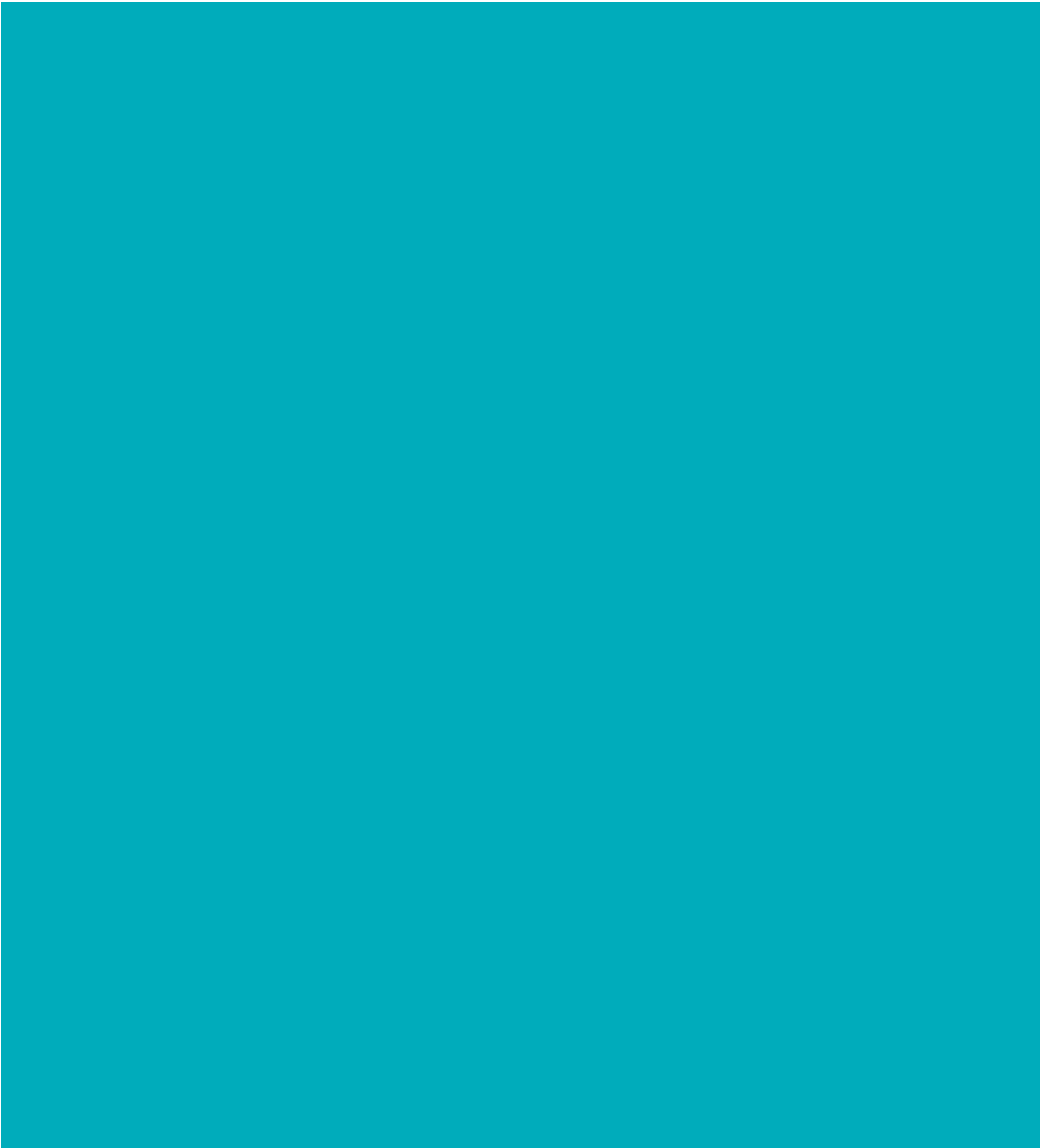


Nordic Auto-borrow



Nordic Autoborrow - FAQ

What is this service?

LCH Ltd (LCH) will introduce a new securities borrowing functionality where a member or members are unable to deliver to LCH.

LCH via a lender will source securities during the daily settlement cycles and will use the borrowed securities to deliver to its waiting buyers.

The service will be introduced at first to the Nordic markets with the possibility of it to be included in other locations at a later date.

The service is intended to improve LCH's settlement efficiency by using borrowed securities where member deliveries to LCH are not settling on intended settlement date and beyond.

LCH will monitor the service post go-live to ensure the lending programme improves settlement efficiency and that members are not incurring unnecessary costs.

Which markets are included in the auto borrow schedule?

LCH will introduce autoborrow in the Nordics in phases. This is to ensure a seamless launch and to reduce any operational risk from launching all markets at once. The phases are as follows and can be subject to change;

Sweden	11 th September 2017
Norway	18 th September 2017
Finland	25 th September 2017
Denmark	TBC ¹

¹Denmark will be introduced if fails are of substantial value and age. There will not be a settlement date autoborrow service in this market for the initial launch

How does LCH calculate the borrow requirement?

On a daily basis LCH will borrow the net short amount that is failing. Meaning if five members are failing each 10shs of Security "ABC", LCH will borrow one shape of 50shs.

This calculation and borrow will be processed as late in the settlement window as possible, this will allow for as many settlements in from our members as possible and avoiding unnecessary borrowing.

Once the calculation is made the securities will be borrowed and used by LCH to ensure delivery is made to the waiting buyers.

When will the borrow actioned?

The borrow will be processed in the last settlement cycle on settlement day.

Times of when LCH will initiate the borrow process are as follows however are subject to change:

Sweden	12.00 (UK)
Norway	09.15 (UK)
Finland	10.45 (UK)
Denmark	TBC

How does LCH return the loans?

Stock received from the failing selling members that is not required for onward deliveries to waiting buyers will be used to close out the loans

Who is party to the agreement of the loan and lender?

LCH are responsible for the operations, collateral and contractual agreements with the loans. The member does not have any obligations on the loan other than to ensure delivery of the securities they are to deliver to LCH to close a loan and the payment of the autoborrow fees.

Are there thresholds associated with auto borrow?

To mitigate the risk of unnecessary, expensive borrowing and to avoid risk associated to corporate actions, LCH will apply the following criteria:

1. LCH will only request a borrow when the value of the “net” short across all members (excluding interoperable CCPs) is above the equivalent of £1m. Note this value will be reviewed and be subject to change
2. LCH will only request a borrow on a security that is deemed liquid
3. LCH will not borrow over a security that has a corporate action at the time of the borrow request or that is scheduled in the corporate action diary

How much do auto borrows cost?

Each borrow will have a charge that is associated to the availability and liquidity of the security.

The cost can range between a minimum charge of 60EUR or between 110bps and 900bps¹ of the value of the loan.

These rates can change over time in line with market conditions and availability of stock.

How will the charges be passed back to members?

The autoborrow process is calculated across the number of members, per security, per day that have failed to deliver to LCH. Therefore, the total cost of the borrow is allocated across all failing members into LCH on a pro-rata per security basis, thus reducing the borrow costs that a member may be charged of sourcing securities themselves.

Members should take note of the times which LCH will initiate the borrow, as any late deliveries post this deadline can be subject to the pro rata borrow cost.

Members will be invoiced monthly in arrears and the charge will show on the monthly invoice as a separate line item.

Will there be any additional reporting for members?

At the end of each business day a new member report will be generated to show which of their settlement positions were included in the total borrow for the day.

The report will be published to the Member Reporting Portal and will be called *EREPO043 Borrowing Requirements and Actual Borrows*.

A sample of the report is shown below and highlights at Member Mnemonic and Settlement Firm ID level which positions were factored into a borrow requirement and how much of the position was successfully borrowed.

BusinessDate	SettlementFirmID	CSD	SecurityCode	CurrencyCode	BorrowingRequirement	ActualBorrow	Mnemonic
03/10/2016	abcdefg	VPCS	SE0005849254	SEK	938	900	ABC
03/10/2016	hijklmn	VPCS	SE0004242337	SEK	556	556	ABC
03/10/2016	opqrstuv	VPCS	SE0004547404	SEK	219	219	ABC

¹ The higher range of the cost shown will be associated to illiquid positions which are likely to not be included in the programme.