

VIA CFTC PORTAL

06 June 2019

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

## **LCH Limited Self-Certification: Hong Kong Dollar Payment Facility removal**

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 changes to its rulebook which will take effect on or after 21 June 2019.

### **Part I: Explanation and Analysis**

The rulebook has been updated to reflect the removal of the section on Hong Kong Payments and associated references as this facility is no longer used. In addition, the rulebook has been updated to reflect the removal of the name "Clearnet" as LCH Clearnet changed its name to LCH Limited in 2016.

### **Part II: Description of Rule Changes**

Procedures Section 1: Sections 1.1, 1.3.1, and 1.11 (see Appendix I attached)  
Procedures Section 3: Sections 1.3, 1.4.3, and Schedule 1 (see Appendix II attached)

### **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 [julian.oliver@lch.com](mailto:julian.oliver@lch.com).

Yours sincerely

P.P.

Julian Oliver  
Chief Compliance Officer  
LCH Limited

**LCH Limited Rule Change Submission**

**Appendix I**

**Procedures Section 1**

**Clearing Member, Non-Member Participant and Dealer Status**



**LCH LIMITED**

**PROCEDURES SECTION 1**

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

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## 1. CLEARING MEMBER, NON-MEMBER MARKET PARTICIPANT AND DEALER STATUS

### 1.1 Application Procedure – Clearing Member, Special Clearing Member and Dealer Status

An application for Clearing Member status of the Clearing House, or for dealer status (whether as a ForexClear Dealer, RepoClear Dealer or SwapClear Dealer, each a "**Dealer**") must be made on the appropriate form which can be obtained from the Clearing House's Membership team. Additional information (including legal documents) must be supplied where necessary and submitted to the Clearing House with the completed form.

An application for the status of special Clearing Member ("**Special Clearing Member**") must be initiated by a written request to the Clearing House. The nature of the application procedure and the documents and information required from the applicant will be determined by the Clearing House by reference to the nature of the application and will be notified by the Clearing House to the applicant upon receipt of such written request.

Applicants approved by the Clearing House for Clearing Member or Dealer status, ("**Approved Applicants**") must, within six months of notification of their approval, fulfil all conditions attached to their approval. If an Approved Applicant does not fulfil all such conditions within these six months, the Clearing House may, at its sole discretion, consider the grant of approval to have lapsed and may notify the prospective Clearing Member or Dealer accordingly that they will be required to provide further information, following which the application will be submitted for re-approval.

Clearing Members have the right to apply for approval to clear one or more of the markets cleared by the Clearing House, subject to meeting the requirements of the Clearing House in respect of each such market. Please note that Clearing Member status does not provide membership of the company LCH ~~Clearnet~~ Limited or any right to a shareholding therein, nor does it provide the right to any shareholding in LCH ~~Clearnet~~ Group Holdings Limited or any entitlement or right to participate in any way in LCH ~~Clearnet~~ SA or the clearing services it offers. LCH ~~Clearnet~~ SA has its own arrangements and admission criteria for Clearing Member status – see the LCH ~~Clearnet~~ SA Sections of the LCH ~~Clearnet~~ website for further details.

Applicants approved as Dealers for ForexClear, RepoClear and/or SwapClear will be admitted to the Register of ForexClear Dealers, Register of RepoClear Dealers, and/or the Register of SwapClear Dealers ("**the OTC Registers**"), as appropriate. Successful admission to one OTC Register does not confer automatic admission to any other OTC Register.

#### 1.1.1 *Clearing Member Status*

The terms and conditions binding on each Clearing Member are set out in the Clearing Membership Agreement as amended. Two copies of this document will be provided to the applicant who must sign both (but not date them) and

of the completed Suspension Form relating to the Suspension Request to such Exchange or Approved EquityClear Trading Platform (as applicable).

#### 1.2.5 *Exclusion of Liability*

Without prejudice to Regulation 52, neither the Clearing House, nor any other member of the LCH Group, shall have any liability whatsoever to any Clearing Member or to any other person in contract, tort (including, without limitation, negligence), trust, as a fiduciary or under any other cause of action in respect of any damage, loss, cost or expense of whatsoever nature suffered or incurred by a Clearing Member or any other person, as the case may be, as a result of:

- (a) where a Clearing Member makes a Suspension Request, in respect of an Exchange or Approved EquityClear Trading Platform (as applicable) (i) Suspension, (ii) any failure of, or delay in, Suspension to be implemented, or (iii) such Exchange or Approved EquityClear Trading Platform (as applicable) implementing, but then revoking, Suspension; or
- (b) where a Clearing Member provides a Termination Notice to the Clearing House, in respect of a Service and a NCP (i) Termination, (ii) any failure of, or delay in, Termination to be effective, or (iii) an Exchange or Approved EquityClear Trading Platform (as applicable) within such Service continuing to permit such NCP to effect an EquityClear Novation Transaction, EquityClear ATP Match, LSE Derivatives Markets Match, Rates Exchange Match and/or Listed Interest Rates Novation Transaction (as applicable) for clearing with the Clearing House in the name of such Clearing Member.

### 1.3 **Criteria for Clearing Member Status**

#### 1.3.1 *General*

The Clearing House imposes certain criteria and requirements in relation to Clearing Member status. The relevant criteria have, in all cases, been established by the Clearing House so as to be non-discriminatory and objective and so as to ensure fair and open access by Clearing Members (whether existing or potential) to the Clearing House.

The relevant criteria are without prejudice to the provisions of the Clearing Membership Agreement which must be executed by the applicant, and must equally be met by Clearing Members.

The Clearing House may, in its sole discretion, refuse an application for membership where it considers it appropriate to do so in accordance with its internal risk management policies and procedures as amended from time to time. In the event that the Clearing House refuses an application for membership, the Clearing House will provide reasons for such rejection in writing to the relevant applicant. Clearing Members are referred to the Clearing House's website at ~~<http://www.lchclearnet.com/risk-collateral>~~

~~management/risk management overview~~ for further information about the relevant internal risk management policies and procedures.

The applicant must either be, or have applied to become, a RepoClear Clearing Member (categories F & G), a SwapClear Clearing Member (category H), an EquityClear Clearing Member (categories I & J), a Clearing Member of the relevant exchange(s) (categories B – D), an LCH EnClear Clearing Member (category B), a Special Clearing Member (category K) or a ForexClear Clearing Member (category M). Clearing Member status may be granted on a conditional basis before any Clearing House requirements have been fully met or before related exchange clearing membership(s) requirements are met, but cannot be operational until such requirements are satisfied.

The applicant must, if it also wishes to submit and clear RepoClear, SwapClear and/or ForexClear trades, meet the additional criteria for such status (see Sections 1.3.2, 1.3.3 and 1.3.4 respectively). The applicant, any controller of the applicant, and those of its staff who exercise an executive or managerial role, must have a high standard of integrity and a level of knowledge, as determined by and acceptable to the Clearing House, of the nature, risks and obligations of trading in the markets and contracts they wish to clear.

A Clearing Member of one or more markets who wishes to clear the Contracts of another market cleared by the Clearing House, must apply to the Clearing House for such extension and have the Clearing House's express written approval before commencing to submit trades in such other market for registration. The prescribed form of document for the relevant new market is available from the Clearing House's Membership team. Clearing Members should be aware that they also need the appropriate additional exchange clearing membership before they can extend their range of activities in this way. The Clearing Member must, within six months of notification of their approval to extend their activities, fulfil all conditions attached to their approval. If the Clearing Member does not, within these six months, fulfil all such conditions, the Clearing House may, at its sole discretion, consider the grant of approval to have lapsed and may notify the Clearing Member accordingly that they will be required to provide further information, following which the extension will be submitted for re-approval.

The applicant must satisfy the minimum net capital requirements, as set out in Section 1.7.2 ("**Net Capital Requirements**") or such greater amounts as may be required by the Clearing House.

The applicant must open a Protected Payments System (PPS) bank account at one or more of the bank branches participating in PPS:

- (a) in the UK in GBP;
- (b) in the UK in each currency in which it incurs settlements;
- (c) in the USA in US dollars.†



~~(d) in Hong Kong in US dollars if clearing in certain Asian markets— please see Section 3 (Financial Transactions) of the Procedures for further information,~~

and execute all necessary documentation (see the [https://www.lch.com/risk-collateral-management/ltd-collateral-management/ltd-acceptable-collateral/ltd-acceptable-cash Protected Payments System Section of the LCH.Cleernet website](https://www.lch.com/risk-collateral-management/ltd-collateral-management/ltd-acceptable-collateral/ltd-acceptable-cash-Protected-Payments-System-Section-of-the-LCH.Cleernet-website) for further information) in order to manage and open its House and Client accounts.

Clearing Members are required to have contingency payment arrangements in place to ensure that they can continue to meet their margin obligations in the event of failure of their nominated PPS bank(s). During the application process, the Clearing House will require the applicant to provide evidence of these arrangements and will test these prior to the applicant becoming a Clearing Member. The Clearing Member will be required to provide evidence of their contingency payment arrangements on an ongoing basis at the Clearing House's request.

The applicant must refrain from contravening the general prohibition contained in Section 19 of the Financial Services and Markets Act 2000.

If the applicant is a bank, it must at all times be appropriately authorised by the banking supervisors of its home country and additionally meet any notification or authorisation requirements set by banking supervisors in the United Kingdom.

The applicant must satisfy a minimum internal credit score which is determined by the Clearing House based on analysis of a range of quantitative and qualitative inputs. These include financial analysis, external market data as well as consideration of any implicit or explicit support available to the applicant. The analysis is performed on a predetermined methodology applicable to all applicants.

The applicant must maintain a back office:

- (a) remote from both the trading floor and/or trading desks;
- (b) with adequate systems (including but not limited to computer and communications systems) and records;
- (c) with an adequate number of administrative staff fully conversant with procedures for the management of business transacted in the markets and contracts cleared by the Clearing House and in which the Clearing Member participates; and
- (d) with such equipment (including technology and connectivity) as may be stipulated by the Clearing House or by the exchange(s) or EquityClear Approved Trading Platform ("ATP").

Applicants and Clearing Members must at all times respond promptly to enquiries or requests for information made by the Clearing House. Such

## 1.11 Other Conditions

The Clearing House may, at any time, impose additional conditions in relation to continued Clearing Member status, and at any time vary or withdraw any such conditions, provided that any such conditions which restrict, or may be considered to have the effect of restricting, access of a Clearing Member to the Clearing House shall be imposed only in circumstances where, and to the extent that, their object is to control the exposure of the Clearing House to risk. Clearing Members are referred to the Clearing House's website at ~~<http://www.lchclearnet.com/risk-collateral-management/risk-management-overview>~~ for further information about the relevant internal risk management policies and procedures of the Clearing House.

The relevant additional conditions imposed on a Clearing Member may include, but are not limited to, a requirement to transfer additional cash or non-cash Collateral to the Clearing House, as determined by the Clearing House.

## 1.12 Jurisdictional Requirements

### 1.12.1 Singaporean Clients

Clearing Members are required to provide a copy of the 'Notice to Singapore Clearing Clients' to Clearing Clients incorporated in or operating through a branch in Singapore. The 'Notice to Singapore Clearing Clients' is available at:

[https://www.lch.com/system/files/media\\_root/singapore%20client%20disclosure.pdf](https://www.lch.com/system/files/media_root/singapore%20client%20disclosure.pdf).

### 1.12.2 Restrictions on Clearing Members and SCM Branches incorporated in or domiciled in Japan (each a "**Japanese Clearing Member**" or "**Japanese SCM Branch**", respectively)

- (a) Japanese Clearing Members and Japanese SCM Branches are not permitted to participate in the Portfolio Margining Service.
- (b) Japanese Clearing Members and Japanese SCM Branches shall not clear Yen-denominated SwapClear Contracts.

### 1.12.3 Restrictions on Clearing Clients incorporated in or domiciled in Japan ("**Japanese Clearing Clients**")

- (a) Clearing Members may not participate in the Portfolio Margining Service on behalf of Japanese Clearing Clients.
- (b) Clearing Members shall not clear Yen-denominated SwapClear Contracts on behalf of Japanese Clearing Clients.

### 1.12.4 Restrictions on Clearing Clients organized under the laws of Canada, have their head office located in Canada or have their principal place of business in Canada (each, a "**Canadian Clearing Client**")

- (a) A Clearing Member may not open the following types of Client Accounts on behalf of or with respect to a Canadian Clearing Client:

**Appendix II**

**Procedures Section 3  
Financial Transactions**



**LCH LIMITED**

**PROCEDURES SECTION 3**

**FINANCIAL TRANSACTIONS**

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Membership Agreement, clearing extension documentation and the Regulations, Default Rules and Procedures. Payment will only be recognised for this purpose if the relevant PPS bank (i) has performed its concentration function (being the transfer of net funds from the PPS bank to a central account in the name of the Clearing House), and (ii) any time permitted by the relevant payment system for the recall of any such payment has expired or funds received have been paid out to another Clearing Member using the same PPS bank.

Where payments are due to a Clearing Member, payments will be recognised by the Clearing House as having been made as soon as payment instructions in respect of that payment have been given to a PPS bank. For this purpose, a payment instruction will only be recognised to the extent that the Clearing House has taken steps to transfer to the PPS bank any such sums as may be necessary to enable that payment instruction to be performed by the PPS bank.

### 1.3.1 *PPS Mandates*

#### (a) *Introduction*

A Clearing Member is required to maintain a PPS bank account(s) in the currency or currencies in which it makes Contributions, and for each currency in which it incurs settlements, at one or more of the bank branches participating in the PPS system in London. As an exception, an Australian PPS bank may be used for all AUD settlement and margin payments. All PPS calls and payments in AUD will be settled using Australian PPS where the Clearing Member has opted to use Australian PPS.

Clearing Members may use different banks for different currencies.

Each Clearing Member is also required to maintain at least one US dollar PPS account with at least one of the US PPS banks.

Please refer to the following link for details: <http://www.lch.com/risk-collateral-management/collateral-management/protected-payments-system>.

Clearing Members are responsible at all times for ensuring that their PPS bank accounts have sufficient funds or credit lines to be able to meet margin calls from the Clearing House.

Any bank charges connected with the holding of any PPS bank accounts or related to any activity on that account must be paid by the Clearing Member holding the relevant account PPS mandates.

Each Clearing Member is required to complete a standard form UK PPS Mandate and US PPS Mandate and, where applicable, Australian PPS Mandate (copies are available from [collateral.operations.clientservices@lch.com](mailto:collateral.operations.clientservices@lch.com)) for each bank branch at which they wish to operate an account before clearing can commence. The original of the mandate must be signed by a person with the appropriate authority within

Section 4 of the Procedures (*Margin and Collateral*) (each such request, a "**Request**").

A Clearing Member must contact Collateral Operations in order to make a Request (collateral.[operationsclientservices@lch.com](mailto:operationsclientservices@lch.com) or +44 (0)20 7426 7505). A Clearing Member represents and warrants to the Clearing House, at the time at which it makes a Request, that the individual making such Request on its behalf is duly authorised to do so.

The Clearing House may, at its discretion, cease to provide the Auto-Repay Service in respect of:

- (i) a Clearing Member, in which case it will notify the affected Clearing Member accordingly; or
  - (ii) any Service or entirely, in which case it will notify the affected Clearing Members and each relevant Regulatory Body accordingly.
- (g) *Value Date*

PPS calls and payments are for same-day value for CAD, EUR, GBP, MXN and USD, and with value on the next day for all currencies, subject to this paragraph (g). Call instructions issued on a day when the Clearing House is not open for business (e.g. Saturdays) are for value the next day for CAD, EUR, GBP, MXN and USD, and for value two days after the given instruction for all other currencies. Payment instructions will not be issued on a day when the Clearing House is not open for business.

- (i) If, under paragraph (f) above, a PPS call or payment in a particular currency would be due to be made for value on a day ("**Payment Date**") which is a holiday in respect of that currency, the value date for such PPS transaction will be the first day which is not a holiday in respect of that currency occurring after the Payment Date; and
- (ii) in respect of AUD, if the PPS call or payment is instructed on a day which is a holiday for AUD or on a day when the Clearing House is not open for business (e.g. Saturdays), the value date for such PPS call or payment will be the second day which is not a holiday in respect of AUD occurring after the Payment Date.

Example 1: 20 August is a currently a holiday in the USA. The Clearing House is open. 21 August is not a currency holiday in the USA.

On 20 August, the Clearing House will issue USD instructions to PPS banks, and receive confirmation in response to the PPS calls on the same day; the value date for such calls will be 21 August.

margin obligations in the event of failure of their nominated PPS bank(s). During the application process, the Clearing House will require the applicant to provide evidence of these arrangements and will test these prior to the applicant becoming a Clearing Member. The Clearing Member will be required to provide evidence of their contingency payment arrangements on an ongoing basis at the Clearing House's request.

(i) *Recovery from Insolvent PPS Banks*

In the event that payment is not completed by the relevant PPS bank, due to insolvency rather than technical failure, and the affected Clearing Member(s) make alternative payments, the Clearing House, should it make a recovery from the estate of the PPS bank, will credit such recovery, net of cost, to the accounts of the affected Clearing Members in proportion to the amount of the original missed payment.

~~1.3.2 — *Hong Kong Payments*~~

~~(a) — *Introduction*~~

~~In order to facilitate clearing services for the Asian/Pacific markets, the ability to call funds to cover margin requirements during the Asian day is required.~~

~~The Clearing House mandates that Clearing Members clearing in certain Asian markets maintain bank accounts in Hong Kong to facilitate margin calls during the Hong Kong day.~~

~~Currently only USD accounts are operated in Hong Kong.~~

~~Where the Clearing House has mandated that Clearing Members must operate an account in Hong Kong, each Clearing Member is required to maintain one US dollar account at a bank in Hong Kong where the Clearing House also operates an account. A list of the banks used by the Clearing House in Hong Kong appears in Schedule 1.~~

~~(b) — *Intra Day Margin Call in Hong Kong (overnight UK)*~~

~~The intra-day margin call by the Clearing House is for intra-day Collateral payments.~~

~~The Clearing Member will be requested to make a payment to the Clearing House's account at their nominated bank.~~

~~A payment to the Clearing House's account in Hong Kong may be requested between the hours of 08:00 and 16:00 Hong Kong time.~~



~~(e) — Confirmations~~

~~The Clearing House must receive confirmation of payment from the Clearing House's bank within one hour of the Clearing House requesting funds from the Clearing Member.~~

~~Each Clearing Member remains fully responsible for the payment to the Clearing House of all moneys due to the Clearing House as required, *inter alia*, by the Clearing Membership Agreement, clearing extension documentation and the Regulations, Default Rules and Procedures. Payments will only be recognised for this purpose if the relevant bank (i) has performed its concentration function (being the transfer of net funds from the bank to a central account in the name of the Clearing House), and (ii) any time permitted by the relevant payment system for the recall of any such payment has expired; or funds received have been paid out to another member using the same PPS bank.~~

~~(d) — Operating Days and Bank Holidays~~

~~USD payments are supported during Hong Kong public holidays when the US is open.~~

~~Members may be required to transfer additional cash Collateral on any day that the markets and the Clearing House are open.~~

~~Therefore the Clearing House can instruct a USD payment on a public holiday in Hong Kong and receive good value (except on a US currency holiday when margin will be collected once UK PPS opens in UK business hours or if the Clearing House considers that internal measures of credit tolerance may be breached, additional Collateral can be requested ahead of US bank holidays).~~

~~(e) — Value Date~~

~~Clearing Members must meet these margin calls for all USD working days even if it is a Hong Kong holiday, if the markets are open.~~

~~Each Clearing Member remains fully responsible for the payment to the Clearing House of all moneys due to the Clearing House as required, *inter alia*, by the Clearing Membership Agreement, clearing extension documentation and the Regulations, Default Rules and Procedures.~~

~~Payment is only completed when the funds have been credited for the full value to the Clearing House bank account, at the nominated Hong Kong bank, and at the point in time when the Clearing House is able to verify that the funds are within the account.~~

#### 1.4 Acceptable Forms of Collateral

The Clearing House accepts certain types of Collateral as determined by the Clearing House from time to time. Please refer to the following link for further details:

<http://www.lch.com/risk-collateral-management/collateral-management/acceptable-collateral>

**The Clearing House may vary, at its discretion, the standard requirements and valuation procedures set out in this Section 1.4, either generally or in a particular case, without giving prior written notice to Clearing Members. Further, the Clearing House may vary the types of Collateral acceptable to it.**

#### 1.4.1 *Cash*

In order not to fall within the scope of deposit-taking regulations applying to banks and similar institutions, the Clearing House can accept cash from Clearing Members only in relation to current or anticipated obligations.

Cash used as Collateral need not be provided in the same currency as that of the liability. In such cases, currencies will be notionally converted with reference to quoted exchange rates determined at approximately 16:45 London time the previous business day.

Clearing Members must give the Clearing House's Treasury Operations no less than two business days' notice of their intention to substitute existing cash Collateral with non-cash Collateral or cash Collateral in a different currency where the amount of cash is GBP 50 million or greater. Where a Clearing Member fails to give such notice, the Clearing House may decline to transfer or release the cash Collateral to be withdrawn until the end of the required notice period.

#### 1.4.2 *Securities*

Please refer to the following pages on our website for notes on Collateral acceptable to the Clearing House:

[http://www.lch.com/risk\\_management/ltd/acceptable\\_collateral.asp](http://www.lch.com/risk_management/ltd/acceptable_collateral.asp)

#### 1.4.3 *Value Notification*

Clearing Members may obtain details on the value ascribed to Collateral recorded to their account via:

- (a) the relevant reports available on the Clearing House website portal;
- (b) the CMS; and/or
- (c) SWIFT message sent from the Clearing House to the relevant Clearing Member.

Please refer to the following pages on our secure website for haircuts on Collateral:

[https://secure-area.lchclearnet.com/secure\\_area/secure/default.asp?area=7](https://secure-area.lchclearnet.com/secure_area/secure/default.asp?area=7)<https://www.lch.com/risk-collateral-management/ltd-collateral-management/ltd-acceptable-collateral/ltd-acceptable>

**SCHEDULE 1**  
**LCH LTD BANK ACCOUNTS IN HONG KONG**

Note: ~~accounts are operated in USD only.~~

The Clearing Member will be mandated to hold an account with one of the following banks in order to facilitate margin calls during the Hong Kong day for certain markets.

When requested the Clearing Member must make a payment to the Clearing House's account at the same bank.

<b>Clearing House bank in Hong Kong</b>	<b>LCH Ltd account details to which payments must be made.</b>
Bank of America NA	84936018
Citibank NA	1168383025
HSBC Ltd	808 692818 201

For more information on Hong Kong Banks please contact LCH Limited Treasury Operations on +44 (0)20 7426 7505 or [collateral.clientservices@lch.com](mailto:collateral.clientservices@lch.com).