

## **Novation Frequently Asked Questions (FAQ)**

- **What advantages will Novation add to the MBS market?**
  - Members will have one single counterparty (FICC) for all transactions (except Options)
  - All clearing member facing trades will be allocated to and from FICC
  - Introduction of odd-lot transactions into TBA Net
  - Members will have the ability to pair-off (DNA) activity during 48hrs days.
  - Elimination of the give-up process due to blind brokering
  - Elimination of Notification of Settlement (NOS) process
  - FICC will submit pool information to pool net on member's behalf.
  - Potential for balance sheet relief
  
- **What products will be Novated?**
  - All eligible products, with the exception of options, will be novated upon being fully matched.
  
- **How will Novation affect Buy-side firms?**
  - Novation is for clearing members only. It will be business as usual for EPN only Buy-side firms. Firms will allocate via EPN as is done today.
  
- **How will trade modifications be handled prior to TBA netting day if a trade has already been fully matched and the counterparty is FICC?**
  - If a member realizes they have a discrepancy with a trade that's been fully matched the member would need to;
    - First verify the discrepancy with the original trading partner whether it be a Broker or Dealer
    - Submit a cancel to FICC canceling the trade versus FICC
    - FICC will systemically pass the cancel message along to the counterparty.
    - The counterparty will have to either accept the cancel message from FICC or they will be canceled if both sides submit the cancel message.
    - Both parties would then re-book a new trade and submit to FICC to be fully matched and Novated.
    - Trades will not be eligible for cancellation on 48 hour day and forward. If members have a discrepancy, they will need to book offsetting trades.
  
- **Currently some dealers monitor their partially matched (PMAT) trades from the PMAT report published through RTTM. Will this report still be available?**

- Members will have the ability to query PMAT and Novated (FMAT) trades real-time through RTTM as well as being able to view in report center. FICC will only see FMAT (fully matched) trades.
  
- **What are the major changes for members?**
  - All novated trades will settle versus FICC on a delivery versus payment basis, allowing for a complete retirement of Notification of Settlement (NOS)
  - FICC will provide a trade-for-trade matching service for trades carrying stipulations (“STIP trades”) and expand the specified pool trade (SPT) service to allow members to match SPTs based on pool number/CUSIP without submitting the TBA CUSIP
  - Odd lot trades will be included in the TBA net.
  - Expanded pool net and TBA reprice to satisfy cash differences generated by DNA processing
  - Separate FICC accounts for each trade type (FTBA = TBA, FSTI= STIP Trades Specified Pools)
  
- **Will TBA re-price provide a one for one replacement trade for the TBA fails OR an aggregated buy and aggregated sell by product coupon OR a net position for each coupon?**
  - It will be a one to one replacement.
  
- **Will TBA Re-price happen only 24 hour day for Class A, B and C or everyday?**
  - Re-price and expanded pool-net will only take place on 24 hour day of each associated class.
  
- **During the rollout phase will members need to maintain two separate (books) for Novated TBA CUSIPS and Non-Novated CUSIPS?**
  - Yes, Novation will be rolled out to production on a TBA CUSIP basis.
  - During the rollout, members will need to be able to accept Novated TBA CUSIP messaging as well as Non-Novated TBA CUSIP messaging until all CUSIPS have been Novated.
  - Reports will include both Novated and non-Novated CUSIPs together with additional fields to support Novation. The exception to this will be the SBO summary report
  
- **Will STIP/SPT trades be re-priced?**
  - No. STIPs and SPT trades will not be re-priced
  
- **Will a non SIFMA settlement date trade be novated?**
  - Yes, all trades with the exception of Options will be novated.
  
- **Will pool exceptions go into pool net, be netted?**
  - All pool allocations are either netted or converted to POIDs vs. FICC, not netted items will no longer exist.
  
- **How will FICC provide the breakdown for cash? Will there be a separate line item for TBA Re-price, Trade net, Pool Net, Variance Tap, expanded Pool Net and DNA?**

- There will be a Cash Obligation Report that will display each individual type
  
- **Does the TBA Re-price process go against partial TBA fails?**
  - Yes, all remaining open TBA's with the exception of non-SIFMA scheduled settlement dates will be re-priced whether they are partial or fully open. Only the remaining balance (unallocated portion) will be re-priced.
  
- **How would members know which TBAs are eligible for Novation (as they're phased in)?**
  - As TBA CUSIPs are made novation eligible FICC will send out notifications via email blasts indicating what CUSIPs will be phased in and when. It is our intention to give members 2 weeks notice prior to each TBA CUSIP phase in.
  
- **Now that trades can be submitted as STIPs rather than sending in as TFTD, would members be allowed to amend the "trade service type" from TFTD to STIP after initial submission and vice versa?**
  - Both parties would have to submit a cancel and replacement trade to reflect the change in trade type.
  
- **A cancel of TFTD STIP trade can only be done up to 4:30 on 24 hour day of the Contractual Settlement Date of the trade being canceled.**
  
- **How will FICC handle the rollout of previously entered trades?**
  - When selected TBA CUSIPs are turned on for novation, FICC will capture all SBOD trades in that associated TBA net and convert the netting results to face FTBA. TFTD trades will be left facing the original counterpart, members will have the option to cancel and correct those trades so they will face the appropriate FICC account.
  
- **What is the testing and roll-out schedule?**
  - Member testing will began 12/2016
  - Production deployment will be 07/2017