



## Federal Reserve Banks

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

February 9, 2001  
Clearing Memo #220

TO: All Fedwire Book-Entry Securities Participants

SUBJECT: Expansion of Services for the National Book-Entry System – Interim Accounting  
(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 "Interim Accounting" 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.

Certain securities have a Record Date that does not represent the end of the accrual period. This end accrual date, known as the Beneficiary Date, is the actual date the accrual period ends.

Securities transfers that settle between the record date and the Beneficiary Date are referred to as Interim Accounting transactions and result in Claim Adjustments. 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 Interim Accounting 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 mortgage-backed securities on the Fedwire® securities transfer system. Prior to implementation, we will publish a list of the securities products eligible for this feature.

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® Fedwire is a registered trade mark of the Federal Reserve Banks.

**A. CLAIM ADJUSTMENTS**

Claim Adjustments due to Interim Accounting 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 on the next payment date.

**B. REPORTS**

To help customers reconcile the Claim Adjustment, the Federal Reserve will transmit a report, "**BE Adjustment Notification--Interim Acctg,**" the evening prior to the date of the adjustment indicating the net adjustment amount and supporting details. (See Attachment 1.) 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.

**C. PRICING/FEEES**

The Federal Reserve will assess a surcharge for each Interim Accounting transaction. Additional information will be provided in a subsequent clearing memo.

**D. EXAMPLES OF CLAIM ADJUSTMENT SCENARIOS**

See Attachment 2 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 3.)

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

Glossary and Attachments (3)

## Glossary

**Beneficiary Date** – The date in 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 in 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 upon which the securities transaction is processed by the Fedwire system. (Clearance Date)

## Example of a Claims Adjustment Notification

MSG-ID    LN-TYPE  
 BA2071    0 PAGE    1 11/20/00 19:07:45 BE ADJUSTMENT NOTIFICATION—INTERIM ACCTG  
 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: \$688,166,000.00 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 II        MM/DD/CCYY    MM/DD/CCYY  
 6    PAR AMT: \$3,820,000.00        ADJ AMT: \$133,891,000.00 DR  
 Z  
 7                    INT: 35.050000000                    \$133,891,000.00  
 7                    BV: 1.000000000                    3,820,000.00  
 Z  
 8 STL DT: MM/DD/CCYY CNTRT DT: MM/DD/CCYY IMAD: 0915B1LTERM000057  
 Z  
 4 SNDR: 021000089 / MERRILL        RCVR: 031000056 / GENERAL  
 Z    CUSIP NUM    CUSIP DESCRIPTION    BENEFICIARY DT    RECORD DT  
 5    3133MBAU1    7.00 FHLB 01-02 1K        MM/DD/CCYY    MM/DD/CCYY  
 6    PAR AMT: \$20,065,000.00        ADJ AMT: \$702,275,000.00 DR  
 Z  
 7                    INT: 35.000000000                    \$702,275,000.00  
 7                    BV: 1.000000000                    20,065,000.00  
 Z  
 8 STL DT: MM/DD/CCYY CNTRT DT: MM/DD/CCYY IMAD: 0915B1LTERM000017  
 Z  
 9    \*\*TOTALS: DR COUNT:        2                    AMT:    \$836,166,000.00  
 Z  
 Z  
 4 SNDR: 021000018 / GOLDMAN        RCVR: 021000089 / MERRILL  
 Z    CUSIP NUM    CUSIP DESCRIPTION    BENEFICIARY DT    RECORD DT  
 5    3133MBBC0    7.20 FHLB 02-03 JU        MM/DD/CCYY    MM/DD/CCYY  
 6    PAR AMT: \$4,000,000.00        ADJ AMT: \$148,000,000.00 CR  
 Z  
 7                    PPD: 1.000000000                    4,000,000.00  
 7                    INT: 36.000000000                    \$144,000,000.00  
 7                    BV: 1.000000000                    \$4,000,000.00  
 Z  
 8 STL DT: MM/DD/CCYY CNTRT DT: MM/DD/CCYY IMAD: 0915B1LTERM000015  
 Z  
 9    \*\*TOTALS: CR COUNT:        1                    AMT:    \$148,000,000.00

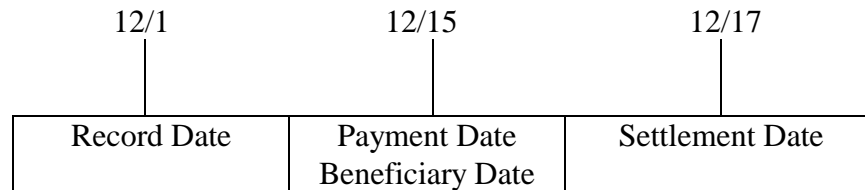
**EXAMPLE 1**

No Transaction

Sender	Bank X / Dealer
Receiver	Bank Y / Inv
Settlement Date	12/17
PAR	\$ 200,000
CUSIP	A

CUSIP A

Record Date	12/1
Beneficiary Date	12/15
Payment Date	12/15

**TIMELINE**

Is this a Repo Transaction? .....

NO

Is this CUSIP eligible for Interim Accounting?

Is the Beneficiary Date (12/15)  $\neq$  Record Date (12/1)? .....

YES

Does this transaction require a Claim Adjustment?

Is the Record Date (12/1)  $\leq$  Settlement Date (12/17)? .....

YES

**And...**Is the Settlement Date (12/17)  $<$  Beneficiary Date (12/15)? .....

NO

**RESULT:** Does not result in an Interim Accounting Claim Adjustment

**EXAMPLE 2**

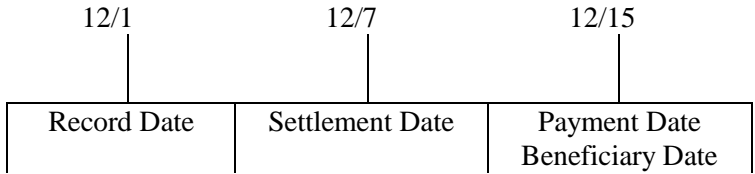
Transaction

Sender	Bank X/Dealer
Receiver	Bank Y/IMB
Settlement Date	12/7
PAR	\$ 75,000
CUSIP	A

CUSIP B

Record Date	12/1
Beneficiary Date	12/15
Payment Date	12/15

**TIMELINE**



- Is this a Repo Transaction? ..... NO
- Is this CUSIP eligible for Interim Accounting?  
     Is the Beneficiary Date (12/15) ≠ Record Date (12/1) ? ..... YES
- Does this transaction require a Claim Adjustment?  
     Is the Record Date (12/1) ≤ Settlement Date (12/7) ? ..... YES
- And ...**  
     Is the Settlement Date (12/7) < Beneficiary Date (12/15) ? ..... YES

➔ Create Claim Adjustment on Payment Date (12/15)

**RESULT:** Debit Interim Accounting Claim Adjustment will be made to Bank X  
               Credit Interim Accounting Claim Adjustment will be made to Bank Y

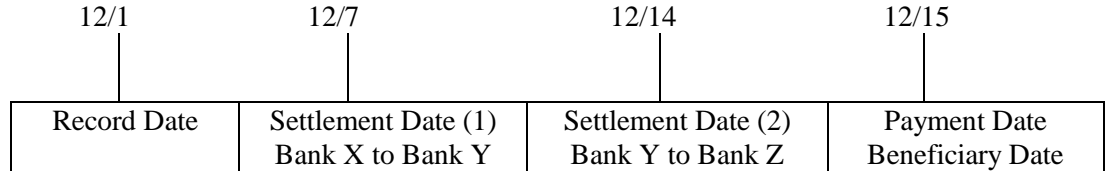
**EXAMPLE 3**

Transaction (1) (2) CUSIP C

Sender	Bank X / Dealer	Bank Y/Inv
Receiver	Bank Y / Inv	Bank Z/Trust
Settlement Date	12/7	12/14
PAR	\$ 75,000	\$ 25,000
CUSIP	A	A

Record Date	12/1
Beneficiary Date	12/15
Payment Date	12/15

**TIMELINE**



Is this a Repo Transaction? ..... NO

Is this CUSIP eligible for Interim Accounting?  
 Is the Beneficiary Date (12/15) ≠ Record Date (12/1) ? ..... YES

Does this transaction require a Claim Adjustment?  
Transaction 1  
 Is the Record Date (12/1) ≤ Settlement Date (12/7) ? ..... YES

*And ...*  
 Is the Settlement Date (12/7) < Beneficiary Date (12/15) ? ..... YES

Transaction 2  
 Is the Record Date (12/1) ≤ Settlement Date (12/14) ? ..... YES

*And ...*  
 Is the Settlement Date (12/14) < Beneficiary Date (12/15) ? ..... YES

**EXAMPLE #3 (cont'd)**

→ Create Interim Accounting Claim Adjustment on Payment Date (12/15)

**RESULT:** A debit will be made, to be included in the net Claim Adjustment for Bank X.  
A credit and debit will be made, to be included in the net Claim Adjustment for Bank Y.  
A credit will be made, to be included in the net Claim Adjustment for Bank Z.



**EXAMPLE 4**

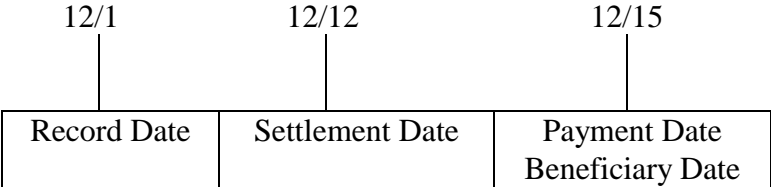
Transaction

Sender	Bank Z / General
Receiver	Bank Q / Cust
Settlement Date	12/12
PAR	\$ 150,000
CUSIP	A

CUSIP D

Record Date	12/1
Beneficiary Date	12/15
Payment Date	12/15

**TIMELINE**



Is this a Repo Transaction? .....

YES

**RESULT:** Transaction is not eligible for an Interim Accounting Claim Adjustment

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

