

VIA CFTC PORTAL

Mr Christopher Kirkpatrick  
Commodity Futures Trading Commission  
115 21<sup>st</sup> Street NW  
Three Lafayette Centre  
Washington DC 20581

6 March 2020

**LCH Limited Self-Certification: Clarifications to fees on Collateral and net capital requirements for Listed Rates FCM Members**

Dear Mr Kirkpatrick

Pursuant to CFTC regulation §40.6(a), LCH Limited (“LCH”), a derivatives clearing organization registered with the Commodity Futures Trading Commission (the “CFTC”), is submitting for self-certification two amendments to its Procedures.

**Part I: Explanation and Analysis**

**Interest Rate on Cleared Cash Collateral**

LCH is clarifying that LCH may apply a different London Deposit Rate (“LDR”) or Client Deposit Rate (“CDR”) on FCM Clearing Member’s cleared cash balances with respect to each Service. The LDR and CDR is the rate at which LCH will pay interest on a credit cash balances dependant on the type of account.

Specifically, for ForexClear FCMs, LCH is clarifying that any change to the LDR would be notified via member circular. This is already explicit for SwapClear FCMs.

**Net Capital Requirements for FCM Listed Interest Rates Members**

LCH is updating its “Categories of Clearing Member Status” to confirm that an FCM Listed Interest Rates Clearing Member, would fall under Category C for the purpose of outlining the net capital requirements it would have to meet to join the Service. This is in line with a non-FCM Listed Interest Rates Clearing member. The minimum net capital requirements for these two membership types is GBP2mn.

The rule changes will go live on, or after, 23 March 2020.

## Part II: Description of Rule Changes

Section 2.2.23(e) of the FCM Procedures has been updated to clarify that LCH shall notify FX FCMs of any change to the LDR for the ForexClear Service via member circular. Section 3.5.1 of the FCM Procedures has a new paragraph outlining that LCH may apply a different or separate LDR or CDR on FCM Clearing Member's cleared cash balances with respect to each Service.

Section 1.7 of Procedures Section 1 now includes FCM Listed Interest Rates Clearing Member under category C for the purpose of the Net Capital Requirements.

The text of the changes is attached hereto as:

**Appendix I – FCM Procedures**

**Appendix II – Procedures Section 1**

## Part III: Core Principle Compliance

LCH has reviewed the changes against the requirements of the Core Principles and finds it will continue to comply with all the requirements and standards therein.

## Part IV: Public Information

LCH has posted a notice of pending certification with the CFTC and a copy of the submission on LCH's website at: <http://www.lch.com/rules-regulations/proposed-rules-changes>.

## Part V: Opposing Views

There were no opposing views expressed to LCH by governing board or committee members, members of LCH or market participants that were not incorporated into the rule.

## Certification

LCH hereby certifies to the Commodity Futures Trading Commission, pursuant to the procedures set forth in the Commission regulation § 40.6, that attached rule submission complies with the Commodity Exchange Act, as amended, and the regulations promulgated there under.

Should you have any questions please contact me at [charlotte.woodwards@lch.com](mailto:charlotte.woodwards@lch.com).

Yours sincerely



Charlotte Woodward  
Senior Regulatory Advisor  
LCH Limited

**Appendix I**  
FCM Procedures



**FCM PROCEDURES OF THE CLEARING HOUSE**

**LCH LIMITED**

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(d) *Trade Fixing and Settlement Reports*

Reports are published on each business day detailing the FCM ForexClear Contracts to which the Settlement Rate has been applied on that business day (the “**NDF Fixings**” report), FCM ForexClear Contracts that have been settled during that current business day (the “**Settlements Today**” report) and FCM ForexClear Contracts that will settle the next business day (the “**NDF's Fixed with Settlement Tomorrow**” report).

(e) *Fees Reports*

Reports on trading volumes on a daily and monthly basis are provided to FX FCMs. Monthly reports are provided on the last business day of each month. They include the full trading volumes on which the monthly transaction fees will be charged to those FX FCMs choosing to have tariffs levied per transaction.

(f) *Banking Reports*

Follow this link for a full list of Banking reports.<sup>3</sup>

(g) *Real-time Reporting*

A near real-time view of member liabilities, Collateral pledged, Margin and credit utilization will be available from the ForexClear Service Portal (referred to in Section [2.2.17](#)~~2.2.17~~).

In accordance with CFTC Part 45 requirements (where the FX FCM has a reporting obligation), FX FCMs must provide the Clearing House (i) the USI of the original swap that is submitted to the Clearing House for registration and (ii) the LEI of the original swap SDR (i.e., “OriginalSwapRepository” or equivalent field) to enable the Clearing House to accurately report the termination of the original swap to the appropriate SDR.

### 2.2.23 *Treasury Operations & Collateral Management*

(a) *Cover Distribution*

The Clearing House nets each FX FCM's Liabilities (i.e., margins, settlements, PAA and multipliers) and then the total of Cash collateral and non-cash Collateral are applied to offset those net Liabilities. This process is known as cover distribution (“**Cover Distribution**”). FX FCMs can choose whether cash or non-cash Collateral should be applied first. At the end of this process, if an FX FCM has a shortfall, a PPS (as defined in Section [2.2.23\(c\)](#)~~2.2.23(e)~~ below) call for additional Collateral, settlement or PAA is made. Conversely, any

<sup>3</sup> [http://www.lchclearnet.com/membership/ltd/training\\_and\\_education/reference\\_guide\\_request\\_form.asp](http://www.lchclearnet.com/membership/ltd/training_and_education/reference_guide_request_form.asp)

excess cash remaining after the final overnight Margin Run can, if requested before 09:30 hours be repaid to the FX FCM.

(b) *Cover Distribution Notification*

FX FCMs are informed via email of their: Liabilities as a percentage of their current total cover (such percentage being shown as a percentage of the aggregate cover in their cash and non-cash Collateral account(s)) and are directed to the ForexClear Service Portal which provides reports (at the times specified in Section ~~2.2.22~~~~2.2.22~~) informing FX FCMs of their (i) total Liabilities under the ForexClear Service; (ii) current total cover posted with the Clearing House for ForexClear; and (iii) Liabilities as a percentage of their current total cover (such percentage being shown as a percentage of the aggregate cover in their cash and non-cash Collateral account(s)).

The reports accessed via the ForexClear Service Portal will enable FX FCMs to log in and examine the underlying data.

(c) *Protected Payment System*

The Clearing House operates the Protected Payments System (“PPS”) for transferring funds to and from its FX FCMs to cover their Transfer Requirements. This is similar to a direct debit arrangement where the PPS bank confirms that any Clearing House-specified call is met.

FX FCMs are obliged to hold an account with a UK PPS bank in USD, as well as a USD account with a PPS bank in the USA.

Follow the link below for a list of PPS banks operating in the UK and US:

List of PPS Banks<sup>4</sup>

(d) *Acceptable Forms of Collateral Cover*

Follow the link below for a detailed description of acceptable collateral and processes applicable from time to time:

Risk Management/LCH/Acceptable Collateral<sup>5</sup>

(e) *Interest and Accommodation*

Interest is paid to FX FCMs on cash Collateral [with respect to the ForexClear Service](#) held by the Clearing House. The London Deposit Rate (“LDR”) is applied.

<sup>4</sup> [http://www.lchclearnet.com/risk\\_management/ltd/pps/](http://www.lchclearnet.com/risk_management/ltd/pps/)

<sup>5</sup> [http://www.lchclearnet.com/Images/Section4\\_tcm6-43748.pdf](http://www.lchclearnet.com/Images/Section4_tcm6-43748.pdf)

A utilization fee, known as an accommodation charge, is charged on securities lodged at the Clearing House to cover liabilities. For an overview of interest and accommodation charges, please contact the Clearing House's Treasury Operations or follow the link below:

[Overview of interest and charges<sup>6</sup>](#)

[The Clearing House shall notify FX FCMs of any change to the LDR for the ForexClear Service via member circular.](#)

#### 2.2.24 *Default Management*

##### (a) *Portfolio Splitting*

As part of the ForexClear DMP (contained in the ForexClear DMP Annex to the Default Rules), the Clearing House may divide an Auction Portfolio into two or more individual Auction Portfolios. In circumstances where such portfolio splitting is adopted, the Clearing House will, in consultation with the ForexClear DMG (as defined in the ForexClear DMP Annex to the Default Rules), seek to create:

- (A) one or more individual Auction Portfolios which have comparatively greater levels of risk associated with them, thereby isolating such Auction Portfolios from those which are more risk neutral; and
- (B) one or more individual Auction Portfolios which are more risk neutral.

##### (b) *Acceptance of Bids*

In deciding whether to accept a bid, the Clearing House will generally accept the best bid in respect of any individual Auction. However, the Clearing House is entitled to reject a bid in the event that it considers, in its reasonable discretion that accepting the bid may:

- (A) cause the Clearing House to breach Applicable Law by virtue of its being a Recognised Clearing House or a Derivatives Clearing Organization;
- (B) cause the Clearing House or its membership any reputational harm;
- (C) cause legal action or proceedings to be taken against the Clearing House; or
- (D) endanger the Clearing House, any of its clearing members or the financial markets in which the Clearing House operates.

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<sup>6</sup> [http://www.lchclearnet.com/risk\\_management/ltd/acceptable\\_collateral.asp](http://www.lchclearnet.com/risk_management/ltd/acceptable_collateral.asp)

- (C) whether to apply cash to liabilities in a different currency.

### 3.4.2 *Cash currency preference*

FCM Clearing Members may nominate the sequence of cash Collateral distribution.

In the absence of a nominated sequence of currency preferences, an FCM Clearing Member's liabilities will be covered by cash in the same currency as the liability. This means that a GBP liability will be covered in GBP cash, a EUR liability will be covered in EUR cash and so forth. Any further liabilities in the relevant currency will be covered by cash called via PPS.

FCM Clearing Members may define their own sequence of cash currency utilization for each mnemonic and each account type (i.e. House or Client). The sequence does not have to be on a like for like basis and an FCM Clearing Member may choose any eligible currency to cover its liability (for example, a GBP liability can be covered in EUR cash).

Any changes to an FCM Clearing Member's nominated currency sequence, or a request to excess cash currency balances in a particular currency, should be notified to the Clearing House by providing a minimum of two business days' notice.

### 3.4.3 *Record of cover provided*

Charges and interest shall be calculated in accordance with the information published on the website of the Clearing House.

### 3.4.4 *Use of a Defaulter's cover*

Post-default the Clearing House is entitled to realize and/or apply a Defaulter's cover in whatever order it deems appropriate.

## 3.5 **Interest, PAA and Accommodation Charge Structure**

### 3.5.1 *Cash Balance Interest Rate*

The Clearing House applies interest to FCM Clearing Member's cleared cash balances. The following rates are applied:

- (a) LDR – London Deposit Rate – the rate at which the Clearing House will pay or charge interest on credit cash balances (excluding Contributions). The LDR calculation methodology utilizes published market rates minus a spread. The current spread rates are published on the LCH website at the following link: [http://www.lch.com/fees/ltd/custody\\_services.asp](http://www.lch.com/fees/ltd/custody_services.asp);
- (b) CDR – Client Deposit Rate – the rate at which the Clearing House will pay or charge interest on credit cash balances on Client financial accounts. The CDR calculation methodology utilizes published market rates minus a spread. The current spread rates are published on the



LCH website at the following link:  
[http://www.lch.com/fees/ltd/custody\\_services.asp](http://www.lch.com/fees/ltd/custody_services.asp); and

For the avoidance of doubt, the Clearing House may apply a different or separate LDR or CDR on FCM Clearing Member's cleared cash balances with respect to each Service.

(c) Default Fund Rate.

Rates are available from the Member Reporting Website.

The Clearing House reserves the right to alter the basis of calculating each above listed interest rates. Any alteration will be effective on the date notified.

Where the Clearing House provides FCM Clearing Members with at least three days written notice (which may be way of member circular), the Clearing House may increase or decrease the LDR by up to 10bps. The foregoing shall not apply in the event of extreme market conditions, during which the Clearing House may freely and without notice increase or decrease the LDR for up to five consecutive Business Days.

Where the Clearing House provides FCM Clearing Members with two weeks' written notice (which may be way of member circular), the Clearing House may increase or decrease the CDR. In the event of extreme market conditions, the Clearing House may freely and without notice increase or decrease the CDR for up to five consecutive Business Days.

### 3.5.2 **Price Alignment Amount (PAA) Rate**

To minimize the impact of daily cash Variation Settlement payments on the pricing of interest rate swaps and inflation swaps, the Clearing House will charge or pay PAA in respect of these instruments.

The calculation of PAA shall use the PAA rates specified as below. The amount of PAA for each currency shall be calculated as:

The Cumulative Variation Settlement in such currency from the previous Business Day's close of business multiplied by:

- (a) The relevant PAA rate in effect for that day; divided by
- (b) 360; or in the case of AUD, CAD, GBP, HKD, JPY, NZD, PLN, SGD and ZAR, 365.

In the case of the currencies marked below with an asterisk, the Clearing House, as provided in FCM Regulation 36(b) (*Alteration of FCM Regulations and the FCM Procedures*), specifies that it will not change the PAA rate without the consent of all SwapClear Clearing Members and applicable FCM Clearing Members holding open contracts in such currencies.

<b>Currency</b>	<b>PAA Rate</b>
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**Appendix II**  
Procedures Section 1



**LCH LIMITED**

**PROCEDURES SECTION 1**

**CLEARING MEMBER, NON-MEMBER MARKET  
PARTICIPANT AND DEALER STATUS**

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#### 1.5.4 *Special Clearing Members*

A Special Clearing Member is only approved to clear the types of contract on the Clearing House service(s) and/or on the market(s) stipulated in its Clearing Membership Agreement, subject to the terms of that Agreement.

### 1.6 **Termination Of Clearing Member Status**

1.6.1 In the event that a Clearing Member wishes to retire from Clearing Member status, it may do so by giving written notice to the Clearing House not less than three months ahead of the proposed termination date. By the close of business on the proposed termination date, the Retiring Member shall ensure that all Contracts registered in the Retiring Member's name have been closed-out or transferred so as to ensure that there are no open Contracts to which the Retiring Member is a party at the proposed termination date. Once all such Contracts have been closed-out or transferred, such Retiring Member shall be entitled to request that the Clearing House releases and returns to it any Collateral held by the Clearing House for such Retiring Member. Retiring Members will need to give the Clearing House notice of termination in respect of all such Dealer agreements in accordance with the terms of those agreements and the relevant Section of the Rulebook. For further information on the retirement process, Clearing Members should contact the Clearing House's Membership team.

1.6.2 If a Clearing Member has not been active on any exchange or market for a continuous period of three months, they will be asked to confirm that they intend to utilise their Clearing Member status and failing a satisfactory response, they will be asked to retire from Clearing Member status.

### 1.7 **Net Capital Requirements**

#### 1.7.1 *Categories of Clearing Member Status*

There are ten categories of Clearing Member status currently in use. These are as follows:

#### **Category B**

Rates Exchange - Clearing Member (clearing own business)

#### **Category C**

Rates Exchange - (clearing own business and/or the business of NCPs and/or Listed Interest Rates Client Clearing Business)

[FCM Listed Interest Rates Clearing Member](#)

**Category D**

Category no longer in use.

**Category E**

Category no longer in use.

**Category F**

RepoClear Clearing Member in respect of RepoClear Clearing House Business.

**Category G**

RepoClear Clearing Member in respect of RepoClear Clearing House Business and RepoClear Client Clearing Business.

**Category H**

SwapClear Clearing Member.

**Category I**

EquityClear Individual Clearing Member in respect of EquityClear Clearing House Business.

**Category J**

EquityClear General Clearing Member in respect of EquityClear Clearing House Business.

**Category K**

Special Clearing Member.

**Category L**

SwapClear FCM Clearing Member (refer to FCM Rulebook)