

Member Notification

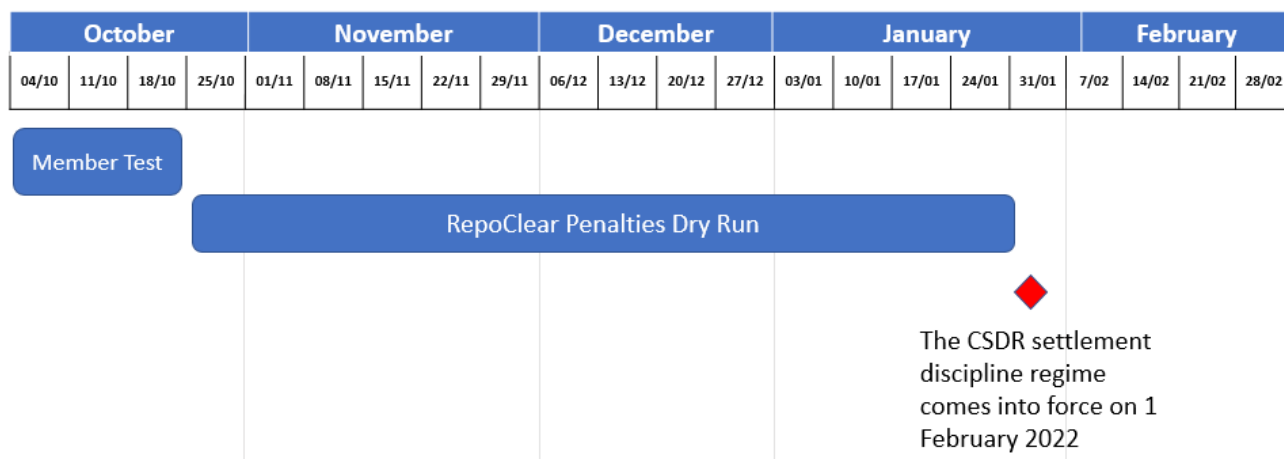
LCH SA: RepoClear CSDR Update

15th September 2021

Dear RepoClear Members,

Further to our initial communication in July 2021, regarding the implementation of the CSDR settlement discipline regime (the “SDR”)¹ that is scheduled to enter into force on 1 February 2022, LCH SA would like to provide details of penalties testing that will be offered to our members.

Test phases



Member Test

LCH SA intends to offer all of its RepoClear members the option to test the new CRS Penalty Reports ahead of the (I)CSD/RepoClear dry run and production deployment.

The dates of the member test will be 4th October – 22nd October 2021.

¹ The CSDR settlement discipline regime is defined in Regulation (EU) No. 909/2014 (“CSDR”) and of Commission Delegated Regulation (EU) No. 2018/1229.

If members wish to participate in the test phase from 4th to 22nd October 2021, they should ensure that they have access to the LCH SA Test Portal prior to the commencement of the test phase. For support please contact: SAREpoclearOpsClientServiceandChange@lch.com

For full details please refer to the **Appendix**.

Penalties Dry Run in Production

In addition to the member testing described above, LCH SA will offer its members the option to participate in the (I)CSD penalties dry run, in which all (I)CSDs will calculate and report penalties on RepoClear production settlement fails. From 25 October 2021, LCH SA will consume the CSD penalty reports, execute its internal processes and report the penalties to its members. LCH SA will not execute the monthly payments on the 17th Penalty Business Day during the dry run period. This will be an opportunity to test the end-to-end penalty process and validate real penalty values with the CSDs ahead of 1 February 2022, when the Settlement Discipline Regime (SDR) comes into force.

Mandatory Buy-ins

LCH SA will implement CSDR mandatory buy-ins in line with the current regulations due to come into force on 1st February 2022. A further notice will be provided in due course containing details on the member test plan.

Considering the ongoing review of the regulation, if there are any changes prior to this date, LCH SA will review its approach and advise members accordingly. In addition, a similar communication from LCH SA other business segments will be published very shortly as well in order to accommodate a coherent testing experience overall.

If you have any questions in the meantime, please contact your dedicated RM: RepoClearclientserviceSA@LCH.com

Kind regards,
RepoClear

Appendix: RepoClear Settlement Discipline Member Test

Objective

Allow members to test **CRS Daily and Monthly Penalty** Reports relating to settlement fails within the RepoClear test environment.

Approach

- Members submit trades to the RepoClear test environment through their respective trade source(s) in order to trigger failed settlement scenarios.
- Trades will be accepted in any eligible RepoClear ISIN.
- The testing period will simulate three monthly cycles and each cycle will be compressed into a single week (Monday-Friday).
- CRS Daily and Monthly Penalty Reports will be published on the LCH Test Portal during these cycles.
- If the relevant LCH SA (I)CSD / Calculating CSD where the fail is instructed is generating and reporting penalties during this window then LCH SA will, where possible, use this data for its reporting i.e. the Daily/Monthly CRS Penalty report will contain 'real' CSD penalty data.
- On each applicable day if RepoClear does not receive a penalty statement from an (I)CSD for a failed settlement then LCH SA will simulate the penalty generation process in order to ensure that members' CRS Penalty Reports are always fully populated for settlement fails in the RepoClear test environment.
- Members should confirm with their respective (I)CSD if they will be generating and reporting settlement fail penalties during the testing period.
- Where LCH SA simulates a penalty the values of the penalty reported via the LCH Portal are for indicative purposes only and do not represent true or accurate (I)CSD penalty data.

Conditions and exceptions:

- LCH SA will report Daily Penalties on all settlement fails in the RepoClear test system.
- Members must ensure that their settlement fails are for Intended Settlement Date 1st October or later.
- Some (I)CSDs may only support a limited set of ISINs and settlement fail scenarios for their penalty calculations/reporting. Please confirm with your (I)CSD.
- For all cases where LCH SA has simulated penalties on settlement fails, members will not be able to reconcile the LCH SA CRS Penalty Report penalty values against their respective (I)CSD penalty statements, even if their (I)CSD is reporting penalties on them.
- Only ACTV (Active), NEWP (New Penalty), SEFPs (Settlement Fail Penalty) will be simulated by LCH SA.

Execution Calendar

Weekly cycles:

Monday 4th October – Friday 8th October

Monday 11th October – Friday 15th October

Monday 18th October – Friday 22nd October

Monday	Tuesday	Wednesday	Thursday	Friday
Members input trades to initiate fails for penalty generation on	LCH SA processes Daily penalty statements from (I)CSDs**.	LCH SA processes Daily penalty statements from (I)CSDs**.	LCH SA processes Daily penalty statements from (I)CSDs**.	LCH SA processes Daily penalty statements from (I)CSDs**.

required dates*.	test	LCH SA publishes CRS Daily Penalty Reports on portal for all fails at EOD the day before.	LCH SA publishes CRS Daily Penalty Reports on portal for all fails at EOD the day before.	LCH SA publishes CRS Daily Penalty Reports on portal for all fails at EOD the day before.	LCH SA publishes CRS Daily Penalty Reports on portal for all fails at EOD the day before. LCH SA calculates Global Net Amounts and publishes CRS Monthly Penalty Reports on Portal***.
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* New trades/fails can be instructed on any day prior to or during the testing window in order to generate penalties on the required dates however the ISD of the settlements must not be earlier than 1st October 2021 in order for them to be included in the three Friday monthly processes. Please also ensure that the relevant trade cut off times are adhered to in order to meet the required test dates:

- Same Day Trades: 13:45 CET
- Next Day Trades: 17:45 CET

**See Exclusions and Conditions section

***Given that we are running the monthly processes outside of the usual cycle i.e. not on 14th Penalty Business Day of the following month, there will be some inconsistencies and abnormalities with the information reported compared to future production behaviour.

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