

Single Security Initiative

# Single Security Initiative - Exchange Webinar





## Single Security Overview

### Single Security Initiative

- New uniform mortgage-backed security
- Common features
- Single TBA market
- Issued and guarantee by Fannie Mae and Freddie Mac

### Issuer/Guaranty Structure

- Level 1: UMBS; Level 2: Supers
- Supports commingling in second-level resecuritizations
- Issuer of top level security is guarantor

### Alignment

- 55-day payment delay
- Prefixes: use Fannie Mae FICC Clearing Code (01F)
- Disclosures: aligned to Freddie Mac new format

### Timing

- Implementation: June 3, 2019
- Forward trading: 1Q 2019
- Optional exchange<sup>1</sup>: begins May 2019
- Asking market to get ready by end of 2018

### Freddie Mac Exchange Overview

Freddie Mac's exchange program offers PC holders entry into the new UMBS market

- Holders of Freddie Mac fixed-rate 45-day PCs/Giants will have the option to exchange for 55-day UMBS/Supers (or FRE MBS for non-TBA)
- Investors who exchange will receive compensation for the additional payment delay<sup>1</sup>
- Most elements of the new UMBS or Supers will exactly match those of the 45-day PC being exchanged – and they will be backed by the same cash flows
- Daily exchange disclosures will inform the market of exchange activity
  - Daily 45-Day to 55-Day Exchange Activity
  - Cumulative 45-Day to 55-Day Exchange Activity
  - Aggregate Level 1 Collateral Exchange Activity
  - Outstanding Supply Report

#### Objectives

- Provide Gold PC investors entry into the new, more liquid UMBS TBA market
- Above all “do no harm” – provide an option, not a requirement
- Make the option available whenever investors are ready
- Provide fair compensation for the additional 10 days' delay in P&I payments
- Make the process as seamless as possible

<sup>1</sup> Consult your tax advisor concerning taxability of float compensation

## Two Exchange Paths to Choose From

- Freddie Mac will offer two exchange paths; the original path facilitated by Freddie Mac authorized dealers, through Freddie Mac's Dealer Direct<sup>SM</sup>, and the recently developed second path with a "trade-like" approach, via Tradeweb

### 1. Dealer-facilitated Exchange

Submit 45-day PC/Giant via DVP

Receive 55-day UMBS / Supers<sup>1</sup>



- DVP delivery to Dealer – may have accounting implications
- Investor instructs custodian at sub-account level
- Dealer may net float compensation from buy/sell price
- Open for the foreseeable future
- FRE will not charge a fee; vendor fees may apply

### 2. Direct-to-Freddie Mac Exchange via Tradeweb

Submit 45-day PC / Giant via Free Delivery

Receive 55-day UMBS / Supers + Float Comp

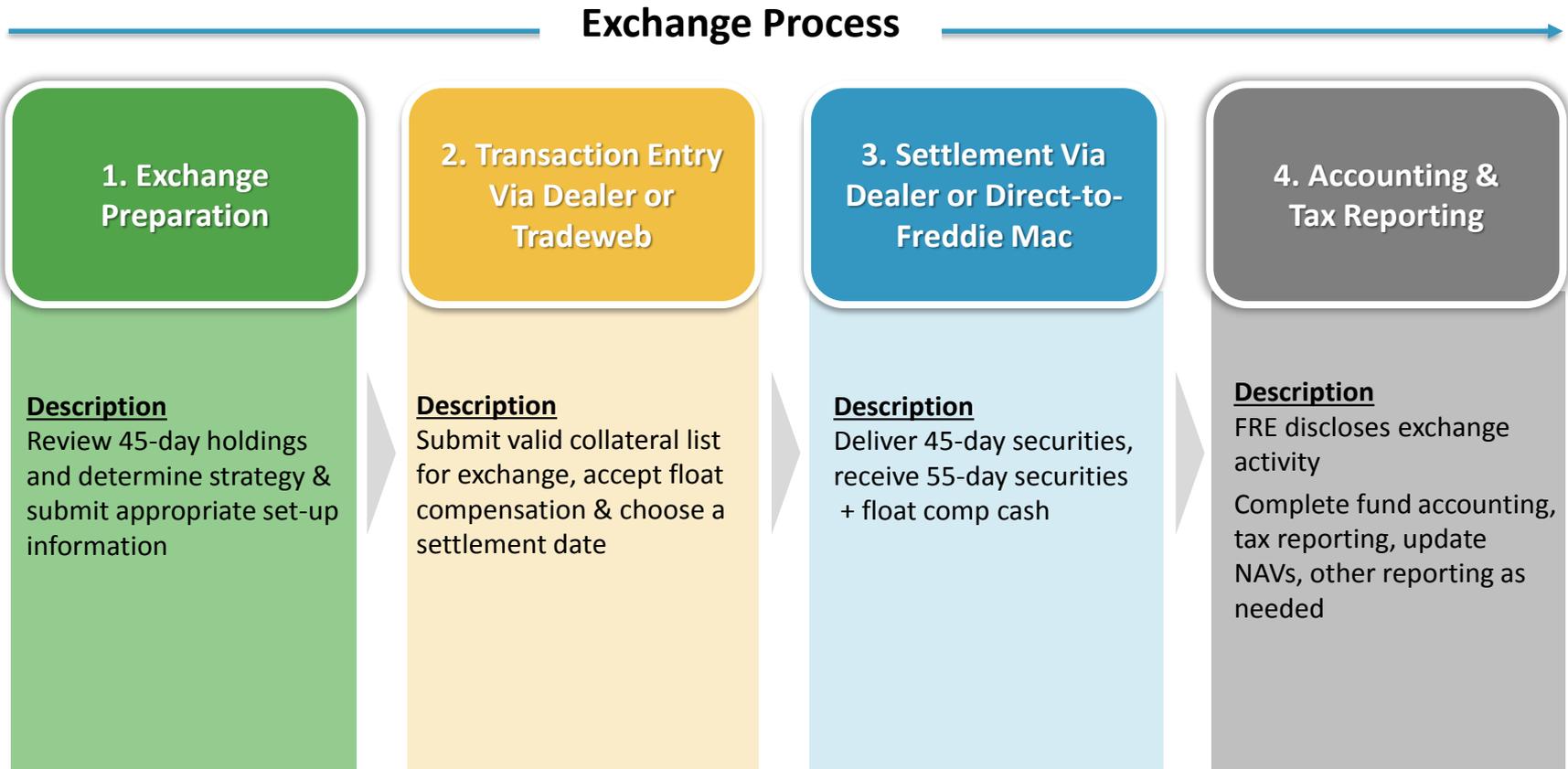


- Free delivery to Freddie Mac as the counterparty
- Investor instructs custodians at sub-account-level
- May connect via OMS
- Float compensation paid to investor via separate cash wire for each transaction
- Expected to be open for 3-5 years
- No fee for first 3 years

<sup>1</sup>Float compensation may be netted out of price by dealers.



## The Key Steps to Exchange





# Exchange Preparation

### Determine Exchange Strategy

- **Determine your exchange eligible CUSIPS**
  - <http://www.freddiemac.com/mbs/exchange/data-files.html>
  - The exchange data files can be seen here. To see the full list of mirrors issued to date and their corresponding Gold PCs, go to the Cumulative 45-day to 55-day Exchange Activity report. Plug in today's date for the Cumulative file and you can view and download the list
  - Mirror issuance will be completed by the end of October and catch-up issuance will continue in small batches up until go-live
- Freddie Mac is offering discounted Giants until the exchange implementation to help with portfolio consolidation: <http://www.freddiemac.com/mbs/docs/f348news.pdf>
- **Determine your exchange path**
  - Considerations include your account(s) composition, sub-account structure and complexity, flexibility of your OMS and manual vs. straight-through processing
  - **Regardless of path, reach out to your Custodian(s), Dealer(s) or Tradeweb, and OMS provider to discuss how the process will work**
  - *In order to avoid fails your collateral must be in hand in order to execute the exchange. Consider any repo or collateral lending agreements before submitting an exchange request*
- **Freddie Mac will post a tool later this quarter where you can enter your CUSIPs and the calculator will populate the mirror and associated float comp on a CUSIP-by-CUSIP level**
  - This tool was created to add transparency to the float compensation
  - Tradeweb will display float compensation numbers that matches the compensation shown in the tool



## How to pick a path? Here are key questions to think about...

Primary Considerations	Dealer-Facilitated Path	Direct-to-Freddie Mac Path via Tradeweb
<b>Counterparty</b>	Is your dealer of choice an approved Exchange Dealer?	Freddie Mac will be your counterparty – is setting up a new counterparty easy, or a cumbersome process? Are you a current Tradeweb user?
<b>Delivery</b>	Can you manage the exchange as <b>Delivery vs. Payment (DVP)</b> transaction? Are you concerned about how the exchange will be priced? What about accounting and book value impacts?	Are you able to settle <b>Free of Payment (FOP)</b> with Freddie Mac as the counterparty? '40 Act funds should consider requirements around retaining control of their holdings throughout the transaction
<b>Float Compensation</b>	Most dealers will likely net float compensation from the transaction; can your accounting and tax systems handle that and reflect the appropriate price changes?	Would you prefer a separate cash wire – at the end of the settlement day – to track through your accounting and tax processes?
<b>Exchange Booking</b>	Dealers will be able to book transactions up to a month in advance of the current month – is that something you would require? How will your systems and those of your custodian reflect the exchange?	Do you already do business with Tradeweb? Would entering exchanges in Tradeweb enable use of your existing straight-through trade processing?  In Tradeweb, exchanges can only be booked for the current month – any concerns?
<b>Holdings</b>	How will the dealer's ability to see your holdings impact you?	Would you prefer to work directly with the issuer, where your holdings will remain hidden?
<b>Cost</b>	Freddie Mac will not charge a fee. Dealers will independently determine if they charge a fee for exchanges.	Freddie Mac will not charge a fee. For the first 3 years of this path, Tradeweb will not charge a fee.
<b>Timeline</b>	Would you prefer to exchange on your own timetable? This path will be open for the foreseeable future	Do you think you will exchange your Gold holdings within the first 3-5 years of the new UMBS market? There will be no fee for the first 3 years, and we anticipate it will be open for 5 years.



# Timing, Volume, and Transition

## Exchange Transaction Timing and Volume

- Exchange transactions booked by noon can be settled T+1 if capacity is available; any transactions booked after noon can be settled a minimum of T+2
- Securities must be delivered to Freddie Mac by 12 PM (Eastern time) on settlement day
- Process is built for capacity of 50,000 exchanges per settlement day
- Blackout days are the first 5 business days of the month, Reg A & B Settlement Dates, and REMIC collateral delivery day (EOM-2)

## Transition – in the first 3-6 months of exchange

- In order to ensure that the exchange is a well-ordered process and that all players are able to manage risks and mitigate any operational issues, there will be a 3-6 month transition period beginning in May 2019. During the transition,
  - The minimum booking-to-settlement timeline will be T+2
  - Daily exchange transaction volume will be limited. We will ramp up to the max capacity
- We will evaluate options to relax constraints as the transition proceeds



## Security Wire Instruction Preparation

- ❑ Investors or dealers using the exchange paths will need to set up **Free Delivery / Free Receive** wire instructions:
  1. Deliver the 45-day security to Freddie Mac's new holding account:
    - **FHLMC WASH/2BD7**
    - **ABA# 021033205**
  2. Expect to receive the 55-day Mirror delivery from Freddie Mac from:
    - **FHLMC WASH/2BD5**
    - **ABA# 021033205**



## Identification of Exchanges: SWIFT Recommendation

Linkage sequence: 20C::COMM//16x  
SETDET sequence: 22F::STCO/FHMC/UMBS

### Format example below:

```
:16R:GENL
:20C::SEME//BUY001
:23G:NEWM
:16S:GENL
:16R:LINK
:20C::COMM//123456789ABCDEFG
:16R:LINK
:16R:TRADDET
:98A::SETT//20040212
:98A::TRAD//20040105
:90A::DEAL//PRCT/101,000
:35B:/US/01N052616
GNMA 30YR TBA
:16S:TRADDET
:16R:FIAC
:36B::SETT//FAMT/2000000,
:36B::SETT//AMOR/2000000,
:97A::SAFE//A12345
:16S:FIAC
:16R:SETDET
:22F::STCO/FHMC/UMBS
:22F::SETR//TRAD
:16R:SETPRTY
:95P::PSET//FRNYUS33
:16S:SETPRTY
:16R:SETPRTY
```

- SIFMA Custodian Working Group developed this recommendation
- Leverages standard input in existing SWIFT message tags to identify exchange transactions

Common Exchange Reference ID – max 16 characters

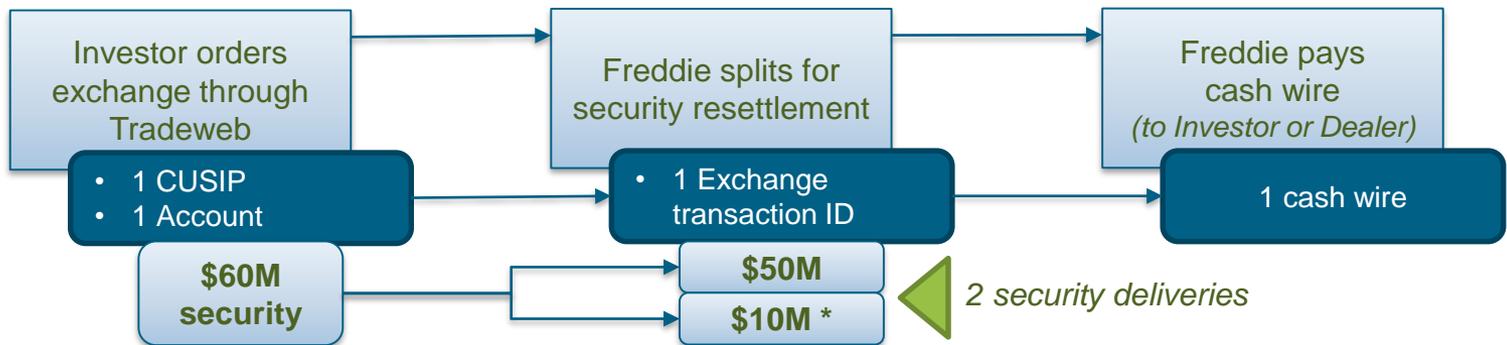
- Freddie Mac exchange ID would also be on the cash wire to tie all parts of the transaction together
- Use SIFMA, ISITC, other forums to communicate standard and stress importance of using it on all exchanges

Exchange codeword with data source scheme to be able to be used over SWIFT network

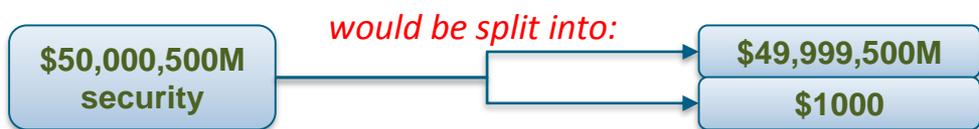
# Splitting exchanges over \$50M

**1** Any CUSIP exchanged over \$50M will be split for security delivery into increments of \$50M\* **AND...**

...for the Direct-to-Freddie Mac path	...for the Dealer-facilitated path
<ul style="list-style-type: none"> <li>Be assigned 1 transaction ID by Freddie Mac</li> <li>Receive 1 cash wire from Freddie Mac</li> </ul>	<ul style="list-style-type: none"> <li>Be assigned 1 transaction ID for every CUSIP or group of CUSIPs entered in an exchange transaction (in the Dealer path, multiple individual security exchanges can make up 1 transaction)</li> <li>Receive 1 cash wire from Freddie Mac – paid to Dealer (netted from price to investor)</li> </ul>



**2** Note – if split creates a “tail piece” smaller than Fed’s \$1000 delivery minimum, Freddie Mac will decrease \$50M piece and increase tail piece until the tail reaches \$1000, for example:



**If the incoming 45-day securities are split differently, they will fail to match and be DK'd**



# Dealer-Facilitated Path: Exchange Entry and Settlement



## Dealer-Facilitated Path: Features

### Delivery

- Counterparty is an approved Dealer
- Delivery vs. Payment (DVP) between Investor and Dealer
- Dealer delivers free to Freddie Mac (similar to today's Giant model)
- Custodians interface with dealer
- Whole or partial CUSIPs may be exchanged, at the sub-account level

### Capacity

- Capacity is around 50,000 exchanges / day across both paths<sup>1</sup>
- Capacity will be viewable to the Dealer in Dealer Direct
- Dealer will have to communicate availability to investor
- Booking will be available for the current month and following month

### Trade Entry

- Entry will be done through Dealer Direct

### Settlement

- Settlement is a minimum of T+1<sup>1</sup>
- Transactions booked by noon can be settled the next day
- All settlement activity takes place for both the security and cash same day
- Freddie Mac will have dedicated exchange accounts for the incoming 45 day securities and outgoing 55 day securities
- Freddie Mac will hold the 45-day security in trust until exchange is completed
- Dealers will likely net the float compensation payment from the price

<sup>1</sup>During the transition, there will be fewer than 50,000 exchanges per day, and exchanges will settle T+2.



### Dealer-Facilitated Path: Initial Setup

- Check our exchange website to view the list of dealers that have signed up to facilitate exchange. Reach out to your dealer if you do not see them on the list
  - <http://www.freddiemac.com/mbs/exchange/>
- Establish dealer as counterparty if you have not worked with them before
- Consult your dealer for any agreements they might require to use the Dealer-facilitated path
- Contact dealers well ahead of desired booking date
  - Dealers may have different internal capacity constraints and deadlines to prepare for exchanges

### Dealer Facilitated Path: Transaction Booking & Settlement

- Contact Dealer with request to exchange
- Through this path dealers can book transactions for current month or following month

#### Settlement Blackout Dates

- First 5 Business days of the month
- Reg A & Reg B Settlement Dates
- REMIC Collateral Delivery Date (EOM -2)

- Provide dealer with list of CUSIPS, par, pool number, and desired settlement date
- Dealer will enter exchange into Dealer Direct and relay confirmation back to investor
- 45-day collateral must be delivered to Freddie Mac by 12 p.m. Eastern time
- Freddie Mac will wire the 55-day security immediately upon successful validation of incoming 45-day (typically within an hour)
- Freddie Mac will hold the 45-day security in trust for the dealer until exchange is completed
- We expect Dealers to net float compensation from the security price



# Direct-to-Freddie via Tradeweb: Exchange Entry & Settlement





## Direct-to-Freddie via Tradeweb Path: Features

<b>Delivery</b>	<ul style="list-style-type: none"><li>▪ Counterparty is Freddie Mac</li><li>▪ Delivery is Free of Payment (FOP)</li><li>▪ Custodians directly interface with Freddie Mac as the issuer</li><li>▪ Whole or partial CUSIPs may be exchanged, at the sub-account level</li></ul>
<b>Capacity</b>	<ul style="list-style-type: none"><li>▪ Capacity is around 50,000 exchanges / day across both paths<sup>1</sup></li><li>▪ Capacity will be viewable on Tradeweb prior to confirmation of the exchange transaction</li><li>▪ Booking will be available for the current month</li></ul>
<b>Trade Entry</b>	<ul style="list-style-type: none"><li>▪ Entry will be available directly through the Tradeweb interface or via an OMS system</li><li>▪ Tradeweb will support a solicited or unsolicited workflow</li></ul>
<b>Settlement</b>	<ul style="list-style-type: none"><li>▪ Settlement is a minimum of T+1<sup>1</sup></li><li>▪ Transactions booked by noon can be settled the next day</li><li>▪ All settlement activity takes place for both the security and cash same day</li><li>▪ Freddie Mac will have dedicated exchange accounts for the incoming 45 day securities and outgoing 55 day securities</li><li>▪ Freddie Mac will hold the 45-day security in trust for the investor until exchange is completed</li><li>▪ The float compensation will be paid via a separate cash wire</li></ul>

Contact us: [UMBS@tradeweb.com](mailto:UMBS@tradeweb.com)



<sup>1</sup>During the transition, there will be fewer than 50,000 exchanges per day, and exchanges will settle T+2.



# Direct-to-Freddie via Tradeweb Path: Initial Setup

- Before an initial exchange with Freddie Mac, investors can expect an 2-3 week set-up with Freddie Mac / Tradeweb
  1. Each investor will undergo a Know-Your-Customer (KYC) process performed by Tradeweb.
  2. Each investor will need to satisfy appropriate tax requirements – if you are unable to do so, you will need to exchange via the Dealer-facilitated path
    - Each investor will submit a valid W9 or W8 (for non-US investors)
    - If you are an Asset Manager – these forms will be submitted for your organization, not for your individual clients
    - If you are a non-US Asset Manager exchanging on behalf of a client, you must be designated as a Qualified Intermediary
  3. If you are not an existing Tradeweb customer you will need to sign a new User Agreement
  4. Each investor will complete Tradeweb exchange product setup – including agreement to interact with Freddie Mac as a counterparty on exchange, and Exchange product / user enablement on Tradeweb platform
  5. Investors will enter into an agreement with Freddie Mac under which they will:
    - Make customary representations and warranties
    - Acknowledge receipt of the exchange offering circular
    - Accept the exchange offer
  6. Each investor will need to provide Freddie Mac with a point of contact for any exchange settlement issues
  7. Tradeweb will obtain wiring instructions from ALERT to be used for exchange - both inbound and outbound



## Direct-to-Freddie via Tradeweb Path: Transaction Booking & Settlement

- Exchanges can be entered directly through Tradeweb or via Investor's OMS
- Exchanges can only be booked for current month

Booking Blackout Dates	vs.	Settlement Blackout Dates
<ul style="list-style-type: none"><li>• First 4 business days of the month</li><li>• Last business day of the month</li></ul>		<ul style="list-style-type: none"><li>• First 5 business days of the month</li><li>• Reg A &amp; Reg B Settlement Dates</li><li>• REMIC Collateral Delivery Date (EOM -2)</li></ul>

- Investors will provide CUSIP, par amount, optional dollar price and desired settlement date
  - Tradeweb will display the float compensation and other exchange terms you must agree to
  - Trade will be submitted and return confirmation back to investor
  - 45-day collateral must be delivered to Freddie Mac by 12 p.m. Eastern time
- Freddie Mac will wire the 55-day security immediately upon successful validation of incoming 45-day (typically within an hour)
  - Freddie Mac will hold the 45-day security in trust for the investor until exchange is completed
  - Freddie Mac will return a separate wire to the investor a float compensation payment



## Tradeweb Booking: Options for entering exchange transaction in Tradeweb

- Tradeweb will leverage its List Trade functionality to facilitate the exchange. However, the way you enter the exchange transaction into Tradeweb will depend on your own internal trade booking and downstream processing

Unsolicited	Solicited	
Non-OMS / Tradeweb UI Entry	OMS Standard FIX Workflow	OMS Exchange In/Out Workflow
<ul style="list-style-type: none"> <li>User enters exchange “trade” directly into Tradeweb List Trade UI</li> <li>Tradeweb will support a user entering an exchange ticket via paste or manual entry</li> <li>Tradeweb will support STP (FIX or Flat File)</li> <li>The exchange transaction will largely look like an everyday trade on Tradeweb</li> <li>Exchanges may be pre or post allocated</li> </ul>	<ul style="list-style-type: none"> <li>Trade entry via OMS will interface with Tradeweb in a similar manner as it does today for a typical trade</li> <li>Exchanges may be pre or post allocated</li> <li>OMS entry examples include Bloomberg AIM, Charles River CRD and Fidessa Minerva</li> </ul>	<ul style="list-style-type: none"> <li>Some OMSs offer an exchange in/out workflow to allow for Free of Payment delivery</li> <li>OMS will send a new FIX order message (EXCH IN and OUT) to Tradeweb</li> <li>The “exchange out” message would be <b>pre-allocated</b></li> <li>Example includes Blackrock Aladdin</li> </ul>

### Tradeweb List Trade Screen:

- Once entered (via OMS or directly thru the UI), transaction will largely look like an everyday trade on Tradeweb
- Tradeweb will work with clients on solutions to individual concerns within their systems
- Regardless of OMS readiness, direct entry through Tradeweb UI’s will be ready at go-live

### Possibilities for Communicating Float Compensation Back to OMS:

- Utilize a “Miscellaneous Cash” field
- Use a “fee” field
- “Drop copy” outside of trade flow
- Other “bespoke” options - TBD



## Tradeweb Ticket: Input Securities & Submit Request

Tradeweb Single Security Exchange

Choose Settlement

Summary			
	#	Original Face	Receive 55 Day
Deliver 45 Day	36	1,341,568,500	66,559,466
Receive 55 Day	36	1,341,568,500	66,559,466
Float Comp		Grid Vers. 1.5	\$77,999.37

bdevers\_216.2018.09:33:12

Counterparty

Sell	45D CUSIP	Pool Num	Original Face	Current Face	Price	Brkdn	Factor	Buy	55D CUSIP	Base	Base incentive	PayUp	PayUp Incentive	PayUp Type	Float Comp	OrderID
S	31283H4Z5	G01740	22,304,564	21,490,770	103.786718170655	Brkdn	0.02997286	☑	XYZ93H4Z5	2.25	0.5	0	0.5	FICO	\$19.97	12345
S	31283H4Z5	G01740	6,452,307	6,452,307	101.046875	Brkdn	0.00795616	☑	XYZ93HT21	2.25	0.5	0	0.5	FICO	\$27.97	12345
S	31283H4Z5	G01740	22,304,564	21,490,770	103.786718170655	Brkdn	0.02997286	☑	XYZ93H4Z5	2.25	0.5	0	0.5	FICO	\$19.97	12345
S	31283H4Z5	G01740	6,452,307	6,452,307	101.046875	Brkdn	0.00795616	☑	XYZ93HT21	2.25	0.5	0	0.5	FICO	\$27.97	12345
S	3128KERV7	A52300	11,000,000	85,074	100-05	Brkdn	0.00773397	☑	XYZ9KERV7	2.25	0.5	0	0.5	FICO	\$99.70	12345
S	3128KFQS2	A53165	13,000,000	262,520	100-06	Brkdn	0.02019388	☑	XYZ9KFQS2	2.25	0.5	0	0.5	FICO	\$307.64	12345
S	3128KH6W1	A55385	15,000,000	575,265	100-07	Brkdn	0.03835102	☑	XYZ9KH6W1	2.25	0.5	0	0.5	FICO	\$674.14	12345
S	3128KJBU5	A55451	17,000,000	5,544,009	100-08	Brkdn	0.32611815	☑	XYZ9KJBU5	2.25	0.5	0	0.5	FICO	\$6,496.89	12345
S	3128KJLE0	A55725	19,000,000	284,331	100-09	Brkdn	0.01496480	☑	XYZ9KJLE0	2.25	0.5	0	0.5	FICO	\$333.20	12345
S	3128KJNJ7	A55793	21,000,000	756,379	100-10	Brkdn	0.03601805	☑	XYZ9KJNJ7	2.25	0.5	0	0.5	FICO	\$886.38	12345
S	3128KJSJ2	A55921	23,000,000	4,042,256	100-11	Brkdn	0.17575028	☑	XYZ9KJSJ2	2.25	0.5	0	0.5	FICO	\$4,737.02	12345
S	3128KJTC6	A55947	25,000,000	2,209,107	100-12	Brkdn	0.08836429	☑	XYZ9KJTC6	2.25	0.5	0	0.5	FICO	\$2,588.80	12345
S	3128KJV41	A56035	27,000,000	312,061	100-13	Brkdn	0.01155783	☑	XYZ9KJV41	2.25	0.5	0	0.5	FICO	\$365.70	12345

[Exchange Disclaimer](#)

Contact us: [UMBS@tradeweb.com](mailto:UMBS@tradeweb.com)





## Tradeweb Negotiation: Review & Confirm Exchange

Tradeweb Single Security Exchange

SINGLE SECURITY EXCHANGE LIST - bdevers\_216.2018.09:33:12

	#	Original Face	Receive 55 Day
Deliver 45 Day	36	1,341,568,500	66,559,466
Receive 55 Day	36	1,341,568,500	66,559,466
Float Comp		Grid Vers. 1.5	\$77,999.37

Confirm Exchange

End Exchange

Time Remaining  
**04:59**

Sell	45D CUSIP	Pool Num	Original Face	Current Face	Price	Brkdn	Factor	Buy	55D CUSIP	Base	Base incentive	PayUp	PayUp Incentive	PayUp Type	Float Comp	OrderID	Exc
S	31283H4Z5	G01740	22,304,564	21,490,770	103.786718170655	Brkdn	0.02997286	B	XYZ93H4Z5	2.25	0.5	0	0.5	FICO	\$19.97	12345	ABC
S	31283H4Z5	G01740	6,452,307	6,452,307	101.046875	Brkdn	0.00795616	B	XYZ93HT21	2.25	0.5	0	0.5	FICO	\$27.97	12345	ABC
S	31283H4Z5	G01740	22,304,564	21,490,770	103.786718170655	Brkdn	0.02997286	B	XYZ93H4Z5	2.25	0.5	0	0.5	FICO	\$19.97	12345	ABC
S	31283H4Z5	G01740	6,452,307	6,452,307	101.046875	Brkdn	0.00795616	B	XYZ93HT21	2.25	0.5	0	0.5	FICO	\$27.97	12345	ABC
S	3128KERV7	A52300	11,000,000	85,074	100-05	Brkdn	0.00773397	B	XYZ9KERV7	2.25	0.5	0	0.5	FICO	\$99.70	12345	ABC
S	3128KFQS2	A53165	13,000,000	262,520	100-06	Brkdn	0.02019388	B	XYZ9KFQS2	2.25	0.5	0	0.5	FICO	\$307.64	12345	ABC
S	3128KH6W1	A55385	15,000,000	575,265	100-07	Brkdn	0.03835102	B	XYZ9KH6W1	2.25	0.5	0	0.5	FICO	\$674.14	12345	ABC
S	3128KJBU5	A55451	17,000,000	5,544,009	100-08	Brkdn	0.32611815	B	XYZ9KJBU5	2.25	0.5	0	0.5	FICO	\$6,496.89	12345	ABC
S	3128KJLE0	A55725	19,000,000	284,331	100-09	Brkdn	0.01496480	B	XYZ9KJLE0	2.25	0.5	0	0.5	FICO	\$333.20	12345	ABC
S	3128KJNJ7	A55793	21,000,000	756,379	100-10	Brkdn	0.03601805	B	XYZ9KJNJ7	2.25	0.5	0	0.5	FICO	\$886.38	12345	ABC
S	3128KJSJ2	A55921	23,000,000	4,042,256	100-11	Brkdn	0.17575028	B	XYZ9KJSJ2	2.25	0.5	0	0.5	FICO	\$4,737.02	12345	ABC
S	3128KJTC6	A55947	25,000,000	2,209,107	100-12	Brkdn	0.08836429	B	XYZ9KJTC6	2.25	0.5	0	0.5	FICO	\$2,588.80	12345	ABC
S	3128KJV41	A56035	27,000,000	312,061	100-13	Brkdn	0.01155783	B	XYZ9KJV41	2.25	0.5	0	0.5	FICO	\$365.70	12345	ABC
S	3128KKBJ7	A56341	29,000,000	820,288	100-14	Brkdn	0.02828580	B	XYZ9KKBJ7	2.25	0.5	0	0.5	FICO	\$961.28	12345	ABC
S	3128KKDM8	A56408	31,000,000	804,372	100-15	Brkdn	0.02594749	B	XYZ9KKDM8	2.25	0.5	0	0.5	FICO	\$942.62	12345	ABC

[Exchange Disclaimer](#)

Contact us: [UMBS@tradeweb.com](mailto:UMBS@tradeweb.com)





## Tradeweb Post Trade: Detailed Ticket

TW (DETAIL) (bdevers-Tradeweb) Tradeweb W8.06HS USDEMO1

File Composite Dealers Analytics Quick Ticket Msg Admin Windows Favorites Help

**Trade Detail - Tradeweb** USDEMO1.office

State **Exchange Booked** Trade Date 08/06/2018 Company XYZ Investors  
 Dealer FRED /1 Settlement 08/13/2018 Customer Brian Devers  
 Trade # 78/79 Time 15:00:29-15:00:29 EDT ogonID bdevers bdevers\_216.2018.09.33.12  
 Exchange ID: 1001-02 Sales

SELL	Issue	FG	G01469	12/01/32	BUY	UMBS	G01234	
	Cusip/Cusip		31283HT21	MBS		XY293HT21		
	Orig/Curr Face(m)		3,000.000	/	23.868	3,000.000	/	23.868
	Factor		0.00795616			0.00795616		
	Float Comp(32)					3.75		
	Float Comp (USD)					\$27.95	USD	
	Settlement		08/13/2018			08/13/2018		

Customer Account  
#Accounts 1

Detail Tran Brkdn Msg Trade Both Recap

Contact us: [UMBS@tradeweb.com](mailto:UMBS@tradeweb.com)





# Accounting & Tax

### The SEC and IRS on Exchange

- Per the SEC, the exchange transaction may be treated as a minor modification (not a buy/sell)
  - Freddie Mac, jointly with Fannie Mae and FHFA, sought advice from the IRS and SEC on the tax and accounting implications of exchange. The SEC responded that it has no objection to our proposed treatment of the exchange as a minor modification. Below is an excerpt from Fannie Mae's confirming letter to the SEC, in Fannie Mae's role as a PC investor:
    - *“With regards to how Fannie Mae, a creditor/investor, should account for its exchange of Freddie Mac-issued 45-day single-class pass-throughs for Freddie Mac issued 55-day Supers, Fannie Mae understands that the Staff does not object to treating the exchange as a minor modification whereby Fannie Mae would carry-over the basis of its 45-day single-class pass-through to the 55-day Super, with the cash payment paid by Freddie Mac as compensation for the change in the remittance cycle recorded as an additional basis adjustment to the 55-day Super and subsequently amortized over the remaining life of the security.”*
- IRS Revenue Ruling 2018-24 published August 17<sup>th</sup> states that the exchange of 45-day Gold PC securities for 55-day Freddie Mac mortgage-backed securities will not be taxable:  
[http://www.freddiemac.com/mbs/docs/irs\\_ruling\\_august\\_2018.pdf](http://www.freddiemac.com/mbs/docs/irs_ruling_august_2018.pdf)

### Float Compensation

- The IRS' recent [Revenue Ruling 2018-24](#) stated that Freddie Mac's proposed exchange of 45-day Gold PC securities for 55-day Freddie Mac mortgage-backed securities will not be taxable. However, the IRS did not rule on the taxability of the associated float compensation payment.

Freddie Mac will treat the float compensation payment as a tax-free adjustment to the security basis. As such, for those investors that execute their exchange through the direct-to-Freddie path, Freddie Mac does not intend to report the payment as taxable income to the investor. However, Freddie Mac is not dictating to investors how they must treat the payment. Some investors may conclude after consulting with their tax advisors that it is taxable income when received.

Although Freddie Mac will not perform tax withholding or reporting of the float compensation payments, for investors who choose to use the direct-to-Freddie exchange path Freddie Mac will require collection of W-8 and W-9 forms. If an investor does not provide a valid W-8 or W-9, they will need to use the dealer-facilitated exchange path and provide documents that the dealer may require. Further, foreign asset managers who may perform exchanges on behalf of their clients through the direct-to-Freddie path will need to demonstrate that they are Qualified Intermediaries (QI). If QI status cannot be confirmed by Freddie Mac, a foreign asset manager will be required to use the dealer-facilitated exchange path.

For more details on the two Freddie Mac exchange paths, please refer to our [Exchange webpage](#).

**The information shared in this email does not constitute tax advice; investors interested in the Gold PC exchange are strongly encouraged to speak with their own tax advisors to determine how they will treat the float compensation.**



# Considerations & What's Next?



### Timing & Takeaways

- Remember there is a transition period initially. For a period of 3-6 months after exchange opens, Freddie Mac will increase settlements to T+2. We will also limit exchange transaction volume to begin, and gradually ramp up to the maximum daily capacity of 50,000
- Based on CUSIP portfolio analysis and feedback from the market, Freddie Mac is confident that we will be able to handle the market's exchange transactions
  - Investors have initially indicated that most intend to test their exchange “pipes” with small transactions at or near go-live and wait and see on the larger portfolio exchanges
  - Despite this sentiment, investors and vendors continue to work to get ready for go-live
  - Our goal is to have a seamless transition to the UMBS market in June 2019

Freddie Mac recommends you begin conversations now with your custodian(s), dealer or Tradeweb so you can participate!



## Recommended Actions



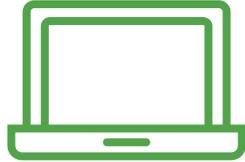
- **You attended this webinar – good start!**
- Review exchange-eligible CUSIPs
- Coordinate with other affected internal departments
- Determine Exchange strategy
- Begin organizing for KYC process with Tradeweb and any counterparty setup required OR
- Begin discussions with dealers to determine their requirements
- **Check in with your custodian(s)** and accountants to determine their readiness
- If Direct-to-Freddie path is chosen, look into OMS system and how it might interface with Tradeweb
- Make any system changes required to move forward in the exchange process, including SWIFT tags
- Update any investor agreements
- Sign up for initiative updates
- Use Freddie Mac tools for exchange posted on our website
- Look for Market Adoption Playbook and FAQ updates
- Reach out to us with questions



# Questions?



## Resources



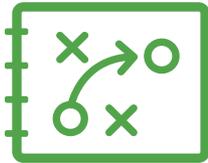
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[Freddie Mac Single Security web page](#)



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[Subscribe to Single Security-updates](#)



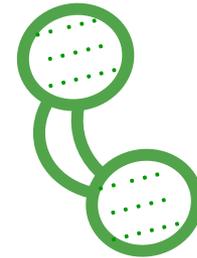
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[Single Security Initiative Market Adoption Playbook](#)



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[Email questions to Single\\_security@FreddieMac.com](mailto:Single_security@FreddieMac.com)  
Or [UMBS@tradeweb.com](mailto:UMBS@tradeweb.com)



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Call the Single Security hotline: 800-336-3672



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