCYY    MM/DD/CCYY  
 6    PAR AMT: \$3,820,000.00        ADJ AMT: \$57,491,000.00 DR  
 Z  
 7                    INT: 14.050000000                    \$53,671,000.00  
 7                    MAT: 1.000000000                    \$3,820,000.00  
 7                    BV: 1.000000000                    3,820,000.00  
 Z  
 8 STL DT: MM/DD/CCYY CNTRT DT: MM/DD/CCYY IMAD: 0915B1LTERM000075  
 Z  
 4 SNDR: 021000089 / MERRILL        RCVR: 031000056 / GENERAL  
 Z    CUSIP NUM    CUSIP DESCRIPTION    BENEFICIARY DT    RECORD DT  
 5    3133MBAU1    7.01 FHLB 01-02 1K        MM/DD/CCYY    MM/DD/CCYY  
 6    PAR AMT: \$20,065,000.00        ADJ AMT: \$722,340,000.00 DR  
 Z  
 7                    INT: 35.000000000                    \$702,275,000.00  
 7                    PPD: 1.000000000                    \$20,065,000.00  
 7                    BV: 1.000000000                    20,065,000.00  
 Z  
 8 STL DT: MM/DD/CCYY CNTRT DT: MM/DD/CCYY IMAD: 0915B1LTERM000057  
 Z  
 9    \*\*TOTALS: DR COUNT:        3                    AMT:    \$917,542,000.00  
 Z  
 Z  
 4 SNDR: 021000018 / GOLDMAN        RCVR: 021000089 / MERRILL  
 Z    CUSIP NUM    CUSIP DESCRIPTION    BENEFICIARY DT    RECORD DT  
 5    3133MBBC0    7.20 FHLB 01-02-03 JU        MM/DD/CCYY    MM/DD/CCYY  
 6    PAR AMT: \$730,000.00        ADJ AMT: \$26,280,000.00 CR  
 Z  
 7                    INT: 36.000000000                    \$26,280,000.00  
 7                    BV: 1.000000000                    730,000.00  
 Z  
 8 STL DT: MM/DD/CCYY CNTRT DT: MM/DD/CCYY IMAD: 0915B1LTERM000015  
 Z  
 9    \*\*TOTALS: CR COUNT:        1                    AMT:    \$26,280,000.00

**EXAMPLE 1**

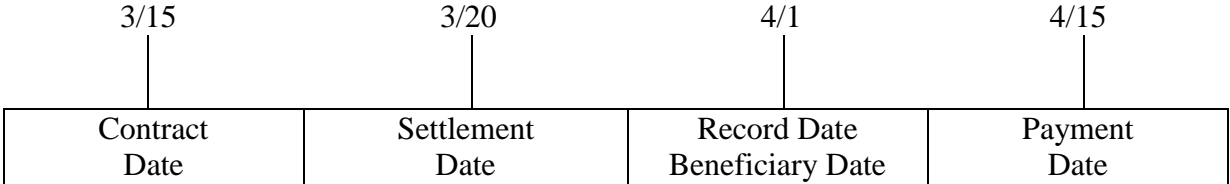
Transaction

CUSIP A

<b>Sender</b>	Bank W / Dealer
<b>Receiver</b>	Bank X / Inv
<b>Contract Date</b>	3/15
<b>Settlement Date</b>	3/20
<b>PAR</b>	\$100,000
<b>CUSIP</b>	CUSIP A

<b>Record Date</b>	4/1
<b>Beneficiary Date</b>	4/1
<b>Payment Date</b>	4/15

**TIMELINE**



- Is this a Repo Transaction? ..... NO
- Is this transaction eligible for Fail Tracking?  
 Is the Contract Date (3/15) < Settlement Date (3/20)?... YES
- Is the Contract Date (3/15) < Beneficiary Date (4/1) AND  
 Is Beneficiary Date (4/1) <= Settlement Date (3/20)? ..... NO

**RESULT:** Does not create a fail Claim Adjustment

**EXAMPLE 2**

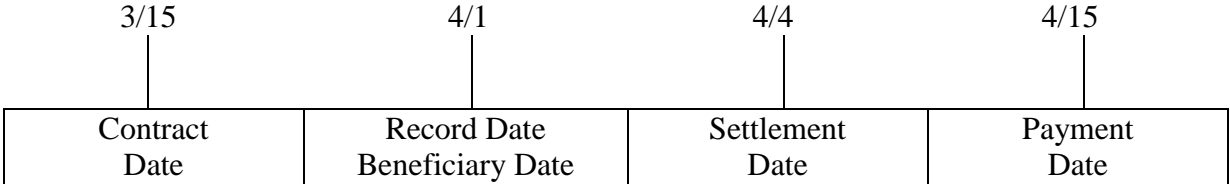
Transaction

CUSIP B

<b>Sender</b>	Bank Y / General
<b>Receiver</b>	Bank Z / Trust
<b>Contract Date</b>	3/15
<b>Settlement Date</b>	4/4
<b>PAR</b>	\$200,000
<b>CUSIP</b>	CUSIP B

<b>Record Date</b>	4/1
<b>Beneficiary Date</b>	4/1
<b>Payment Date</b>	4/15

**TIMELINE**



- Is this a Repo Transaction? ..... NO
- Is this transaction eligible for Fail Tracking?  
     Is the Contract Date (3/15) < Settlement Date (4/4)?..... YES
- Is the Contract Date (3/15) < Beneficiary Date (4/1) AND  
     Is Beneficiary Date (4/1) <= Settlement Date (4/4)?..... YES
- ➔ Create Fail Adjustment  
     When will Claim Adjustment be made?  
     Is Payment Date (4/15) < Settlement Date (4/4)? ..... NO

**RESULT:** A fail Claim Adjustment will be made, to be included in the net Claim Adjustment on 4/15



**EXAMPLE 3**

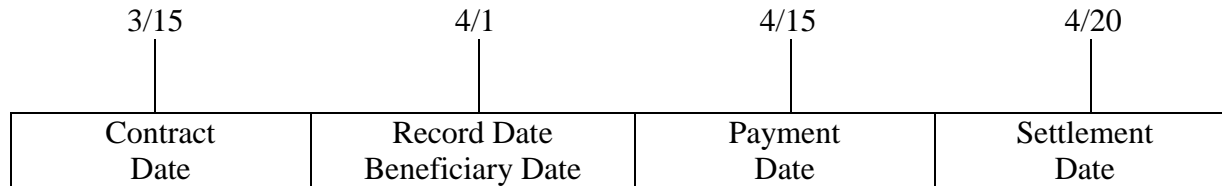
Transaction

CUSIP C

<b>Sender</b>	Bank X / Dealer
<b>Receiver</b>	Bank Z / Dealer
<b>Contract Date</b>	3/15
<b>Settlement Date</b>	4/20
<b>PAR</b>	\$300,000
<b>CUSIP</b>	CUSIP C

<b>Record Date</b>	4/1
<b>Beneficiary Date</b>	4/1
<b>Payment Date</b>	4/15

**TIMELINE**



- Is this a Repo Transaction? ..... NO
- Is this transaction eligible for Fail Tracking?
  - Is the Contract Date (3/15) < Settlement Date (4/20)?..... YES
  - Is the Contract Date (3/15) < Beneficiary Date (4/1) AND
    - Is Beneficiary Date (4/1) <= Settlement Date (4/20)?..... YES
- Create Claim Adjustment
  - When will Claim Adjustment be made?
    - Is Payment Date (4/15) < Settlement Date (4/20)? ..... YES

**RESULT:** A fail Claim Adjustment will be made, to be included in the net Claim Adjustment on 4/21

**EXAMPLE 4**

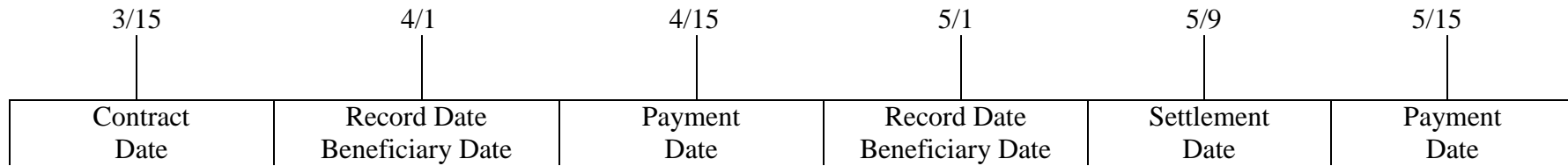
Transaction

<b>Sender</b>	Bank Y / Dealer
<b>Receiver</b>	Bank X / Dealer
<b>Contract Date</b>	3/15
<b>Settlement Date</b>	5/9
<b>PAR</b>	\$400,000
<b>CUSIP</b>	CUSIP D

CUSIP D

<b>Record Date</b>	4/1
<b>Beneficiary Date</b>	4/1
<b>Payment Date</b>	4/15
<b>Record Date</b>	5/1
<b>Beneficiary Date</b>	5/1
<b>Payment Date</b>	5/15

**TIMELINE**



- Is this a Repo Transaction? ..... NO
- Is this transaction eligible for Fail Tracking?
  - Is the Contract Date (3/15) < Settlement Date (5/9)?..... YES
  - Is the Contract Date (3/15) < Beneficiary Date (4/1) AND  
Is Beneficiary Date (4/1) <= Settlement Date (5/9)?..... YES
- ➔ Create two Claim Adjustments
  - For Beneficiary Date 4/1: When will Claim Adjustment be made?
    - Is Payment Date (4/15) < Settlement Date (5/9)? ..... YES
  - For Beneficiary Date 5/1: When will Claim Adjustment be made?
    - Is Payment Date (5/15) < Settlement Date (5/9)? ..... NO

**RESULT:** A fail Claim Adjustment will be made, to be included in the net Claim Adjustment on 5/10 (associated with beneficiary date of 4/1) and a Claim Adjustment will be made on 5/15 (associated with Beneficiary Date of 5/1)

**EXAMPLE 5**

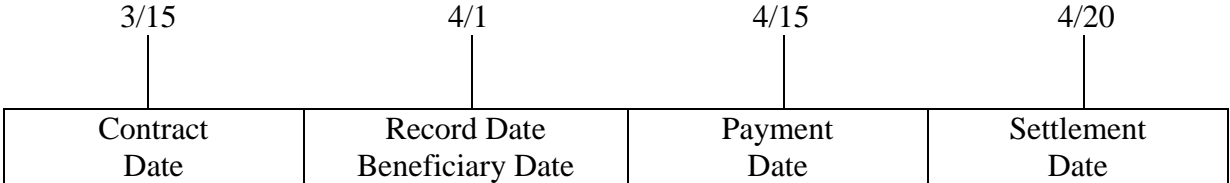
Transaction

CUSIP E

<b>Sender</b>	Bank X / Dealer
<b>Receiver</b>	Bank Z / Dealer
<b>Contract Date</b>	3/15
<b>Settlement Date</b>	4/20
<b>PAR</b>	\$500,000
<b>CUSIP</b>	CUSIP E

<b>Record Date</b>	4/1
<b>Beneficiary Date</b>	4/1
<b>Payment Date</b>	4/15

**TIMELINE**



Is this a Repo Transaction? ..... YES

**RESULT:** Fail Tracking is not applicable; no fail Claim Adjustment will be made

## Fed Transaction Processing Flow for Repo Tracking, Fail Tracking and Interim Accounting

