

VIA CFTC PORTAL

16 June 2020

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

LCH Limited Self-Certification: FCM EUR Cash Collateral Investment

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, June 29, 2020.

Part I: Explanation and Analysis

The Proposal is for LCH to invest Euro-denominated cash collateral, which FCMs provide to LCH, in Euro denominated sovereign debt issued by the French Republic and the Federal Republic of Germany, in accordance with the relief provided under the CFTC Order Granting Exemption from Certain Provisions of the Commodity Exchange Act Regarding Investment of Customer Funds and from Certain Related Commission Regulations (83 FR35241) dated 25 July 2018.

As part of this, FCM Regulation 7(n)(ii)(A) and FCM Procedure 3.3.4 is to be amended, as currently they only permit investment of such collateral, in respect of clearing swaps and futures, in U.S. Treasuries.

Part II: Description of Rule Changes

FCM Procedures: Sections 3.3.4 has been amended to clarify that the investment of FCM client funds is limited to U.S. Treasury securities and Euro-denominated sovereign debt issued by the French Republic or the Federal Republic of Germany (see **Appendix I** attached).

FCM Regulations: Regulation 7 (n) has been amended to clarify that the investment of FCM client funds is limited to U.S. Treasury securities and Euro-denominated sovereign debt issued by the French Republic or the Federal Republic of Germany (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 saber.doha@lch.com.

Yours sincerely



Saber Doha
Senior Compliance Officer
LCH Limited

Appendix I
FCM Procedures



FCM PROCEDURES OF THE CLEARING HOUSE

LCH LIMITED

FCM Clearing Members must give LCH Limited Treasury Operations no less than two business days' notice of their intention to request withdrawal of cash Collateral and its replacement by the lodgment of non-cash Collateral or the replacement of one currency for another. Where an FCM Clearing Member fails to give such notice, the Clearing House may decline to release such cash Collateral until the end of the required notice period. This paragraph applies only to the Proprietary Account of an FCM Clearing Member.

3.3.2 *Securities*

Please refer to the following pages on our website for both prevailing haircuts and notes on types of collateral acceptable to the Clearing House as Collateral:

http://www.lch.com/risk_management/ltd/acceptable_collateral.asp

3.3.3 *Securities Value Notification*

FCM Clearing Members may obtain details on the Margin value of securities on their account by viewing the relevant reports available on the Member Reporting Website.

3.3.4 *Investment of FCM Client Funds*

Pursuant to the application of FCM Regulation 7(n)(ii)(A), the investment of cash Collateral held on behalf of FCM Clients by the Clearing House in respect of clearing Swaps Products and Futures Products is limited to investments in U.S. Treasury securities (through outright purchases, repurchase or reverse repurchase transactions) and in Euro-denominated sovereign debt issued by the French Republic or the Federal Republic of Germany (through repurchase or reverse repurchase transactions), in each case, as permitted by and in accordance with Applicable Law.

Each FCM Clearing Member shall instruct the Clearing House as to whether or not to invest such cash Collateral delivered by such FCM Clearing Member to the Clearing House by submitting to the Clearing House such documents as the Clearing House shall provide to FCM Clearing Members for such purpose. If an FCM Clearing Member fails to issue any such instruction to the Clearing House in accordance with such documents, the Clearing House shall invest such cash Collateral from such FCM Clearing Member in accordance with Regulation 7(n).

The Clearing House shall be entitled to charge a cash management fee to FCM Clearing Members that elect to instruct the Clearing House not to invest such cash Collateral. The Clearing House shall notify FCM Clearing Members of the details of such cash management fee via member circular.

3.4 **Distribution of Collateral**

The following procedures are not in any way intended to restrict, vary, or alter the Clearing House's rights to apply Collateral held (including any described in

LCH Limited reports/records as “unutilized” or “excess”) to meet the FCM Clearing Member's liabilities/obligations to LCH Limited.

3.4.1 *Collateral Application*

In the absence of an FCM Clearing Member election, the Clearing House will apply an FCM Clearing Member's Collateral (in turn) to each liability in the following order:

- (a) same currency collateral in the same currency as the liability; then
- (b) different currency collateral in the following order:
 - (A) GBP;
 - (B) USD;
 - (C) CHF;
 - (D) EUR;
 - (E) JPY;
 - (F) SEK;
 - (G) CAD;
 - (H) NOK; then
 - (I) DKK,
- (c) cash in the same currency as the liability;
- (d) where nominated, cash in a different currency to the liability in the nominated currency preference order (see section [3.4.23-4.2](#)).

FCM Clearing Members may make the following choices:

- (A) whether to have cash Collateral applied before or after non-cash Collateral;
- (B) whether to apply collateral to liabilities in a different currency; and
- (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

Appendix II
FCM Regulations



FCM REGULATIONS OF THE CLEARING HOUSE

LCH LIMITED

margin, guarantee, secure, transfer, adjust, or settle the FCM Contracts of the FCM Clients of such FCM Clearing Member.

(n) Investments of FCM Client Funds.

(i) An FCM Clearing Member may invest FCM Client Funds as permitted by and in accordance with the terms and conditions set forth in CFTC Regulations 1.25 and/or 30.7, as applicable.

(ii) The Clearing House may invest Collateral held on behalf of FCM Clients:

(A) in respect of clearing Swaps and Futures Products, in U.S. Treasury Securities and Euro-denominated sovereign debt issued by the French Republic and the Federal Republic of Germany (in each case in accordance with the FCM Procedures) as permitted by and in accordance with the terms and conditions set forth in CFTC Regulation 1.25 and the CFTC Order Granting Exemption from Certain Provisions of the Commodity Exchange Act Regarding Investment of Customer Funds and from Certain Related Commission Regulations (83 FR 35241) dated July 25, 2018; -and subject to all other Applicable Law, including Articles 43, 45 and Annex II of Commission Delegated Regulation (EU) No 153/2013 of 19 December 2012. Any investment of such Collateral by the Clearing House shall also comply with any other applicable requirements under Applicable Law, including the applicable requirements set out in Regulation (EU) No 648/2012 of European Parliament and the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (including, in particular, Article 47 of such Regulation) and in the relevant provisions of Commission Delegated Regulation (EU) No. 153/2013 of 19 December 2012; and

(B) in respect of clearing Foreign Futures Products, as permitted by and in accordance with Articles 43, 45 and Annex II of Commission Delegated Regulation (EU) No 153/2013 of 19 December 2012. Any investment of such Collateral by the Clearing House shall also comply with any other applicable requirements under Applicable Law, including the applicable requirements set out in Regulation (EU) No 648/2012 of European Parliament and the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (including, in particular, Article 47 of such Regulation) and in the relevant provisions of Commission Delegated Regulation (EU) No. 153/2013 of 19 December 2012.

(o) Deposit of Instruments Purchased with FCM Client Funds.

(i) Each FCM Clearing Member that invests FCM Client Funds in instruments permitted under FCM Regulation 7(n) shall separately account for such instruments and segregate such instruments as belonging to such FCM Clients, to the extent required under the CEA and the CFTC Regulations. Such instruments, when deposited with a Permitted Depository, shall be deposited under an account name which clearly shows that they belong to FCM Clients