

# Non Cash Fee Reporting Changes

Clearing Member Impact

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# Introduction

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- LCH currently charges members for the utilisation of securities to cover initial margin
- The current charges arranged by generic Collateral Groups will be restructured to reflect more accurately:
  - The country of issue of the security; and
  - Where the security is held in custody.
- The new categorization of the Collateral Groups will impact member banking reports, this document highlights the changes so that members are able to assess impact to their systems
- The changes will be introduced at the end of July 18\*.

\* subject to regulatory review

# Clearing Member Impact – Bilateral Collateral Groups

The current generic Collateral Groups will be replaced by a more granular categorisation.

The new collateral groups will be defined by country of issue and by security type:

Current	Future
Non cash collateral is grouped into 6 Collateral Groups.  BUN - European Government Bonds BON - Non European Government Bonds GIL - UK Gilts TRB - Treasury Bills MBS* - Mortgage Back Securities ATS - Member Tri-party (Euroclear and Clearstream)	Collateral Groups will defined by 1) Country of issue 2) Convention (whether the security is inflation linked)  For example: AUC - Australia Conventional AUI - Australia Inflation Linked ATC - Austria Conventional ATI - Austria Inflation Linked BEC - Belgium Conventional BEI - Belgium Inflation Linked CAC - Canada Conventional CAI - Canada Inflation Linked....

\*MBS will remain as a Collateral Group

# Clearing Member Impact – Custodians

Non cash collateral fees will now be determined using a combination of security type and the custodian where the securities are being held.

Current		Future					
Non cash fee is applied at Collateral Group level.		The combination of Collateral Group and Custodian will determine the non cash fee. For example:					
Collateral Group	Rate	Collateral Group	Bank Of NY Mellon	BMO Harris	Citibank	Austraclear	Euroclear
BON	0.11	USC	0.11	0.11	0.11	0	0
BUN	0.11	AUC	0.11	0	0.11	0.11	0.11
GIL	0.11	BEC	0.11	0	0.11	0	0.11

# Clearing Member Impact – Triparty - Collateral Groups

Triparty is currently represented in the LCH banking system as collateral group ATS.

Triparty will still be represented as ATS for summary cover reporting purposes (for example on Report 19 – Cover Distribution), however ATS will no longer be used as a Collateral Group for fee purposes. The individual securities allocated to a triparty transaction will be used for fee purposes.

Current	Future
<p>Triparty is represented as collateral group ATS. Non cash fees are currently charged by collateral group ATS.</p> <p>ATS - Member Tri-party (Euroclear and Clearstream)</p>	<p>The individual securities allocated to a triparty transaction will be defined by:</p> <ol style="list-style-type: none"> <li>1) Country of issue</li> <li>2) Convention (whether the security is inflation linked)</li> <li>3) Delivery type of collateral = Triparty</li> </ol> <p>AUC_TP - Australia Conventional            AUI_TP - Australia Inflation Linked            ATC_TP - Austria Conventional            ATI_TP - Austria Inflation Linked            BEC_TP- Belgium Conventional            BEI_TP - Belgium Inflation Linked            CAC_TP- Canada Conventional            CAI_TP - Canada Inflation Linked....</p>

# Clearing Member Impact – Collateral Groups (Triparty)

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Alongside the new triparty categorisations we will be introducing further new categorisations that cover rare exception scenarios which can arise in triparty processing.

1. **TAF\_TP** : Triparty Allocation Fail. This category will reflect the amount of cash being temporarily used to fill a triparty transaction.
2. **TSD\_TP** : Triparty Statement Discrepancy. Used where there is a temporary discrepancy in balance reporting.
3. **SDD\_TP** : Security Data Discrepancy. Where LCH is temporarily unable to identify an ISIN.

# Clearing Member Impact – NEW Collateral Groups

A full list of the Collateral Groups are listed below:

Collateral Group Code	Collateral Group Name
AUC	Australia Conventional
ATC	Austria Conventional
ATS	Member Triparty
BEC	Belgium Conventional
CAC	Canada Conventional
DKC	Denmark Conventional
FIC	Finland Conventional
FRC	France Conventional
DEC	Germany Conventional
ITC	Italy Conventional
JPC	Japan Conventional
LUC	Luxembourg Conventional
NLC	Nederlands Conventional
NOC	Norway Conventional
ESC	Spain Conventional
SEC	Sweden Conventional
CHC	Switzerland Conventional
GBC	UK Conventional
USC	USA Conventional
AUI	Australia Inflation Linked
ATI	Austria Inflation Linked
BEI	Belgium Inflation Linked
CAI	Canada Inflation Linked
DKI	Denmark Inflation Linked
FII	Finland Inflation Linked
FRI	France Inflation Linked
DEI	Germany Inflation Linked
ITI	Italy Inflation Linked
JPI	Japan Inflation Linked

Collateral Group Code	Collateral Group Name
LUI	Luxembourg Inflation Linked
NLI	Nederlands Inflation Linked
NOI	Norway Inflation Linked
ESI	Spain Inflation Linked
SEI	Sweden Inflation Linked
CHI	Switzerland Inflation Linked
GBI	UK Inflation Linked
USI	USA Inflation Linked
MBS	Mortgage Backed Securities
AUC_TP	Triparty Australia Conventional
ATC_TP	Triparty Austria Conventional
BEC_TP	Triparty Belgium Conventional
CAC_TP	Triparty Canada Conventional
DKC_TP	Triparty Denmark Conventional
FIC_TP	Triparty Finland Conventional
FRC_TP	Triparty France Conventional
DEC_TP	Triparty Germany Conventional
ITC_TP	Triparty Italy Conventional
JPC_TP	Triparty Japan Conventional
LUC_TP	Triparty Luxembourg Conventional
NLC_TP	Triparty Nederlands Conventional
NOC_TP	Triparty Norway Conventional
ESC_TP	Triparty Spain Conventional
SEC_TP	Triparty Sweden Conventional
CHC_TP	Triparty Switzerland Conventional
GBC_TP	Triparty UK Conventional
USC_TP	Triparty USA Conventional
AUI_TP	Triparty Australia Inflation Linked

Collateral Group Code	Collateral Group Name
ATI_TP	Triparty Austria Inflation Linked
BEI_TP	Triparty Belgium Inflation Linked
CAI_TP	Triparty Canada Inflation Linked
DKI_TP	Triparty Denmark Inflation Linked
FII_TP	Triparty Finland Inflation Linked
FRI_TP	Triparty France Inflation Linked
DEI_TP	Triparty Germany Inflation Linked
ITI_TP	Triparty Italy Inflation Linked
JPI_TP	Triparty Japan Inflation Linked
LUI_TP	Triparty Luxembourg Inflation Linked
NLI_TP	Triparty Nederlands Inflation Linked
NOI_TP	Triparty Norway Inflation Linked
ESI_TP	Triparty Spain Inflation Linked
SEI_TP	Triparty Sweden Inflation Linked
CHI_TP	Triparty Switzerland Inflation Linked
GBI_TP	Triparty UK Inflation Linked
USI_TP	Triparty USA Inflation Linked
MBS_TP	Triparty Mortgage Backed Securities
ITS	InterOp Tri-Party
SNG	SNAT GBP
SNE	SNAT EUR
SNU	SNAT USD
SNG_TP	Triparty SNAT GBP
SNE_TP	Triparty SNAT EUR
SNU_TP	Triparty SNAT USD
TAF_TP	Triparty Allocation Fail
TSD_TP	Triparty Statement Discrepancy
SDD_TP	Security Data Discrepancy



# Clearing Member Impact – Collateral Groups

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Collateral Groups are currently used to define the order in which different categories are applied to cover liabilities.

Currently, LCH uses collateral in the same currency as the liability first and then applies Collateral Groups according to member preferences.

The cover application algorithm will be changed so that the least expensive Collateral Group is applied first, to ensure most cost efficient allocation.

Current	Future
LCH currently applies non cash collateral in the same currency as the IM liability first and then applies non cash collateral according to a members Collateral Group preference.	LCH will apply the least expensive Collateral Group regardless of currency to the IM liability.

# Clearing Member Impact – Collateral Groups

## Changes to Banking Reports

Current	Future
<p><b><u>Report 19 Overnight Cover Distribution</u></b> Includes existing collateral groups BON, BUN, GIL, TRB and reports them as the following:</p> <p>BUN – Bonds BON – US T Bonds GIL – Gilts TRB- T Bills MBS- Mortgage ATS – Mbr Tripar</p>	<p><b><u>Report 19 Overnight Cover Distribution</u></b> Will now include the new collateral group names and abbreviations as follows:</p> <p>AUC - Australia Conventional AUI - Australia Inflation Linked ATC - Austria Conventional ATI - Austria Inflation Linked BEC - Belgium Conventional BEI - Belgium Inflation Linked CAC - Canada Conventional CAI - Canada Inflation Linked...</p>
<p><b><u>Report 34 Collateral Prices</u></b> Currently collateral prices are reported under the following headers:</p> <p>European Government Bonds Non European Government Bonds UK Gilts Treasury Bills Mortgage Back Securities</p>	<p><b><u>Report 34 Collateral Prices</u></b> Collateral price will now be reported under the following headers:</p> <p>Australia Conventional Australia Inflation Linked Austria Conventional Austria Inflation Linked Belgium Conventional.....</p>

# Clearing Member Impact – Collateral Groups

## Banking Reports

Current	Future
<p><b><u>Report 36a/36 SOD Non Cash Collateral Holdings / Non Cash Collateral Holdings</u></b>  <b>No change to PDF report</b></p> <p>TXT file Includes existing collateral groups :</p> <ul style="list-style-type: none"> <li>BON</li> <li>BUN</li> <li>GIL</li> <li>TRB</li> <li>MBS</li> <li>ATS</li> </ul>	<p><b><u>Report 36a/36 SOD Non Cash Collateral Holdings / Non Cash Collateral Holdings</u></b>  <b>No change to PDF report</b></p> <p>TXT file will now include new collateral group abbreviations (three digit identifiers)as follows:</p> <ul style="list-style-type: none"> <li>MBS – Mortgage Backed Securities (existing group)</li> <li>ATS – Triparty (existing group)</li> <li>AUC - Australia Conventional</li> <li>AUI - Australia Inflation Linked</li> <li>ATC - Austria Conventional</li> <li>ATI - Austria Inflation Linked</li> <li>BEC - Belgium Conventional</li> <li>BEI - Belgium Inflation Linked</li> </ul>

# Clearing Member Impact – Collateral Groups

## Fee Reports

Current	Future
<p><b><u>Report 41 Monthly Collateral Fee Report</u></b></p> <p>This report is currently broken down into two sections:</p> <ol style="list-style-type: none"><li>1. Cash Col Fee; and</li><li>2. Non Cash Col Fee.</li></ol> <p>The Cash Col Fee section will remain unchanged.</p> <p>The Non Cash Col Fee section contains the following information</p> <p>Date Position Rate Fee amount</p>	<p><b><u>Report 41 Monthly Collateral Fee Report</u></b></p> <p>The Cash Col Fee section will remain unchanged.</p> <p>The Non Cash Col Fee section will now contain the following information.</p> <p>Date Position Collateral Group Custodian Rate Fee amount</p>

# Clearing Member Impact – Collateral Groups

## Public Reports








Current	Future
<p data-bbox="156 404 950 435"><b><u>Report 42 Daily Collateral Fee Rate Report</u></b></p> <p data-bbox="156 479 950 511">The fee rate table is made up of the following fields:</p> <ul data-bbox="156 558 950 889" style="list-style-type: none"><li>Currency</li><li>Collateral Group</li><li>Account Classification</li><li>SWP</li><li>EDX</li><li>RCL</li><li>ECL</li><li>ED2</li><li>IRM</li></ul>	<p data-bbox="950 404 1843 435"><b><u>Report 42 Daily Collateral Fee Rate Report</u></b></p> <p data-bbox="950 479 1843 511">The new table will be simplified and include the following fields:</p> <ul data-bbox="950 558 1843 815" style="list-style-type: none"><li>Market</li><li>Account Classification</li><li>FCM</li><li>Custodian</li><li>Collateral Group</li><li>Account Classification</li><li>Fee Rate</li></ul>

# Report Change Summary

Report	Structural / Content Change	PDF file	TXT file
19 - Overnight Cover Distribution	Content	New collateral group names will appear against utilised collateral amounts	No change to structure, new Collateral Group names added
34 - Collateral Prices	Content	ISINs will appear under new collateral group headings	No change to structure, new Collateral Group names added
36a/36 - SOD Non Cash Collateral Holdings / Non Cash Collateral Holdings	Content	PDF file is not changed and will remain in current format.	No change to structure, new Collateral Group abbreviations added to collgroup column.
41 - Monthly Collateral Fee Report	Structural	PDF will now include two new columns Collateral Group and Custodian.	TXT file two new columns including Collateral Group and Custodian
42 - Daily Collateral Fee Rate Report	Structural	PDF Fee rates displayed by Market, Account Classification, FCM , Custodian, Collateral Type, Collateral Group and Fee Rate	Version 2 (Non Cash) TXT file reduced to 7 columns including Market, Account Classification, FCM , Custodian, Collateral Type, Collateral Group , and Fee Rate
50- Triparty Allocation Summary	New Report	New Report - will provide a summary of the end of day MT569 allocations. It will also show the utilised collateral within the triparty transaction.	New Report - will provide a summary of the end of day MT569 allocations. It will also show the utilised collateral within the triparty transaction.









# New Report Specifications

Please find below details of the new reports that will be published (in PDF and TXT formats). Please note that the examples are provided for illustration only.

Report	Report Description	Report Frequency	Location	Category / Effective Date	Description of change	Report Example
REP00041	Monthly Collateral Fee Report	Monthly	Fee Folder of Member Reporting	TBC	Will provide the daily details of the Collateral Fee calculation. The report will show the daily collateral balance, the fee rate and the fee amount calculated.	 REP00041  REP00041
REP00042	Daily Collateral Fee Rate Report	Daily	Fee Folder of Member Reporting	TBC	Will provide the daily LCH spread applied per Clearing Service and currency for cash. Will show the fee per collateral group at each custodian.	 REP00042  REP00042_1  REP00042_2
REP00050	Triparty Allocation Summary	Daily	Banking Folder of Member Reporting	TBC	The report will provide a summary of the end of day MT569 allocation. The report will also show the utilised collateral within the triparty transaction.	 REP00050  REP00050

# Impact to Existing Banking Reports 1

Please find below the impact of this change on existing Banking reports.

Report	Report Description	Report Frequency	Category / Effective Date	Description of change	Report Example
REP00019	Overnight Cover Distribution	Daily	TBC	New Collateral Group names will be displayed against utilised collateral.	 REP00019  REP00019
REP00034	Collateral Prices	Daily	TBC	ISINS will be displayed under new collateral group titles.	 REP00034  REP00034
REP00036a/36	36a/36 - SOD Non Cash Collateral Holdings / Non Cash Collateral Holdings	Daily	TBC	New collateral group abbreviations will be populated in the TXT file under column collgroup.	 REP00036  REP00036  REP00036a  REP00036a



# Go Live

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- The go-live of the new categorisations and reports is currently planned for the last week of July 2018\*, this is subject to confirmation closer to the time.

\*subject to regulatory approval

# Contacts

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# Disclaimer

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