



Factored Securities Market Practice

Status:	
Preparation date:	June 2010
Update date:	April, 2015
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The Securities Market Practice Group is a group of experts that represents local markets or market infrastructures and who devote their time on a voluntary basis to define global and local market practices for the benefit of the securities industry. The time spent is sponsored by the market players. The market practice documentation and recommendations produced by this organization are intended to solve common problems across the securities industry, from which financial institutions can derive clear benefits, to harmonize business processes and to facilitate the usage of message protocols ISO 15022 and ISO 20022. While the Securities Market Practice Group encourages the implementation of the market practices it develops it is up to the financial institutions within each market to implement the market practices according to their needs and agreements with their business counterparts to support their businesses as efficiently as possible. For more information on the MP release cycle please refer to the SMPG by-laws document section 4.

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Changes to previous versions	
Version 1.0 August 2010	Update market practice into SMPG format
Version 1.1 November, 2010	Update to Cash Party sequence recommendation for US DTCC and Fedwire payments/receipts
Version 1.2, December, 2010	Update to Cash Party sequence recommendation based on discussions at ISITC Open question listed on DTC SPO charge credits
Version 1.3, February 2010	Addition of market practice disclaimer

Version 1.4, Nov, 04, 2014	<ul style="list-style-type: none"> • Edits based on review by SWIFT standards as part of SMPG MyStandards usage guidelines <ul style="list-style-type: none"> ○ Definitions section in scope updated with rate indicator used in message samples ○ CMOs added to the Business Date Elements Section B ○ Removal of contradictory wording in market practice rules section VI ○ Addition and Subtraction sign added to Net money calculation in market practice rules section ○ Local market identifier format option R added to Client of Receiving/Delivering Agent field table on page 8 ○ Message Usage Rules Linkers/TIPs updated to clarify recommended as mandatory ○ Removal of 70E::PACO in sample F ○ Addition of INTM intermediary cash party recommendations on page 9 as well as further clarity on PAYE vs. BENM usage ○ Removal of 13B::POOL field from samples as not part of the recommendation ○ Removal of the 12A::CLAS field from the samples as ISITC recommendation only applicable when non-street recognized security ID is populated • Expansion of definition of a Bond with Sinking Provision to include other bond agreements such as CMOs and MUNIs. Previously only referenced Corp. Bonds with Sinking Fund Provision.
Version 1.5	<ul style="list-style-type: none"> • Inclusion of statement on IBAN usage after review at April, 2015 SMPG meetings

I. Scope and definitions:

This document is intended to define and describe the settlement instructions relating to factored securities. This market practice addresses instructions and communication between Investment Managers and their Custodian and/or Accounting Service providers.

Factored securities are debt instruments that have a factor that is used in the calculation of net money and market value. How the factor is used depends on the product type. It should be noted that each product type requires different processing appropriate to its category.

Examples of Factored Securities:

- Asset Backed Securities (ABS)
- Bond Agreements with Sinking Fund Provisions
- Collateralized Mortgage Obligations (CMO)
- Mortgage-Backed Securities (MBS)
- Treasury Inflation Protected Securities (TIPS) issued by the U.S. Treasury
- Linkers – Any type of Inflation Protected Security issued by the U.S. Treasury or other entity

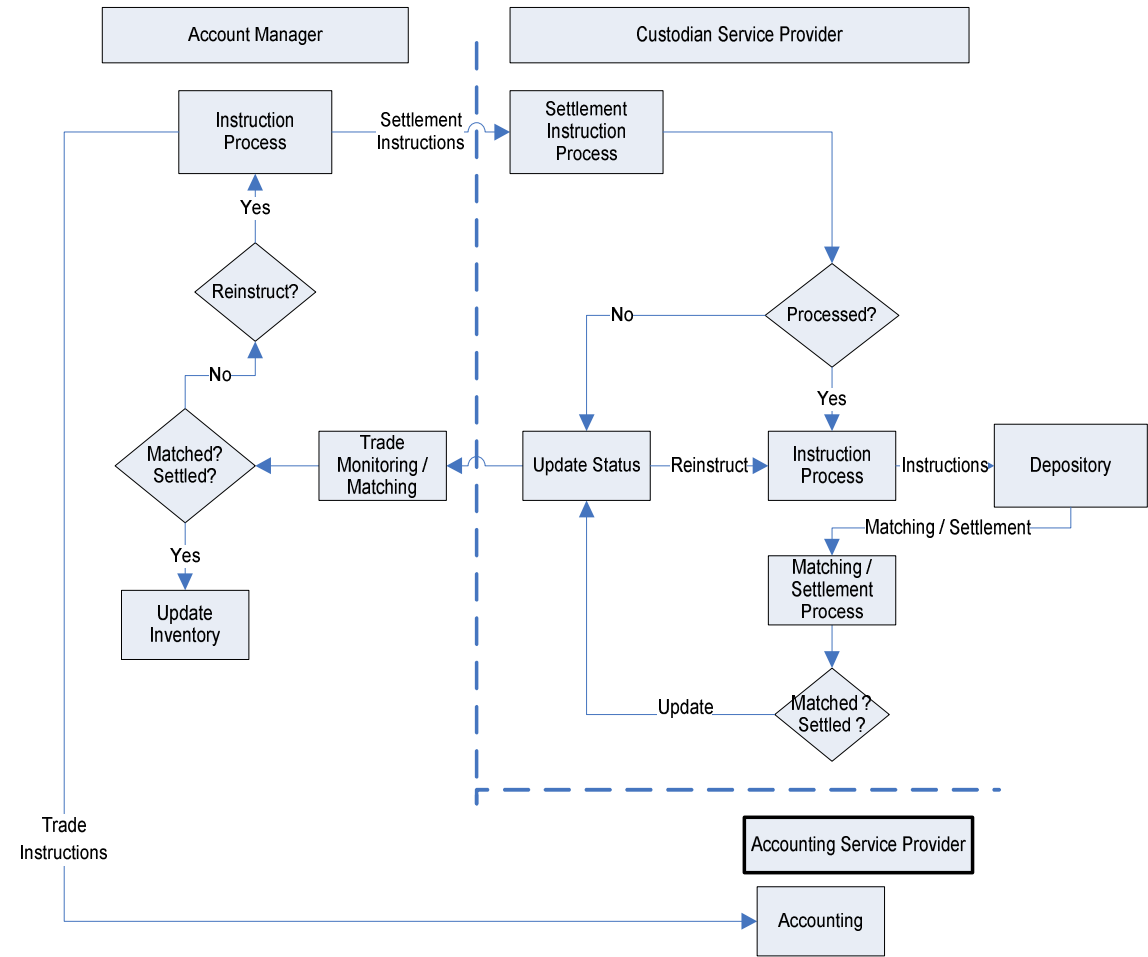
Definitions

Factor	A number that is used in the calculation of net money or market value for a debt instrument. Identified as interest rate.
Index Rate or Ratio Factor	The factor used to adjust the principal in a TIPS or Linker security. Identified as index factor.
Pay down Factor	The factor used to denote the amount of principal paid down by the borrower of the loan or mortgage. Identified as current factor.
Sinking Fund Factor	The factor used to denote the amount of debt that has been called back to the sinking fund. Identified as current factor
Inflation Linked Bonds or linkers	Usually treasury bonds where the principal is indexed to inflation
Unit Bonds	A bond that trades in units, not in face amount
Original Face	Face amount or quantity of a debt instrument <u>not</u> adjusted by a factor
Current Face	The product of the original face multiplied by the factor for a debt instrument
TIPS	Treasury-Inflation Protected Securities (TIPS) are securities whose principal is tied to the Consumer Price Index (CPI). With inflation, the principal increases. With deflation, it decreases. When the security matures, the U.S. Treasury pays the original or adjusted principal, whichever is greater TIPS pay interest at a fixed rate. However, for coupon payments, the rate is applied to the adjusted principal, so interest payments can vary in amount from one period to the next. If inflation occurs, the interest payment increases. In the event of deflation, the interest payment decreases.

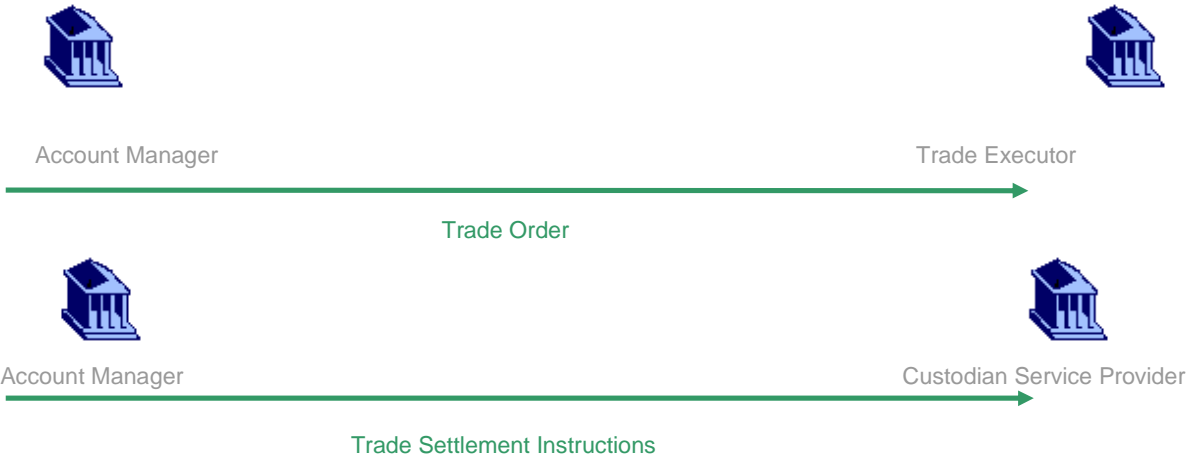
II. Actors and Roles:

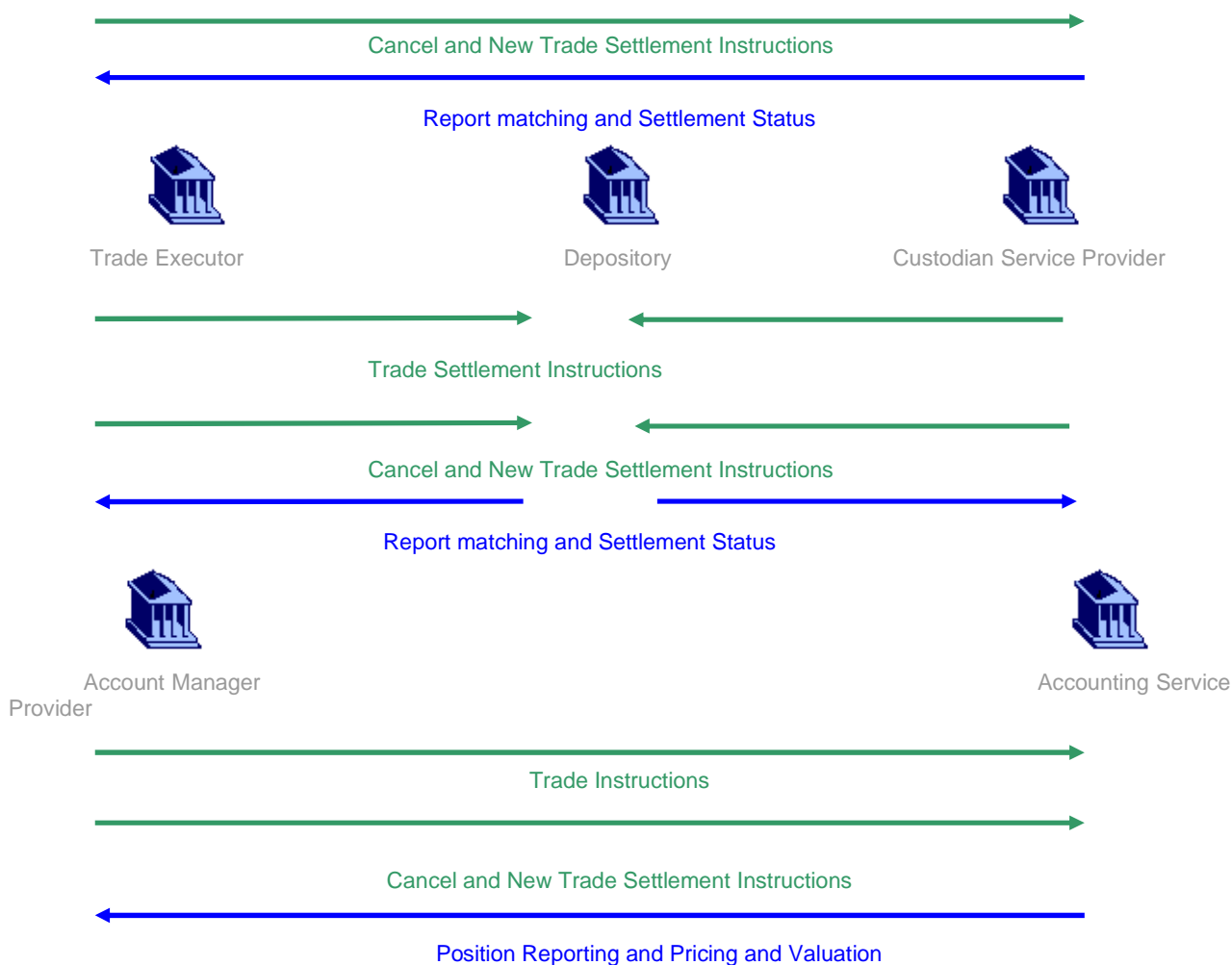
Account Manager	Trade Executing Party	Custodian Service Provider	Depository	Accounting Service Provider
Investment Manager/ Hedge Funds	Broker Dealer	Global Custodian Prime Broker	Sub-Custodian Securities Depository	Accounting Agent

III. Activity Diagram:



IV. Sequence Diagrams:





V. Business data requirements:

A. Generic Instruct settlement:

Business elements	Additional information
Message reference	
Trade Date	ISO 8601 Date/Time
Settlement Date	ISO 8601 Date/Time
Quantity of Financial Instrument	See specific instructing settlement section below (B)
Financial Instrument	ISO 6166 International Securities Identification Number [ISIN]
Settlement Amount	Currency and amount
Safekeeping Account to be credited or debited	
Place of Settlement	ISO 9362 Bank Identifier Codes [BIC] taken from the list of PSET's BIC published on www.smpg.info . See also Place of Settlement MP.
Receiving/Delivering Agent	ISO 9362 Bank Identifier Codes [BIC] or CSD Local Code

Client of Receiving/Delivering Agent	ISO 9362 Bank Identifier Codes [BIC]
Country specifics as per local market practice (if any)	

B. Specific Instruct settlement:

Mortgage / Asset Backed Securities and CMO

Business elements	Additional information
Original Face	Mandatory
Current Face	Conditional*
Pay down Factor	Optional

*Current face has been agreed to be mandatory when the instruction is being sent by the Investment Manager to the Global Custodian who is also acting as their fund accountant. Otherwise, the field is considered optional.

Bond Agreement w/ Sinking Funds

Business elements	Additional information
Original Face	Mandatory
Current Face	Conditional*
Sinking Fund Factor	Optional

*Current face has been agreed to be mandatory when the instruction is being sent by the Investment Manager to the Global Custodian who is also acting as their fund accountant. Otherwise, the field is considered optional.

TIPs/Linkers

Business elements	Additional information
Original Face	Mandatory for par bonds
Units	Mandatory for unit bonds
Current Face	Conditional*
Index Rate /Ratio Factor	Mandatory

*Current face has been agreed to be mandatory when the instruction is being sent by the Investment Manager to the Global Custodian who is also acting as their fund accountant. Otherwise, the field is considered optional.

VI. Market Practice Rules:

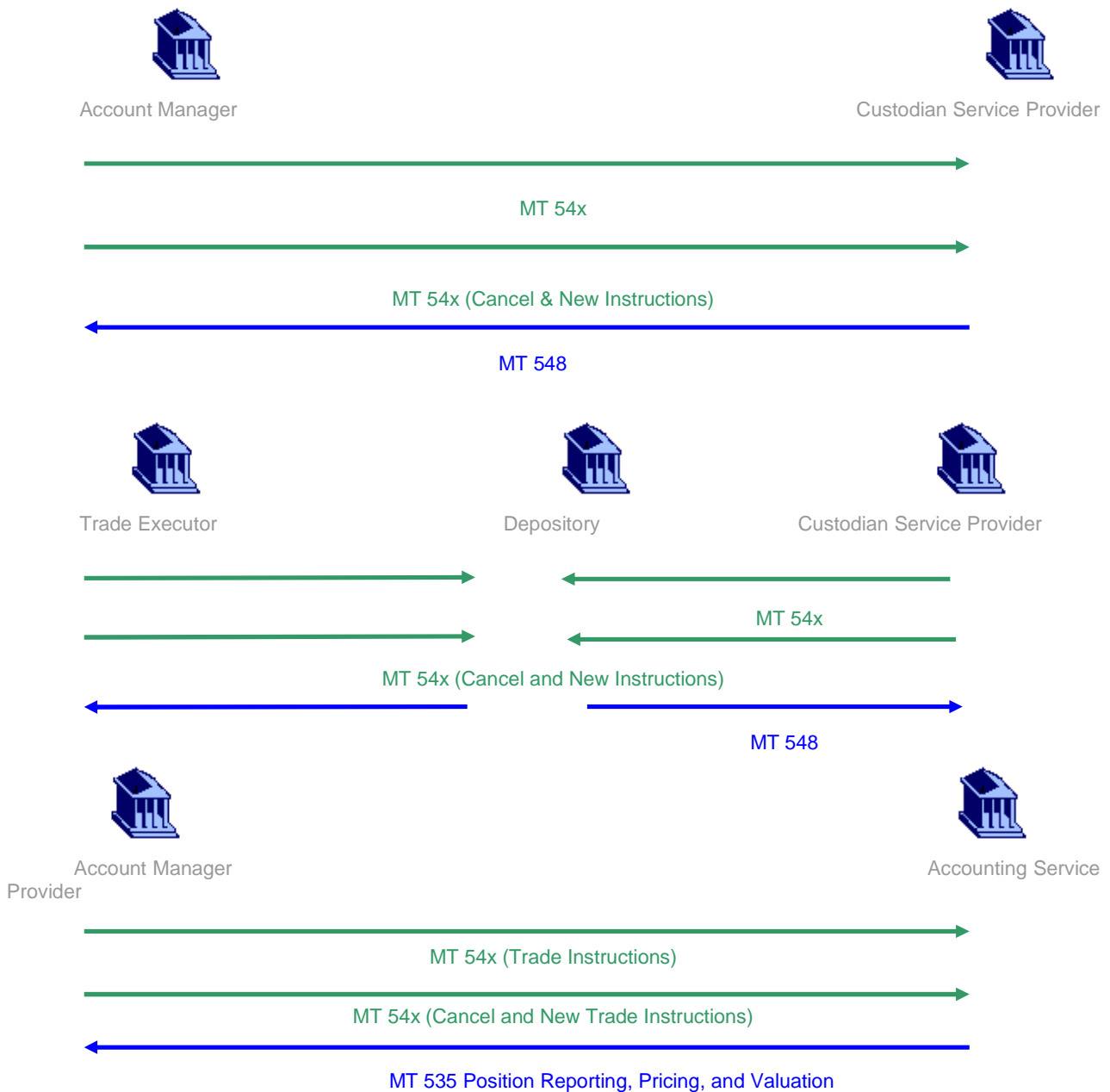
If both original and current face are provided in a message using proper formats, it is the responsibility of the receiver to use the proper one for any downstream processing (e.g. sending to local CSD)

The price used for TIPS is the un-inflated price. This is also known as the 'clean' or "market' price. This price does not include the factor. (Do not use the inflated price.)

The index rate/ratio or inflation factor used for Linkers is the factor associated with settle date of the trade.

Net Money = ("Original Face" x "Un-inflated Price" x "Settle Date Inflation Factor") +/- "Accrued Interest"

VII. ISO 15022 illustration:



Data	ISO 15022
Instruction Identification	:20C::SEME//16x
Trade Date	:98A::TRAD//YYYYMMDD

Settlement Date	:98A::SETT//YYYYMMDD
Quantity of Financial Instrument	:36B::SETT//FAMT/15d
Quantity of Financial Instrument	:36B::SETT//AMOR/15d
Financial Instrument	:35B::ISIN!e12!c [4*35x]
Settlement Amount	:19A::SETT//[N]3!a15d
Safekeeping Account to be credited or debited	:97A::SAFE//35x
Place of Settlement	:95P::PSET//4!a2!a2!c
Receiving/Delivering Agent	:95P::REAG//4!a2!a2!c or :95R::REAG/8c/34x :95P::DEAG//4!a2!a2!c or :95R::DEAG/8c/34x
Client of Receiving/Delivering Agent	:95R::BUYR//4!a2!a2!c or 95R::BUYR/8c/34x :95P::SELL//4!a2!a2!c or 95R::SELL/8c/34x

VIII. Message Usage Rules:

Linkers/TIPs

The Original Face or Units and Current Face should be provided.

The use of 92A::INDX is recommended as mandatory for Linkers/Tips

Mortgage / Asset Backed Securities – Factor Updates

The Original Face and Current Face should both be provided, even if the factor is equal to one.

When trading factored securities, the current factor is not always known at the time of the trade, even though this current factor may be effective. When this is the case, the market convention is to initially settle the trade with the previous or most current known factor and then adjust for the difference when the current factor becomes available. It is the net amount of the trade that needs to be adjusted due to the updated factor:

Original face * current factor = current face

Current face * trade price +/- interest = net amount of trade

Bond Agreement with Sinking Fund Provisions:

The Original Face and Current Face should both be provided, even if the factor is equal to one.

Any bond issue that is backed by a sinking fund provision to lessen interest rate and default risk by setting aside a pool of funds to repurchase a portion of the existing bond/debt. Ultimately, resulting in a smaller final repayment at maturity. Most commonly applied to corporate bonds, but also can apply to other bond agreements such as Municipals (MUNIs) and Collateralized Mortgage Obligations (CMOs).

Pre-settlement

For the scenario in which the “current” factor becomes known on or prior to contractual settlement date, the normal cancel and rebook process should be followed. In this case, the Account Manager will cancel the trade and send across new trade and settlement instructions. This new trade will have the new current factor and additionally reflect the new net amount. No special processing by the Custodian Service Provider is required, and no special (post settlement) factor update identifiers should be used.

Post-settlement

The more complex scenario is in which the current factor does not become known until after contractual settlement date of the trade, in this case, specific processing is required since the securities (the trade) would have already settled.

Once a trade has been settled is not able to be cancelled, therefore the normal cancel and rebook messages are not appropriate.

In this scenario, the original face amount of the trade has been settled correctly, but because of the recent factor update, the net amount of money associated with the trade is incorrect, and needs to be adjusted. Because of this, the Account Manager will need to cancel the previously sent settlement / trade instructions, and resend new settlement / trade instructions to both the Custodian and Accounting Service Providers (most times the same party).

The following additional business elements are required to be included in the cancel and new settlement / trade instructions for post settlement factor updates:

- 1) Qualifier to indicate that the cancel and new trade are part of a factor update
- 2) Reference number to link the new instructions (which include the new factor) to the original instructions (which reflected the old factor)
- 3) The new settlement / trade instructions also need to include the instructions to move cash, reflective of the difference in the net amount of the trade.

Note: A factor adjustment is not a corporate event.

Messaging Sequence

1. Send a cancel for the original trade
 - a. Identify the cancel as a Factor Update (In ISO 15022 - FCTA). This allows the receiving party to know you aren't really canceling a settled trade, rather that a new instruction with a factor update is being provided.
2. Send the rebook trade (with the proper net money)
 - a. Include a link to the original trade that has settled, so the receiving party can adjust their records appropriately
 - b. Identify it as a Factor Update.
 - c. Identify the direction of cash movement as a gain or loss (19A::ANTO)
 - i. How to use the "N" in ANTO
 1. :19A::ANTO//USDxxxx,xx (for a gain, receipt)
 2. :19A::ANTO//NUSDxxxx,xx (for a loss, payment)
 - d. Include a Cash Sequence to provide instructions of where to pay the cash difference.
 - i. If the trade originally settled DTCC, then you will be using an SPO charge
95R ::ACCW/DTCYID/<DTC Identifier>
 - If the trade originally settled Fedwire, then you will be using ABA Number
95R ::ACCW/USFW/<ABA Number>
 - e. Provide a second occurrence of the cash party sequence to include the Beneficiary BIC (95P::BENM), or if not available then Beneficiary Name (95Q::BENM) in Sequence E2 along with the Cash Account (97A::SAFE) on a delivery.
 - f. Provide a second occurrence of the cash party sequence to include the Paying Institution BIC (95P::PAYE), or if not available then Paying Institution Name (95Q::PAYE) in Sequence E2.
 - g. Intermediary Institution (95a::INTM) is optionally allowed on both the delivery and receipt cash party sequence if applicable.

Below are examples of the Cash Party Sequence for both payments and receipts respectively

Fedwire Delivery

```
:16R:CSHPRTY
:95R::ACCW/USFW/XXXXXXXXXX
:16S:CSHPRTY
:16R:CSHPRTY
:95P::BENM//BICAUS33
If not available, then
95Q::BENM with name
```

DTCC SPO Charge Debit

```
:16R:CSHPRTY
:95R::ACCW/DTCYID/00000000 Clearing Party on behalf of beneficiary
:16S:CSHPRTY
:16R:CSHPRTY
:95P::BENM//BICAUS33 Beneficiary BIC or Name
If not available, then
95Q::BENM with name
```

:97A::CASH//XYZZY	:97A::CASH//XYZZY	Cash Account of Beneficiary
:16S:CSHPRTY	:16S:CSHPRTY	
:16R:CSHPRTY	:16R:CSHPRTY	
:95P::INTM//BICAUS33	:95P::INTM//BICAUS33	Intermediary
:16S:CSHPRTY	:16S:CSHPRTY	

Fedwire Receipt

:16R::CSHPRTY
 :95R::ACCW/USFW/XXXXXXXXX
 :16S:CSHPRTY
 :16R:CSHPRTY
 :95P::PAYE//BICAUS33
 If not available, then
 95Q::PAYE
 :16S:CSHPRTY
 :16R:CSHPRTY
 :95P::INTM//BICAUS33
 :16S:CSHPRTY

DTCC SPO Charge Credit

:16R::CSHPRTY	
:95R::ACCW/DTCYID/0000000	Additional Information
:16S:CSHPRTY	
:16R:CSHPRTY	
:95P::PAYE//BICAUS33	Paying Institution
If not available, then	
95Q::PAYE	
:16S:CSHPRTY	
:16R:CSHPRTY	
:95P::INTM//BICAUS33	Intermediary
:16S:CSHPRTY	

ADDITIONAL NOTE:

In sequences C and E2, for field 97a::CASH, when IBAN is used (*either through mandate or otherwise*) then this should be populated as format E as documented within the SWIFT user handbook format option recommendation. Format A should be reserved for proprietary account identifiers.

Sample Message Formats:

A. Linker/TIPS Factored Security

```

:16R:GENL
:20C::SEME//12345TIPS
:23G:NEWM
:16S:GENL
:16R:TRADDET
:98A::SETT//20070118
:98A::TRAD//20070117
:90A::DEAL//PRCT/99,121093750      Uninflated price
:35B:ISIN US1234567891
TREASURY (CPI) NOTE
:16R:FIA
:98A::MATU//20170115
:98A::ISSU//20070116
:92A::INTR//2,37500000
:92A::INDX//0,99986000      Index Factor associated with settle date for current face calculation
:16S:FIA
:16S:TRADDET
:16R:FIAC
:36B ::SETT//FAMT//5440000,0000
:36B::SETT//AMOR/5439238,4000
:97A::SAFE//TEST ACCOUNT
:16S:FIAC
:16R:SETDET
:22F::SETR//TRAD
:16R:SETPRTY
:95P::PSET//FRNYUS33
:16S:SETPRTY
:16R:SETPRTY
:95R::DEAG/USFW/000001234
:97A::SAFE//TSY
:16S:SETPRTY
:16R:SETPRTY
:95R::SELL/DTCYID/00001234
:16S:SETPRTY
:16R:AMT
:19A::SETT//USD5392503,16
:16S:AMT
:16R:AMT
:19A::DEAL//USD5391432,59
:16S:AMT
:16R:AMT
:19A::ACRU//USD1070,57
:16S:AMT
:16S:SETDET

```

B. CORPORATE w/ SINKING FUND

:16R:GENL
:20C::SEME//12345SINK
:23G:NEWM
:16S:GENL
:16R:TRADDET
:98A::SETT//20070308
:98A::TRAD//20070305
:90A::DEAL//PRCT/104,500000000
:35B:ISIN US1234567891
CORPORATE BOND
:16R:FIA
:98A::MATU//20181215
:98A::ISSU//19990302
:92A::INTR//7,41600000
:92A::CUFC//0,72450000
:16S:FIA
:16S:TRADDET
:16R:FIAC
:36B::SETT//AMOR/72450,0000
:36B ::SETT//FAMT//100000,0000
:97A::SAFE//TEST ACCOUNT
:16S:FIAC
:16R:SETDET
:22F::SETR//TRAD
:16R:SETPRTY
:95P::PSET//DTCYUS33
:16S:SETPRTY
:16R:SETPRTY
:95R::REAG/DTCYID/00001234
:16S:SETPRTY
:16R:SETPRTY
:95R::BUYR/DTCYID/0000124
:16S:SETPRTY
:16R:AMT
:19A::SETT//USD76949,00
:16S:AMT
:16R:AMT
:19A::DEAL//USD75710,25
:16S:AMT
:16R:AMT
:19A::ACRU//USD1238,75
:16S:AMT
:16S:SETDET

C. MBS Factored Security

:16R:GENL
:20C::SEME//12345MBS
:23G:NEWM
:16S:GENL
:16R:TRADDET
:98A::SETT//20060920
:98A::TRAD//20060918
:90A::DEAL//PRCT/100,816406250
:35B:ISIN US1234567891
GNMA 30YR
:16R:FIA
:98A::MATU//20341015
:98A::ISSU//20041001
:92A::INTR//6,00000000
:92A::CUFC//0,73336721
:16S:FIA
:16S:TRADDET
:16R:FIAC
:36B::SETT//AMOR/161735,3400
:36B::SETT//FAMT/220538,0000
:97A::SAFE//TEST ACCOUNT
:16S:FIAC
:16R:SETDET
:22F::SETR//TRAD
:16R:SETPRTY
:95P::PSET//FRNYUS33
:16S:SETPRTY
:16R:SETPRTY
:95R::REAG/USFW/000001234
:97A::SAFE//MBS
:16S:SETPRTY
:16R:SETPRTY
:95R::BUYR/DTCYID/00001234
:16S:SETPRTY
:16R:AMT
:19A::SETT//USD163567,92
:16S:AMT
:16R:AMT
:19A::DEAL//USD163055,76
:16S:AMT
:16R:AMT
:19A::ACRU//USD512,16
:16S:AMT
:16S:SETDET

D. Factor Update Example Cancel - Post Settlement

```

:16R:GENL
:20C::SEME//12345CANCEL
::23G:CANC
:16R:LINK
::20C::PREV//INITIALTRADE
:16S:LINK
:16S:GENL
:16R:TRADDET
:98A::SETT//20070305
:98A::TRAD//20070228
:90A::DEAL//PRCT/100,906250000
:35B:ISIN US1234567891
FGOLD 30YR GIANT
:16R:FIA
:98A::MATU//20370301
:98A::ISSU//20070201
:92A::INTR//6,00000000
:92A::CUFC//1,00000000
:16S:FIA
:16S:TRADDET
:16R:FIAC
:36B::SETT//FAMT/35000000,0000
:36B::SETT//AMOR/35000000,0000
:97A::SAFE//TEST
:16S:FIAC
:16R:SETDET
::22F::SETR//FCTA
:16R:SETPRTY
:95P::PSET//FRNYUS33
:16S:SETPRTY
:16R:SETPRTY
:95R::DEAG/USFW/000001234
:97A::SAFE//MBS BROKER
:16S:SETPRTY
:16R:SETPRTY
:95R::SELL/DTCYID/00001234
:16S:SETPRTY
:16R:AMT
:19A::SETT//USD35340520,83
:16S:AMT
:16R:AMT
:19A::DEAL//USD35317187,50
:16S:AMT
:16R:AMT
:19A::ACRU//USD23333,33
:16S:AMT
:16S:AMT
:16S:SETDET

```

E. Factor Update Example Rebook Fedwire – Post Settlement

```

:16R:GENL
:20C::SEME//REBOOK
:23G:NEWM
:16R:LINK
:20C::PREV//ORIGINAL TRADE
:16S:LINK
:16S:GENL
:16R:TRADDET
:98A::SETT//20070305
:98A::TRAD//20070228
:90A::DEAL//PRCT/100,906250000
:35B:ISIN US1234567891
FGOLD 30YR GIANT
:16R:FIA
:98A::MATU//20370301
:98A::ISSU//20070201
:92A::INTR//6,00000000
:92A::CUFC//0,99470095
:16S:FIA
:16S:TRADDET
:16R:FIAC
:36B::SETT//FAMT/35000000,0000
:36B::SETT//AMOR/34814533,2500
:97A::SAFE//TEST
:16S:FIAC
:16R:SETDET
:22F::SETR//FCTA
:16R:SETPRTY
:95P::PSET//FRNYUS33
:16S:SETPRTY
:16R:SETPRTY
:95R::DEAG/USFW/0000000001
:97A::SAFE//BROKERMBS
:16S:SETPRTY
:16R:SETPRTY
:95R::SELL/DTCYID/00001234
:16S:SETPRTY
:16R:CSHPRTY
:95R::ACCW/USFW/000000000
:16S:CSHPRTY
:16R:CSHPRTY
:95P::BENM//BICAUS33XXX
:97A::CASH//00000000
:16S:CSHPRTY
:16R:AMT
:19A::SETT//USD35153249,65
:16S:AMT
:16R:AMT
:19A::DEAL//USD35130039,96
:16S:AMT
:16R:AMT
:19A::ACRU//USD23209,69
:16S:AMT
:16R:AMT

```


:19A::ANTO//NUSD187271,18
 :16S:AMT
 :16S:SETDET

F. Factor Update Example Rebook DTC – Post Settlement

:16R:GENL
 :20C::SEME//REBOOK
 :23G:NEWM
 :16R:LINK
:20C::PREV//ORIGINAL TRADE
 :16S:LINK
 :16S:GENL
 :16R:TRADEDET
 :98A::SETT//20070308
 :98A::TRAD//20070305
 :90A::DEAL//PRCT/104,500000000
 :35B:ISIN US1234567891
 CORPORATE BOND
 :16R:FIA
 :98A::MATU//20181215
 :98A::ISSU//19990302
 :92A::INTR//7,41600000
 :92A::CUFC//0,600000000
 :16S:FIA
 :16S:TRADEDET
 :16R:FIAC
 :36B ::SETT//FAMT//100000,0000
 :36B::SETT//AMOR/60000,0000
 :97A::SAFE//TEST ACCOUNT
 :16S:FIAC
 :16R:SETDET
:22F::SETR//FCTA
 :16R:SETPRTY
 :95P::PSET//DTCYUS33
 :16S:SETPRTY
 :16R:SETPRTY
 :95R::REAG/DTCYID/00001234
 :16S:SETPRTY
 :16R:SETPRTY
 :95R::BUYR/DTCYID/0000124
 :16S:SETPRTY
:16R:CSHPRTY
95R ::ACCW/DTCYID/<DTC Identifier>)
:16S:CSHPRTY
 :16R:AMT
 :19A::SETT//USD63938,75
 :16S:AMT
 :16R:AMT
 :19A::DEAL//USD62700,00
 :16S:AMT
 :16R:AMT
 :19A::ACRU//USD1238,75
 :16S:AMT

Factored Securities

:16R:AMT
:19A::ANTO//NUSD13010.25
:16S:AMT
:16S:SETDET

