TBA Market Practice

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Author(s): ISITC Settlements Working Group

Document History

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1.0	June 8, 04	John Booth	Open, Close
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3.0	Sept 15,05	John Booth	Updates, added partial pairoff
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5.0	Feb 28, 07	Gail Rothman	Further Clarifications
5.1	September 04th, 2007	Jason Brasile/John Booth	SR2007 changes
5.2	Sep 26, 07	Gail Rothman	Fixed PREV/PAIR quantity, Linkage order, Fixed various Wording, Typos, added more clarification to Partial/Multiple Turn Issue, and open issues Pair-off/netting requirements.
5.3	Sept. 27, 07	John Booth	Removed track changes for sign-off.
5.4	Nov, 07	Gail Rothman	Updated document with open issue resolutions and fixed example typos with PAYE/BENM
5.5	09/15/10	Jason Brasile	Update to Pair off netting section
5.6	07/12/11	Jason Brasile	Clean up of wording of Turnaround section to clarify SR2009 36B::TURN codeword availability and usage
5.7	08/01/12	Jason Brasile	Section added for Stipulated TBAs
5.8	5/16/13	J. Brasile	Update of typos identified
6.0	12/8/21	Gary Heald	Updates Add MT202/210 alternative payments
6.1	06/02/2022	Settlements Co-chairs	Update to TBA Pair-off netting wire section wording for additional clarity.
6.2	08/31/2022	Dean Chard	ISO20022 CBPR+ messages included

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Introduction

Mortgage Backed Security (MBS) "To Be Announced" (TBA) trades and their associated mortgage pool trades allocations are probably the most unusual and confusing non-derivative securities in the US Market. This document will attempt to cover the nuances and idiosyncrasies required to properly support the full life cycle of processing and automation for this product.

Both Custodian and Accounting requirements will be addressed. This document is in the view of the Investment Manager sending trade settlement notifications to the Custodian and/or Accounting Administrator agent.

Topics covered:
- Opening TBAs
    - TBA Sell trades
    - FEDWIRE Settlement & 50mm limit
- Closing TBA (TBAC) methods
    - Method 1 – Opposing Trade Method
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- TBA pair-offs
    - Netting of TBA pair-offs
- Mortgage Pool Allocations
    - 48 hour day and good delivery
    - Specified Pools
    - Late Deliveries (ADEL)
- Security identification and Suggested FIA fields

This document will contain two parts. First we will cover the business requirements and second, provide examples using the ISO 15022 MT541/MT543 messages.

More information regarding MBS TBAs and their associated pool allocations from a pre-settlement industry perspective can be found at the DTCC website select clearing services (www.dtcc.com/clearing-services) and selecting MBS Division.

Overview – TBA and Mortgage Pool Allocation Process
- MBS TBA trades are placeholders for the purchase/sale of mortgage pools.
  TBAs can either be:
  1) allocated (or replaced) by mortgage pool trades or
  2) paired-off with each other for cash settlement.

- There are two types of TBA trades:
  1) Standard (or non-specified) - TBAs that follow the industry market rules for notification, settlement, and good pool delivery.
  2) Specified – TBAs where the pools are pre-specified. They may or may not follow industry settlement dates or good delivery requirements.

- Additional type of TBAs discussed within ISITC as a separate business case covered Stipulated TBAs:

Standard TBA Notification and Settlement Process
- Once a month, there are four (4) scheduled notification and associated settlement days for each Class (Class A, B, C, and D) or product type.
  (Class A – 30 yr FHLMC,FNMA; Class B – 15 yr FHLMC, FNMA, GNMA; Class C – 30 yr GNMA; ,and Class D – Balloons)

Notification – 48-hour Day
- Allocation day or 48-hour day occurs two (2) business days before settlement. The seller of a TBA has to notify the buyer which pools they will be delivering to replace the TBA by 3:00 p.m. New York time on 48-hour day in order to settle the pools on the TBAs contractual settlement date. (It should be noted that, at the option of the seller, pool allocation can occur before 48 hour day.)
- The calendar for 48-hour day and its associated settlement can be found at the SIFMA.ORG website, https://www.sifma.org/resources/general/mbs-notification-and-settlement-dates/

Good delivery & Mortgage Pool Allocation Pool Volume
- There are industry standards for "good delivery" or which and how many mortgage pools can be delivered into a TBA contract.
- The number of mortgage pools is limited to no more than three (3) per million. This means that one 100mm TBA trade has the potential to be replaced by up to 300 mortgage pool allocation trades. Thus, one can see how mortgage pool allocation volume can grow very quickly from a small number of large TBA trades.

Late Deliveries
- If the seller does not notify the buyer by 3:00 p.m. New York time on 48 hour day, the pool trade is considered a late delivery and will not settle on the TBA's contractual settlement date, but sometime later. The late or actual delivery date, in addition to the TBAs contractual settlement date, must be designated on mortgage pool allocation trades when notification is finally completed.

- Late deliveries are not uncommon. It is sometimes economically advantageous for the seller to wait until a mortgage pool of lesser value is available to deliver into the TBA contract, and pay fail costs, rather than deliver a more expensive pools the seller holds in inventory.

Opening TBAs
- Opening TBA trades can be buy or sell trades.
- The Investment Manager (IM) will typically buy a TBA to add mortgage pools to their inventory and sell a TBA to remove pools from inventory.
- However, an IM can also buy and sell TBAs with no intention of either buying/selling the underlying mortgage pools, and instead pair off the buy and sell TBAs for the cash proceeds.
- Turnaround relationships should not be indicated on the TBA trades. They should only be indicated on the replacement pool trades.

TBAs identification
CUSIPs or ISINs can be used to identify TBA securities.

Additional Security Information
- Original Face (FAMT) and Current Face (AMOR) should be included.

Sell TBAs trades are not Shorts
Typically, an IM will sell a TBA to sell the mortgage pools in inventory.   These TBA sells are not short trades and should not be indicated as short trades.

TBA Fedwire Settlement and the Fed 50 million Settlement Limit
TBA securities themselves do not settle since they are only placeholders. It is the underlying mortgage pools that actually settle.

TBA Broker/Dealer Fedwire Settlement Instructions

- Although TBA securities don't settle, it is best practice to populate them with the Fedwire settlement instructions that will ultimately be used by the mortgage pool trades.

TBAs and Fedwire 50 million settlement Limit

- Since TBAs don't settle, TBAs should be sent for the full amount and not be broken down into 50 million or less pieces.

TBA Pair-offs

- A buy and sell TBA with the same Broker/Dealer, product, and settlement date can be paired off and the net gain or loss is settled in cash.   Pairing-off TBAs eliminates the need to allocate the TBA and avoid settlement cost and risk of the underlying pool trades.
- When a pair-off instruction is sent to the Custodian, the settlement instructions for the pair-off cash wire must be included if populating the 19A::ANTO field. Otherwise, a separate MT202 or MT210 of the pair-off netting wire should be instructed. Alternatively, a separate pacs.009 or camt.057 of the pair-off netting wire could be instructed.
- The pair-off closes or draws down the amount of the open TBA by the paired-off amount and only the associated gain or loss is moved.
- There can be partial and multiple pair-offs.
- In a partial pair-off, only part of the TBA is paired-off, while the other part is either allocated into specified pools or paired off later against the remaining open TBA amount.
- The pairing-off and allocation process can occur at different intervals and over different days.
- When a partial or multiple pair-off is instructed, the message must include both the pair-off amount and a link to the TBA it is pairing-off with.

TBA Pair-offs – Wires and the Netting of Wires

- IMs are expected to notify custodians of the TBA pair-off wire amounts and cash instructions individually per pair-off. However, typically IMs have agreements in place with their brokers to net TBA pair off wires by account and settle date. This agreement is made between the IM and Broker, and the IM's instruction process in place with the custodian should align with this agreement by sending the necessary follow up fax/email of the intended pair-off wires netted. If a netting agreement is not in place between the IM and broker, custodians should act upon the individual instructions. Whether the custodian should instruct gross pair-off wires should be communicated by the IM in an agreed upon SLA with the custodian since there is no ability within the message to notify the custodian on a transactional basis.
- In the absence of the abovementioned SLA to payout the individual pair-offs gross, the IM must notify the Custodian of how the wires should be netted before the settlement date, typically by the 48 hour/notification date. Currently, these notifications are sent via fax or email.
- The creation of a new accounting allocation cash message has been discussed in the past within the industry replacing the fax/email process of how a net wire movement should be allocated across TBA pair-offs. However, this is still a manual fax/email process required of the fund accountant custodian on how to apply the net wire movement that can be instructed electronically.
- The IM can instruct the bank of the TBA pair-off net wire movement using one or more of these methods
    - The cash sequence portion of the MT54x Message with the presence of the 19A::ANTO field
    - The MT202/210 Payment message, with use code word TBAN or pacs.009/camt.057 Payment message with purpose code TBAN
    - Alternative instructing methods agreed bi-laterally outside of market practice guidance
-

The TBA message should contain the individual pair-offs and include these elements:
- Pair-off Indicator in Sequence E as 22F::SETR//PAIR
- The PREV reference number in repetitive sub-sequence A1 field 20C and in the case of partial/multiple pair-offs the associated quantity (FAMT) in field 36B of Seq A1 is required.
- If the net wire movement is instructed as part of the pair-off instructions, the following is expected to be included within the 54x TBA PAIR: The net gain or loss in 19A::ANTO//

How to use the "N" in ANTO
:19A::ANTO//USDxxxx,xx (for a gain, receive from Broker)
:19A::ANTO//**N**USDxxxx,xx (for a loss, pay to Broker)

- When there is zero gain/loss ANTO should be reflected as follows:
  :19A::ANTO//USD0,00
- The cash party sequence with the cash wire instructions.
- Include Net Gain/Loss in field 19A with qualifier ANTO of all associated pair-offs.
- Provide cash wire instructions in Sequence E2 for both payments to and from the broker
- Below are examples of the Cash Party Sequence for both losses and gains respectively
  - Payment to Broker (loss)
    :16R:CSHPRTY
    :95R::ACCW/USFW/XXXXXXXXX
    :16S:CSHPRTY
    :16R:CSHPRTY
    :95P::**BENM**//BROKUS33
    :97A::CASH//XYZZY
    :16S:CSHPRTY

  - Payment from Broker (gain)
    :16R:CSHPRTY
    :95R::ACCW/USFW/XXXXXXXXX
    :16S:CSHPRTY
    :16R:CSHPRTY
    :95P::**PAYE**//BROKUS33
    :97A::CASH//XYZZY
    :16S:CSHPRTY

- If the net wire movement is instructed as a separate MT202 or MT210 or ISO20022 XML payment separate from the pair-off instructions, the payment should contain the appropriate cash purpose code.

Examples for using MT202/210 Option – (see the ISITC Securities Payment Market Practice for more details)

- MT202 (Payment to Broker (loss))
  :20: REF123456789
  :21: TBAN
  :32A:081319USD100,
  :53B:CAC987
  :57A://FW021000ABA
  :58A://BAC234 BIC56789XXX

- MT210 (Payment from Broker (gain))
  :20: REF123456789
  :25: CAC987
  :30:081319
  :21:TBAN
  :32B:USD100,
  :52A:BKRBIC54XXX
  :56A:INTMBICXXXX

Examples for using pacs.009/camt.057 Option – (see the ISITC Securities Payment Market Practice for more details)

- pacs.009 (Payment to Broker (loss))

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xsi:schemaLocation="urn:swift:xsd:envelope ../../../../March21Schemas/Translator_envelope.xsd">

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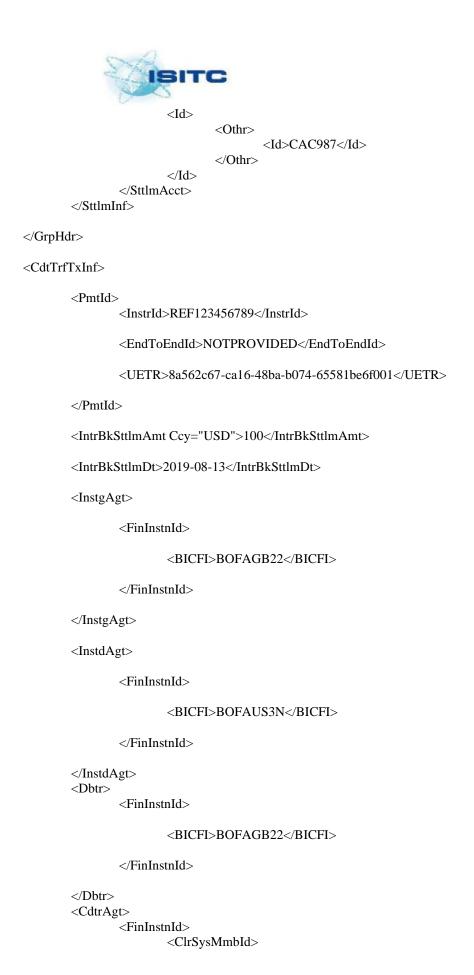
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- camt.057 (Payment from Broker (gain))

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Mortgage Pool Allocations

- There is no requirement for a link from the allocation trade to the original TBA. (This is why closing TBA trades is critical to avoid double counting.)
- Allocation trades are formatted as regular factored trades.
- Pool allocation can occur at different intervals and over different days.

Additional Security Information
- Original Face (FAMT) and Current Face (AMOR) are required
- Although not required, including the pool id (field 13B in the FIA block) has been requested by many non-custodian receivers of these messages.

Fedwire Settlement Instructions
- Mortgage Pools settle Fedwire and should include proper Fedwire settlement instructions.

Trade Date, Settle Date, (Late) Delivery Date - ADEL

- The Trade Date and (contractual) Settlement Date on the allocation should be the same as on the TBA it is replacing. This is important for Accounting purposes.
- When a TBA is allocated to the underlying pools after the 48 hour cutoff, the allocation will settle after the settlement date indicated on the trade. Therefore, the allocation trade should contain the 98A::ADEL field indicating the actual settlement date. When ADEL is used the 98A::SETT (contractual) settlement date on the allocation should be the same as the 98A::SETT on the TBA trade. ADEL should not be used when the delivery date equals the TBA contractual date.
- When an ADEL is indicated, this is the date the Custodian should expect to deliver or receive the underlying mortgage pool trades, not the 98A::SETT date.
- When ADEL is used on the allocation trade, the value date (:98A::VALU if used) is equal to the value date of the TBA trade and not ADEL, if used in the allocation.
- However, if the specified pool information comes after (or is replaced after) 48 hour day, then the broker should communicate to the IM what day they are able to make actual delivery. This date should be passed by the IM to the Custodian so they know when to expect to receive the shares.

Mortgage Pool Allocations – TURNS

- In the case of mortgage pools, a "TURN" indicator instructs the Custodian not to deliver the sell until the associated buy is received. 22F::SETR//TURN
- Typically, a turn will occur between two separate Broker/Dealers, but nothing prevents it from being done with the same Broker/Dealer.
- The sell side of a turn will usually contain the TURN indicator and a link to the buy side. It can also be the other way around with the buy side containing the TURN indicator and a link to the sell side. In any event, the turn relationship is always required on at least the second instruction sent to the recipient. The turn indicator can be, but does not have to be, on both the buy and sell.
- Link all the associated reference numbers in repetitive sub-sequence A1 field 20C with qualifier PREV
- For partial/multiple turnarounds, include quantity of financial instrument being turned-around in field 36B::TURN// of Seq. A1
- A cancellation of a turnaround will not impact any other instruction. The cancel only applies to the individual transaction.
- The Cancellation (and eventual rebook) of a linked RF or RvP instruction must be accompanied by the cancel (and eventual rebook) of the turnaround DF or DvP instruction linked to it.
- Standard market practice for Turnaround transactions is to settle the delivery side only upon settlement of the linked receive, and not to deliver out of inventory. In the event the broker fails to deliver on the receive side, this allows for the correct related delivery to be held pending receipt from the broker, minimizing the risk of the custodian failing to deliver on another unrelated transaction.

Closing TBAs

- An open TBA can be closed by any combination of pool allocations and pair-offs.

Closing allocated TBAs

- When a TBA is allocated into the underlying pools, the TBA's open amount must be reduced by the allocated amount. Otherwise, the TBA/mortgage pool position will be misstated.
- The IM sends settlement instructions for the pools and additionally close (or draw down) the TBA position, either by sending in a offsetting trade linked to the open (method #1) or canceling the TBA open trade and rebooking any remaining open amount (method #2)
- There can be multiple allocations in different pools for one close of a TBA trade.
- The open TBA position should equal the unallocated amount, so that the account will show either the TBA or the underlying pools. The TBA functions as a placeholder until the decision as to what pools to allocate to, or to sell the TBA has been made, while allowing the account to show the full position.

Method 1 – Opposing Trade Method

Closing TBA Trades - TBAC

- The TBA close trade will offset the opening trade; e.g,. a sell to offset an opening buy trade, or a buy to offset an opening sell trade.
- The trade details of the closing TBA must match the open, including:
    - Trade date
    - Settlement date
    - Price
- On a full close the settlement amount of the close is the same as the settlement amount of the open. There should be no net money difference if the two trades are netted together.
- The TBA close trade is formatted as follows:
    - 22F::SETR//TBAC
    - The reference of the open is included in a linkage segment using PREV.

Canceling/Amending TBA Close (TBAC)

- If the manager (IM) needs to amend the allocations, they will need to cancel and resend the TBA close trades.
- The cancel of the "TBAC" trade should not be flagged as a TBAC, but instead, it should be flagged as TRAD.
- The PREV in the linkage segment should refer to the original "TBAC" close trade that is being cancelled; it should not refer to the original open trade. The references of the opening trades should not be included on the cancel. Including additional PREV subsequences will make it impossible for the custodian to process the cancel and lead to errors. There should be only one PREV included on the cancellation message.

Multiple & Partial Closes

- Sometimes the TBA is not fully allocated. In this case the manager (IM) will send in a partial close trade for only part of the amount of the TBA.
- Partial closes are formatted the same as the whole close. The amount of the close is the amount of the TBA that is being allocated.
- The price on the TBA close trades should be the same as on the TBA open trades.
- The settlement and other amounts should prorated based on the quantity being closed.
- It is the option of the IM to have just one TBAC trade opposing an open TBA or have multiple TBAC trades opposing an open TBA.   What we have seen is that IMs with high allocation volume opt to have just a single TBAC trade, whereas lower volume IMs tend to produce a TBAC trade for each allocation.

Examples of Method 1 – Opposing Trade Method TBAC indicator

The Manager buys a TBA open for 2,000,000 and does a full close.

	Opening Trade	**Closing Trade**
		Use TBAC Link to opening trade being close using PREV
Message Type	541 :16R:GENL	543 :16R:GENL
Reference	:20C::SEME//BUY001	:20C::SEME//CLOSE001
Function	:23G:NEWM	:23G:NEWM
		:16R:LINK
Previous Link #1		**:20C::PREV//BUY001**
		:16S:LINK
	:16S:GENL	:16S:GENL
	:16R:TRADDET	:16R:TRADDET
Sett Date	:98A::SETT//20040212	:98A::SETT//20040212
Trade Date	:98A::TRAD//20040105	:98A::TRAD//20040105
Price	:90A::DEAL//PRCT/101,000	:90A::DEAL//PRCT/101,000
Security ID	:35B:/US/01N052616 GNMA 30YR TBA	:35B:/US/01N052616 GNMA 30YR TBA
	:16S:TRADDET	:16S:TRADDET
	:16R:FIAC	:16R:FIAC
Original Face	:36B::SETT//FAMT/2000000,	:36B::SETT//FAMT/2000000,
Current Face	:36B::SETT//AMOR/2000000,	:36B::SETT//AMOR/2000000,
Account	:97A::SAFE//A12345	:97A::SAFE//A12345
	:16S:FIAC	:16S:FIAC
	:16R:SETDET	:16R:SETDET
Type	:22F::SETR//TRAD	**:22F::SETR//TBAC**
	:16R:SETPRTY	:16R:SETPRTY
Place of Sett	:95P::PSET//FRNYUS33	:95P::PSET//FRNYUS33
	:16S:SETPRTY	:16S:SETPRTY
	:16R:SETPRTY	:16R:SETPRTY
Clearing Broker	:95R::DEAG/USFW/021000018	:95R::REAG/USFW/021000018
Third Party	:97A::SAFE//MSMPI	:97A::SAFE//MSMPI
	:16S:SETPRTY	:16S:SETPRTY
	:16R:SETPRTY	:16R:SETPRTY
Executing Broker	:95R::SELL/DTCYID/00000050	:95R::BUYR/DTCYID/00000050
	:16S:SETPRTY	:16S:SETPRTY
	:16R:AMT	:16R:AMT
Accrued Interest	:19A::ACRU//USD1000,00	:19A::ACRU//USD1000,00
	:16S:AMT	:16S:AMT
	:16R:AMT	:16R:AMT
Principle	:19A::DEAL//USD2020000,00	:19A::DEAL//USD2020000,00
	:16S:AMT	:16S:AMT
	:16R:AMT	:16R:AMT
Settlement Amt	:19A::SETT//USD2021000,00	:19A::SETT//USD2021000,00
	:16S:AMT	:16S:AMT
	:16S:SETDET	:16S:SETDET

Method 1 - TBAC Cancel and Rebook

The Manager amends the TBA Close, canceling the earlier TBA close trade, and reissuing a new TBA close for 1,800,000.

	TBA Close Cancel Use 23G:CANC Link to TBAC being cancelled using PREV. Trade type TRAD	**TBA Close Rebook** Same as regular TBAC Link to opening trade being closed using PREV Trade type TBAC
Message Type	543	543
	:16R:GENL	:16R:GENL
Reference	:20C::SEME//CLOSE001C	:20C::SEME//CLOSE001B
Function	**:23G:CANC**	:23G:NEWM
	:16R:LINK	:16R:LINK
Previous Link #1	**:20C::PREV//CLOSE001**	**:20C::PREV//BUY001**
	:16S:LINK	:16S:LINK
	:16S:GENL	:16S:GENL
	:16R:TRADDET	:16R:TRADDET
Sett Date	:98A::SETT//20040212	:98A::SETT//20040212
Trade Date	:98A::TRAD//20040105	:98A::TRAD//20040105
Price	:90A::DEAL//PRCT/101,000	:90A::DEAL//PRCT/101,000
Security ID	:35B:/US/01N052616	:35B:/US/01N052616
	GNMA 30YR TBA	GNMA 30YR TBA
	:16S:TRADDET	:16S:TRADDET
	:16R:FIAC	:16R:FIAC
Original Face	:36B::SETT//FAMT/2000000,	:36B::SETT//FAMT/1800000,
Current Face	:36B::SETT//AMOR/2000000,	:36B::SETT//AMOR/1800000,
Account	:97A::SAFE//A12345	:97A::SAFE//A12345
	:16S:FIAC	:16S:FIAC
	:16R:SETDET	:16R:SETDET
Type	**:22F::SETR//TRAD**	**:22F::SETR//TBAC**
	:16R:SETPRTY	:16R:SETPRTY
Place of Settlement	:95P::PSET//FRNYUS33	:95P::PSET//FRNYUS33
	:16S:SETPRTY	:16S:SETPRTY
	:16R:SETPRTY	:16R:SETPRTY
Clearing Broker	:95R::REAG/USFW/021000018	:95R::REAG/USFW/021000018
Third Party	:97A::SAFE//MSMPI	:97A::SAFE//MSMPI
	:16S:SETPRTY	:16S:SETPRTY
	:16R:SETPRTY	:16R:SETPRTY
Executing Broker	:95R::BUYR/DTCYID/00000050	:95R::BUYR/DTCYID/00000050
	:16S:SETPRTY	:16S:SETPRTY
	:16R:AMT	:16R:AMT
Accrued Interest	:19A::ACRU//USD1000,00	:19A::ACRU//USD900,00
	:16S:AMT	:16S:AMT
	:16R:AMT	:16R:AMT
Principle	:19A::DEAL//USD2020000,00	:19A::DEAL//USD1818000,00
	:16S:AMT	:16S:AMT
	:16R:AMT	:16R:AMT
Settlement Amt	:19A::SETT//USD2021000,00	:19A::SETT//USD1818900,00
	:16S:AMT	:16S:AMT
	:16S:SETDET	:16S:SETDET

TBA Pair-off – One to One

The Manager purchases a 2,000,000 TBA then sells it back to the broker the purchased it from, using a full pair-off.

	Opening trade	Pair-off Sell
Message Type	541	543
	:16R:GENL	:16R:GENL
Reference	:20C::SEME//BUY002	:20C::SEME//PAIR002
Function	:23G:NEWM	:23G:NEWM
		:16R:LINK
Previous Link #1		:20C::PREV//BUY002
		:16S:LINK
	:16S:GENL	:16S:GENL
	:16R:TRADDET	:16R:TRADDET
Sett Date	:98A::SETT//20040212	:98A::SETT//20040212
Trade Date	:98A::TRAD//20040105	:98A::TRAD//20040209
Price	:90A::DEAL//PRCT/101,000	:90A::DEAL//PRCT/102,00
Security ID	:35B:/US/01N052616	:35B:/US/01N052616
	GNMA 30YR TBA	GNMA 30YR TBA
	:16S:TRADDET	:16S:TRADDET
	:16R:FIAC	:16R:FIAC
Original Face	:36B::SETT//FAMT/2000000,	:36B::SETT//FAMT/2000000,
Current Face	:36B::SETT//AMOR/2000000,	:36B::SETT//AMOR/2000000,
Account	:97A::SAFE//A12345	:97A::SAFE//A12345
	:16S:FIAC	:16S:FIAC
	:16R:SETDET	:16R:SETDET
Type	:22F::SETR//TRAD	:22F::SETR//PAIR
	:16R:SETPRTY	:16R:SETPRTY
Place of Settlement	:95P::PSET//FRNYUS33	:95P::PSET//FRNYUS33
	:16S:SETPRTY	:16S:SETPRTY
	:16R:SETPRTY	:16R:SETPRTY
Clearing Broker	:95R::DEAG/USFW/021000018	:95R::REAG/USFW/021000018
Third Party	:97A::SAFE//MSMPI	:97A::SAFE//MSMPI
	:16S:SETPRTY	:16S:SETPRTY
	:16R:SETPRTY	:16R:SETPRTY
Executing Broker	:95R::SELL/DTCYID/00000050	:95R::BUYR/DTCYID/00000050
	:16S:SETPRTY	:16S:SETPRTY
	:16R:CSHPRTY	:16R:CSHPRTY
Acct with Inst	:95R::ACCW/USFW/021000018	:95R::ACCW/USFW/021000018
	:16S:CSHPRTY	:16S:CSHPRTY
	:16R:CSHPRTY	:16R:CSHPRTY
Beneficiary	:95P::BENM//MSAMUS33XXXX	:95P::PAYE//MSAMUS33XXXX
Bene Account	:97A::CASH//1234567	:97A::CASH//1234567
	:16S:CSHPRTY	:16S:CSHPRTY
	:16R:AMT	:16R:AMT
Accrued Interest	:19A::ACRU//USD1000,00	:19A::ACRU//USD1000,00
	:16S:AMT	:16S:AMT
	:16R:AMT	:16R:AMT
Principle	:19A::DEAL//USD2020000,00	:19A::DEAL//USD2040000,00
	:16S:AMT	:16S:AMT
	:16R:AMT	:16R:AMT
Settlement Amt	:19A::SETT//USD2021000,00	:19A::SETT//USD2041000,00
	:16S:AMT	:16S:AMT
	:16S:SETDET	:16R:AMT
Net Payment Amt		:19A::ANTO//USD20000,00
		:16S:AMT
		:16S:SETDET

Method 2 – Cancellation and Rebook Method

- The TBA cancel is formatted the same as a standard MT54X cancel trade.
- After the TBA is allocated, the manager will cancel the TBA open trade, and send a rebook for the remaining open TBA amount.

Multiple & Partial Closes

- The total quantity of the TBA rebook plus the trades for the underlying pools should equal the quantity of the original TBA open.
- The manager should repeat this process, canceling the outstanding TBA trade, and issuing new trades for the underlying pools and remaining TBA balance, until the entire TBA position is closed.

Pair-offs

- If the pair-off is partial pair-off (pairing off only part of the opening TBA trade), the TBA open trade should be cancelled and rebooked as two separate trades. One for the TBA's pair-off amount that includes the linkage to the trade it is pair-offed with and one for the TBAs unallocated amount. This is important so that when a TBA trade gets cancelled do to an allocation, it does not remove the pair-off information.

Examples of Method 2 – Cancellation & Rebook Method

TBA Open:

The manager sends in an initial TBA opening trade for 2,000,000

	Opening Trade
Message Type	541
	:16R:GENL
Reference	:20C::SEME//BUY001
Function	:23G:NEWM
	:16S:GENL
	:16R:TRADDET
Sett Date	:98A::SETT//20040212
Trade Date	:98A::TRAD//20040105
Price	:90A::DEAL//PRCT/101,000
Security ID	:35B:/US/01N052616
	GNMA 30YR TBA
	:16S:TRADDET
	:16R:FIAC
Original Face	:36B::SETT//FAMT/2000000,
Current Face	:36B::SETT//AMOR/2000000,
Account	:97A::SAFE//A12345
	:16S:FIAC
	:16R:SETDET
Type	:22F::SETR//TRAD
	:16R:SETPRTY
Place of Sett	:95P::PSET//FRNYUS33
	:16S:SETPRTY
	:16R:SETPRTY
Clearing Broker	:95R::DEAG/USFW/021000018
Third Party	:97A::SAFE//MSMPI
	:16S:SETPRTY
	:16R:SETPRTY
Executing Broker	:95R::SELL/DTCYID/00000050
	:16S:SETPRTY
	:16R:AMT
Accrued Interest	:19A::ACRU//USD1000,00
	:16S:AMT
	:16R:AMT
Principle	:19A::DEAL//USD2020000,00
	:16S:AMT
	:16R:AMT
Settlement Amt	:19A::SETT//USD2021000,00
	:16S:AMT
	:16S:SETDET

Method 2 - TBA Close and Rebook:

The manager allocates 200,000 to the underlying pools. They cancel the initial purchase of 2,000,000 and send in a rebook for 1,800,000, representing the unallocated TBA position.
The manager will also send trades for the underlying pools for 200,000.

	Closing Cancel	TBA Close Rebook
Message Type	541	541
	:16R:GENL	:16R:GENL
Reference	:20C::SEME//CLOSE001	:20C::SEME//BUY002
Function	:23G:CANC	:23G:NEWM
	:16R:LINK	
Previous Link	:20C::PREV//BUY001	
	:16S:LINK	
	:16S:GENL	:16S:GENL
	:16R:TRADDET	:16R:TRADDET
Sett Date	:98A::SETT//20040212	:98A::SETT//20040212
Trade Date	:98A::TRAD//20040105	:98A::TRAD//20040105
Price	:90A::DEAL//PRCT/101,000	:90A::DEAL//PRCT/101,000
Security ID	:35B:/US/01N052616	:35B:/US/01N052616
	GNMA 30YR TBA	GNMA 30YR TBA
	:16S:TRADDET	:16S:TRADDET
	:16R:FIAC	:16R:FIAC
Original Face	:36B::SETT//FAMT/2000000,	:36B::SETT//FAMT/1800000,
Current Face	:36B::SETT//AMOR/2000000,	:36B::SETT//AMOR/1800000,
Account	:97A::SAFE//A12345	:97A::SAFE//A12345
	:16S:FIAC	:16S:FIAC
	:16R:SETDET	:16R:SETDET
Type	:22F::SETR//TRAD	:22F::SETR//TRAD
	:16R:SETPRTY	:16R:SETPRTY
Place of Sett	:95P::PSET//FRNYUS33	:95P::PSET//FRNYUS33
	:16S:SETPRTY	:16S:SETPRTY
	:16R:SETPRTY	:16R:SETPRTY
Clearing Broker	:95R::DEAG/USFW/021000018	:95R::DEAG/USFW/021000018
Third Party	:97A::SAFE//MSMPI	:97A::SAFE//MSMPI
	:16S:SETPRTY	:16S:SETPRTY
	:16R:SETPRTY	:16R:SETPRTY
Executing Broker	:95R::SELL/DTCYID/00000050	:95R::SELL/DTCYID/00000050
	:16S:SETPRTY	:16S:SETPRTY
	:16R:AMT	:16R:AMT
Accrued Interest	:19A::ACRU//USD1000,00	:19A::ACRU//USD900,00
	:16S:AMT	:16S:AMT
	:16R:AMT	:16R:AMT
Principle	:19A::DEAL//USD2020000,00	:19A::DEAL//USD1818000,00
	:16S:AMT	:16S:AMT
	:16R:AMT	:16R:AMT
Settlement Amt	:19A::SETT//USD2021000,00	:19A::SETT//USD1818900,00
	:16S:AMT	:16S:AMT
	:16S:SETDET	:16S:SETDET

TBA Pair-off Example - Using Method 2

The manager sells 900,000 back to the broker, which will be paired off.
The manager cancels the 1,800,000 TBA open trade and sends in two rebooks for
900,000. One of the rebooks will remain open, representing the new TBA open position
of 900,000, while the other rebooks will be paired off with the sell back to the
broker.

	TBA Close Cancel	TBA Close Rebook #1
Message Type	541	541
	:16R:GENL	:16R:GENL
Reference	:20C::SEME//CLOSE002	:20C::SEME//BUY003
Function	:23G:CANC	:23G:NEWM
	:16R:LINK	
Previous Link	:20C::PREV//BUY002	
	:16S:LINK	
	:16S:GENL	:16S:GENL
	:16R:TRADDET	:16R:TRADDET
Sett Date	:98A::SETT//20040212	:98A::SETT//20040212
Trade Date	:98A::TRAD//20040105	:98A::TRAD//20040105
Price	:90A::DEAL//PRCT/101,000	:90A::DEAL//PRCT/101,000
Security ID	:35B:/US/01N052616	:35B:/US/01N052616
	GNMA 30YR TBA	GNMA 30YR TBA
	:16S:TRADDET	:16S:TRADDET
	:16R:FIAC	:16R:FIAC
Original Face	:36B::SETT//FAMT/1800000,	:36B::SETT//FAMT/900000,
Current Face	:36B::SETT//AMOR/1800000,	:36B::SETT//AMOR/900000,
Account	:97A::SAFE//A12345	:97A::SAFE//A12345
	:16S:FIAC	:16S:FIAC
	:16R:SETDET	:16R:SETDET
Type	:22F::SETR//TRAD	:22F::SETR//TRAD
	:16R:SETPRTY	:16R:SETPRTY
Place of Sett	:95P::PSET//FRNYUS33	:95P::PSET//FRNYUS33
	:16S:SETPRTY	:16S:SETPRTY
	:16R:SETPRTY	:16R:SETPRTY
Clearing Broker	:95R::DEAG/USFW/021000018	:95R::DEAG/USFW/021000018
Third Party	:97A::SAFE//MSMPI	:97A::SAFE//MSMPI
	:16S:SETPRTY	:16S:SETPRTY
	:16R:SETPRTY	:16R:SETPRTY
Executing Broker	:95R::SELL/DTCYID/00000050	:95R::SELL/DTCYID/00000050
	:16S:SETPRTY	:16S:SETPRTY
	:16R:AMT	:16R:AMT
Accrued Interest	:19A::ACRU//USD900,00	:19A::ACRU//USD450,00
	:16S:AMT	:16S:AMT
	:16R:AMT	:16R:AMT
Principle	:19A::DEAL//USD1818000,00	:19A::DEAL//USD909000,00
	:16S:AMT	:16S:AMT
	:16R:AMT	:16R:AMT
Settlement Amt	:19A::SETT//USD1818900,00	:19A::SETT//USD909450,00
	:16S:AMT	:16S:AMT
	:16S:SETDET	:16S:SETDET

	TBA Close Rebook #2	**TBA Pair-off**
Message Type	541	543
	:16R:GENL	:16R:GENL
Reference	:20C::SEME//BUY004	:20C::SEME//PAIR001
Function	:23G:NEWM	:23G:NEWM
		:16R:LINK
Previous Link		:20C::PREV//BUY003
		:16S:LINK
	:16S:GENL	:16S:GENL
	:16R:TRADDET	:16R:TRADDET
Sett Date	:98A::SETT//20040212	:98A::SETT//20040212
Trade Date	:98A::TRAD//20040105	:98A::TRAD//20040105
Price	:90A::DEAL//PRCT/101,000	:90A::DEAL//PRCT/102,000
Security ID	:35B:/US/01N052616	:35B:/US/01N052616
	GNMA 30YR TBA	GNMA 30YR TBA
	:16S:TRADDET	:16S:TRADDET
	:16R:FIAC	:16R:FIAC
Original Face	:36B::SETT//FAMT/900000,	:36B::SETT//FAMT/900000,
Current Face	:36B::SETT//AMOR/900000,	:36B::SETT//AMOR/900000,
Account	:97A::SAFE//A12345	:97A::SAFE//A12345
	:16S:FIAC	:16S:FIAC
	:16R:SETDET	:16R:SETDET
Type	:22F::SETR//TRAD	:22F::SETR//PAIR
	:16R:SETPRTY	:16R:SETPRTY
Place of Settlement	:95P::PSET//FRNYUS33	:95P::PSET//FRNYUS33
	:16S:SETPRTY	:16S:SETPRTY
	:16R:SETPRTY	:16R:SETPRTY
Clearing Broker	:95R::DEAG/USFW/021000018	:95R::REAG/USFW/021000018
Third Party	:97A::SAFE//MSMPI	:97A::SAFE//MSMPI
	:16S:SETPRTY	:16S:SETPRTY
	:16R:SETPRTY	:16R:SETPRTY
Executing Broker	:95R::SELL/DTCYID/00000050	:95R::BUYR/DTCYID/00000050
	:16S:SETPRTY	:16S:SETPRTY
		:16R:CSHPRTY
Acct with Inst		:95R::ACCW/USFW/021000018
		:16S:CSHPRTY
		:16R:CSHPRTY
Beneficiary/Payee		:95P::PAYE//MSAMUS33XXXX
Bene/Paye Account		:97A::CASH//1234567
		:16S:CSHPRTY
	:16R:AMT	:16R:AMT
Accrued Interest	:19A::ACRU//USD450,00	:19A::ACRU//USD450,00
	:16S:AMT	:16S:AMT
	:16R:AMT	:16R:AMT
Principle	:19A::DEAL//USD909000,00	:19A::DEAL//USD918000,00
	:16S:AMT	:16S:AMT
	:16R:AMT	:16R:AMT
Settlement Amt	:19A::SETT//USD909450,00	:19A::SETT//USD918450,00
	:16S:AMT	:16S:AMT
	:16S:SETDET	:16R:AMT
Net Gain/Loss		:19A::ANTO//USD9000,00
		:16S:AMT
		:16S:SETDET

Method -2: TBA Close:

The manager closes out their TBA position with a final closing cancel for 900,000. At the same time they will send trades totaling 900,000 for the underlying pools.

	TBA Close
Message Type	541
	:16R:GENL
Reference	:20C::SEME//CLOSE003
Function	:23G:CANC
	:16R:LINK
Previous Link	:20C::PREV//BUY004
	:16S:LINK
	:16S:GENL
	:16R:TRADDET
Sett Date	:98A::SETT//20040212
Trade Date	:98A::TRAD//20040105
Price	:90A::DEAL//PRCT/101,000
Security ID	:35B:/US/01N052616
	GNMA 30YR TBA
	:16S:TRADDET
	:16R:FIAC
Original Face	:36B::SETT//FAMT/900000,
Current Face	:36B::SETT//AMOR/900000,
Account	:97A::SAFE//A12345
	:16S:FIAC
	:16R:SETDET
Type	:22F::SETR//TRAD
	:16R:SETPRTY
Place of Sett	:95P::PSET//FRNYUS33
	:16S:SETPRTY
	:16R:SETPRTY
Clearing Broker	:95R::DEAG/USFW/021000018
Third Party	:97A::SAFE//MSMPI
	:16S:SETPRTY
	:16R:SETPRTY
Executing Broker	:95R::SELL/DTCYID/00000050
	:16S:SETPRTY
	:16R:AMT
Accrued Interest	:19A::ACRU//USD450,00
	:16S:AMT
	:16R:AMT
Principle	:19A::DEAL//USD909000,00
	:16S:AMT
	:16R:AMT
Settlement Amt	:19A::SETT//USD909450,00
	:16S:AMT
	:16S:SETDET

Partial Pair-off Example – Using Linkage Sequence to denote partial or multiple Pair-offs

- When managers send partial or multiple partial pair-offs, the custodian needs to know how much of the initial trade(s) are being paired off. If it is a partial pair-off they cannot assume the whole amount is being paired. If there are multiple pair-offs, they cannot assume that the amount of an individual PAIR trade as the total amount being paired.
- The quantity being linked should be provided in the 36B Quantity of Financial instrument field in the linkage sequence. This field provides the quantity of the trade referred to in the associated 20C::PREV link that is being paired off. For factored securities this is the original face amount, not the current face.
- The custodian will pair-off the quantity being linked between the Pair-off trade and the linked trade, this can leave an un-netted quantity on one or both of the pair-off trade or the linked trade. If the full amount of the trade is not being paired, the custodian should partial the trade and settle part of the trade on the pair-off and leave the remainder unsettled.

Example:
- There are two opening buys, OPEN001 and OPEN002, for 4,000,000 and 2,000,000 respectively.
- Multiple partial pair-off PAIR001 is a sell of 3,000,000 of OPEN001 and OPEN002. The linkage sequences indicate that 2,000,000 of OPEN001 is being paired off and 1,000,000 of OPEN002 is being paired. The custodian will partial 2,000,000 of OPEN001 on the pair leaving 2,000,000 unsettled, and pair 1,000,000 of OPEN002, leaving 1,000,000 unsettled.
- The manager will be sending TBAC or PAIR messages to close the remaining balance.
- In this particular example, the remaining amount is allocated and TBACs trades are created CLOSE001 & CLOSE002.

```
Message Type          541                            541
                      :16R:GENL                      :16R:GENL
Reference             :20C::SEME//OPEN001            :20C::SEME//OPEN002
Function              :23G:NEWM                      :23G:NEWM
                      :16S:GENL                      :16S:GENL
                      :16R:TRADDET                   :16R:TRADDET
Sett Date             :98A::SETT//20040212           :98A::SETT//20040212
Trade Date            :98A::TRAD//20040105           :98A::TRAD//20040123
Price                 :90A::DEAL//PRCT/101,000       :90A::DEAL//PRCT/101,000
Security ID           :35B:/US/01N052616             :35B:/US/01N052616
                      GNMA 30YR TBA                  GNMA 30YR TBA
                      :16S:TRADDET                   :16S:TRADDET
                      :16R:FIAC                      :16R:FIAC
Original Face         :36B::SETT//FAMT/4000000,      :36B::SETT//FAMT/2000000,
Current Face          :36B::SETT//AMOR/4000000,      :36B::SETT//AMOR/2000000,
Account               :97A::SAFE//A12345             :97A::SAFE//A12345
                      :16S:FIAC                      :16S:FIAC
                      :16R:SETDET                    :16R:SETDET
Type                  :22F::SETR//TRAD               :22F::SETR//TRAD
                      :16R:SETPRTY                   :16R:SETPRTY
Place of Settlement   :95P::PSET//FRNYUS33           :95P::PSET//FRNYUS33
                      :16S:SETPRTY                   :16S:SETPRTY
                      :16R:SETPRTY                   :16R:SETPRTY
Clearing Broker       :95R::DEAG/USFW/021000018      :95R::DEAG/USFW/021000018
Third Party           :97A::SAFE//MSMPI              :97A::SAFE//MSMPI
                      :16S:SETPRTY                   :16S:SETPRTY
                      :16R:SETPRTY                   :16R:SETPRTY
Executing Broker      :95R::SELL/DTCYID/00000050     :95R::SELL/DTCYID/00000050
                      :16S:SETPRTY                   :16S:SETPRTY
                      :16R:AMT                       :16R:AMT
Accrued Interest      :19A::ACRU//USD2000,00         :19A::ACRU//USD1000,00
                      :16S:AMT                       :16S:AMT
                      :16R:AMT                       :16R:AMT
Principle             :19A::DEAL//USD4040000,00      :19A::DEAL//USD2020000,00
                      :16S:AMT                       :16S:AMT
                      :16R:AMT                       :16R:AMT
Settlement Amount     :19A::SETT//USD4042000,00      :19A::SETT//USD2021000,00
                      :16S:AMT                       :16S:AMT
                      :16S:SETDET                    :16S:SETDET
```

Multiple Partial using LINK Field

```
Message Type            543
                        :16R:GENL
Reference               :20C::SEME//PAIR001
Function                :23G:NEWM
                        :16R:LINK
Previous Link #1        :20C::PREV//OPEN001
Qty of 1st Link         :36B::PAIR//FAMT/2000000,00
                        :16S:LINK
                        :16R:LINK
Previous Link #2        :20C::PREV//OPEN002
Qty of 2nd Link         :36B::PAIR//FAMT/1000000,00
                        :16S:LINK
                        :16S:GENL
                        :16R:TRADDET
Sett Date               :98A::SETT//20040212
Trade Date              :98A::TRAD//20040209
Price                   :90A::DEAL//PRCT/102,00
Security ID             :35B:/US/01N052616
                        GNMA 30YR TBA
                        :16S:TRADDET
                        :16R:FIAC
Original Face           :36B::SETT//FAMT/3000000,
Current Face            :36B::SETT//AMOR/3000000,
Account                 :97A::SAFE//A12345
                        :16S:FIAC
                        :16R:SETDET
Type                    :22F::SETR//PAIR
                        :16R:SETPRTY
Place of Settlement     :95P::PSET//FRNYUS33
                        :16S:SETPRTY
                        :16R:SETPRTY
Clearing Broker         :95R::REAG/USFW/021000018
Third Party             :97A::SAFE//MSMPI
                        :16S:SETPRTY
                        :16R:SETPRTY
Executing Broker        :95R::BUYR/DTCYID/00000050
                        :16S:SETPRTY
                        :16R:CSHPRTY
Acct with Inst          :95R::ACCW/USFW/021000018
                        :16S:CSHPRTY
                        :16R:CSHPRTY
Beneficiary/Payee       :95P::PAYE//MSAMUS33XXXX
Bene/Paye Account       :97A::CASH//1234567
                        :16S:CSHPRTY
                        :16R:AMT
Accrued Interest        :19A::ACRU//USD1500,00
                        :16S:AMT
                        :16R:AMT
Principle               :19A::DEAL//USD3060000,00
                        :16S:AMT
                        :16R:AMT
Sett Amount             :19A::SETT//USD3061500,00
                        :16S:AMT
                        :16R:AMT
Net Payment Amt         :19A::ANTO//USD30000,00
                        :16S:AMT
                        :16S:SETDET
```

```
Message Type         543                              543
                     :16R:GENL                        :16R:GENL
Reference            :20C::SEME//CLOSE001             :20C::SEME//CLOSE002
Function             :23G:NEWM                        :23G:NEWM
                     :16R:LINK                        :16R:LINK
Previous Link #1     :20C::PREV//OPEN001              :20C::PREV//OPEN002
                     :16S:LINK                        :16S:LINK
                     :16S:GENL                        :16S:GENL
                     :16R:TRADDET                     :16R:TRADDET
Sett Date            :98A::SETT//20040212             :98A::SETT//20040212
Trade Date           :98A::TRAD//20040105             :98A::TRAD//20040123
Price                :90A::DEAL//PRCT/101,000         :90A::DEAL//PRCT/101,000
Security ID          :35B:/US/01N052616              :35B:/US/01N052616
                     GNMA 30YR TBA                    GNMA 30YR TBA
                     :16S:TRADDET                     :16S:TRADDET
                     :16R:FIAC                        :16R:FIAC
Original Face        :36B::SETT//FAMT/2000000,        :36B::SETT//FAMT/1000000,
Current Face         :36B::SETT//AMOR/2000000,        :36B::SETT//AMOR/1000000,
Account              :97A::SAFE//A12345              :97A::SAFE//A12345
                     :16S:FIAC                        :16S:FIAC
                     :16R:SETDET                      :16R:SETDET
Type                 :22F::SETR//TBAC                 :22F::SETR//TBAC
                     :16R:SETPRTY                     :16R:SETPRTY
Place of Settlement  :95P::PSET//FRNYUS33             :95P::PSET//FRNYUS33
                     :16S:SETPRTY                     :16S:SETPRTY
                     :16R:SETPRTY                     :16R:SETPRTY
Clearing Broker      :95R::REAG/USFW/021000021        :95R::REAG/USFW/021000021
Third Party          :97A::SAFE//MSMPI                :97A::SAFE//MSMPI
                     :16S:SETPRTY                     :16S:SETPRTY
                     :16R:SETPRTY                     :16R:SETPRTY
Executing Broker     :95R::BUYR/DTCYID/00000050       :95R::BUYR/DTCYID/00000050
                     :16S:SETPRTY                     :16S:SETPRTY
                     :16R:AMT                         :16R:AMT
Accrued Interest     :19A::ACRU//USD1000,00           :19A::ACRU//USD500,00
                     :16S:AMT                         :16S:AMT
                     :16R:AMT                         :16R:AMT
Principle            :19A::DEAL//USD2020000,00        :19A::DEAL//USD1010000,00
                     :16S:AMT                         :16S:AMT
                     :16R:AMT                         :16R:AMT
Settlement Amt       :19A::SETT//USD2021000,00        :19A::SETT//USD1010500,00
                     :16S:AMT                         :16S:AMT
                     :16S:SETDET                      :16S:SETDET
```