

Cash Equities

5 December 2014

**New Standards Implementation on Corporate Actions for the CCP**

Dear Members,

Following T+2 implementation and in accordance with the Central Securities Depository Regulation (CSDR) which aims to harmonize EU securities settlement cycles, **LCH.Clearnet SA is now entering into the implementation of the market standards for the processing of Corporate Action (CA) issued by the CAJWG (Corporate Action Joint Working Group).**

As CCP and as market infrastructure, LCH.Clearnet SA is handling the CA on flows for cleared transactions for which the operating model is CNS (Continuous Net settlement).

The introduction of the new sequence of dates for security distribution and for mandatory reorganization events will reduce substantially the volume of CA on flows to be processed by the CCP for the benefit of all the post trade industry.

As of April 2015, LCH.Clearnet SA will enhance the processing of the following events according to the Top Down approach:

- Securities Market Claim (related to security distribution)
- Transformation (related to a mandatory reorganization)

In a further step, LCH.Clearnet will also adopt the new standards of the mechanism of the buyer protection.

In addition, LCH.Clearnet SA will update the structure of the following reporting:

- Settlement instruction files (SIF)
- COE (Corporate Event) Files
- ➔ **Please find attached the description of these changes.**

**Top Down approach scope of application**

For Market claims and transformation:

- LCH.Clearnet SA will calculate the entitlement based on the ratio given in the Corporate Action announcement (MT564) sent by the issuer CSD (Euroclear and Interbolsa for Euronext markets) by maximizing the number of new outturns, using **Full Balance methodology** to minimize the residual fractions.
- LCH.Clearnet SA will retrieve, in the Corporate Action announcement message MT564, the reference price indicated by the following reference: **Cash in lieu of fraction (Qualifier CINL)**.
  - If LCH.Clearnet SA receives **the reference price before or at Record Date (5.00 PM at the latest)**, a cash compensation will then be calculated in addition to the securities entitlement.
  - If LCH.Clearnet SA receives the reference price after the Record Date, **we** will not proceed to automated cash compensation, but upon request.
- Market claims and transformation will be applied on fails position still pending by the end of the record date (RD).
  - The entitlement calculation will be based on the netted open quantities per ISD in the books of LCH.Clearnet SA registered in the Delivery Accounts.

The integer part of the outturn should be rounded down to the nearest whole number.

- When the result of the top down process leads to unbalanced outturns to be received and delivered, LCH.Clearnet SA will proceed to adjustments always **in favor of the buyer**.

#### Four Cases Clearing Members can face with the CCP:

LCH.Clearnet SA actions will always be in favor of the buyer

Cases	CCP Actions
<b>Case 1:</b> LCH.Clearnet SA is long in Outturn Securities, and the reference price is known at Record Date	<ul style="list-style-type: none"><li>✓ LCH.Clearnet SA gets excess of Outturn securities,</li><li>✓ LCH.Clearnet SA allocates the securities to the CMF which has the highest position with a computed amount based upon the reference price.</li></ul>
<b>Case 2:</b> LCH.Clearnet SA is short in Outturn Securities, and the reference price is known at Record Date	<ul style="list-style-type: none"><li>✓ LCH.Clearnet SA needs new Outturn Securities and get cash credit,</li><li>✓ In this case LCH.Clearnet SA retrieves the missing securities from the CMF which has the highest position, against cash amount corresponding to the reference price.</li></ul>
<b>Case 3:</b> LCH.Clearnet SA is long in Outturn Securities, and there is no reference price	<ul style="list-style-type: none"><li>✓ LCH.Clearnet SA will apply the fraction, but won't calculate any cash compensation.</li><li>✓ LCH.Clearnet will allocate the missing securities to <b>the</b> CMFs according to the below conditions: the allocation of the securities will be allocated to the CMF which has the decimal part nearest to 1.</li></ul>
<b>Case 4:</b> LCH.Clearnet SA is short in Outturn Securities, and there is no reference price	<ul style="list-style-type: none"><li>✓ LCH.Clearnet SA won't calculate any cash compensation.</li><li>✓ LCH.Clearnet will have missing securities and will retrieve them from the CMF which has the fraction part nearest to 1.</li></ul>

Should you need any additional information, please do not hesitate to contact your usual account manager.

Kind regards,

Christelle Girard | Director - Head of Equities LCH.Clearnet SA

Kind regards,

**For further information please contact**

**Christelle Girard** | Director - Head of Equities SA | **LCH.Clearnet** | Tel:+ 33 1 70 37 67 94 | Mobile:+33 7 87 35 32 34 | Email [christelle.girard@lchclearnet.com](mailto:christelle.girard@lchclearnet.com) |

**Leïla Aïssiouéne** | Communication and Service Delivery Officer | **LCH.Clearnet** | Tel: +33 1 70 37 28 36 | Mob:+33 6 84 93 76 45 | Email: [leila.aissiouene@lchclearnet.com](mailto:leila.aissiouene@lchclearnet.com) |

Website: [www.lchclearnet.com](http://www.lchclearnet.com)

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