

FX Haircuts - Frequently Asked Questions

- **I have heard FX Haircut is changing for margin collateral. What is the change?**
 - **Current:** A flat FX Haircut of 5.25% is applied to all non-cash collateral and there is no haircut on cash in Collateral systems.
 - **New:** A specific FX Haircut for each currency pair will be charged on both cash and non-cash whenever collateral is not in the “currency of risk”. Please refer to page 3 of LCH’s haircut schedule to see the new FX Haircut grid.
 - **Note:** The new FX Haircuts are already being charged through additional margins whenever the flat 5.25% haircut is less than the new FX haircut.
- **Does these changes apply to all LCH services and member types?**
 - LCH Ltd : yes, across all members and services , LCH SA : no changes
- **What is the timeline of changes?**
 - Changes are being implemented in phases, with the final go live of the new haircuts planned for the 12th November, subject to regulatory no objection.
 - Currency of Risk will not change from 7 Oct to 7 Dec inclusive.
 - Full details of the timeline is available [here](#).
- **Will Cash be haircut?**
 - Yes
- **What about cash calls?**
 - Cash calls will be subject to new FX Haircuts
- **Can I update my margin call currency preferences to reduce the impact of FX haircuts?**
 - Yes, though you must notify us of changes in advance. If you are considering changes to your collateral composition/call preferences, please inform us by 31st October, using the Banking Preferences Form available [here](#). There will be a freeze period of changes around the go-live of the project from the 1st November – 12th November inclusive.
- **Will VM calls be haircut?**
 - No. End of Day VM is called in the underlying trade currency and there will be no FX haircuts applied to this.
- **What about triparty collateral?**
 - Triparty collateral will be subject to new FX Haircuts. There are also process changes specific to Euroclear Triparty (see further information below).
- **“Currency of Risk”, what is this?**

- “Currency of Risk” (CoR) is the dominant currency in member’s cleared trade portfolio. It is assessed and set monthly at a collateral account level. The liabilities calculated will account for FX risk against this currency. Whenever collateral is different from “Currency of Risk”, a FX Haircut will be charged.

- **How will I know when CoR is about to change on my account?**

- Members will be emailed automatically a minimum of 3 days in advance of the change taking effect. The frequency of assessment of Currency of Risk by LCH is monthly.

- **When CoR changes, following the monthly assessment, at what point in the day do the changes take effect?**

- As with the regular quarterly haircut changes, the new haircuts become applicable with the End of Day cover run of the designated Effective Date, whereby reports published the following morning will be the first ones to show the changes.

- **Do you have an example demonstrating the new FX Haircuts?**

- Assume a member has currency of risk USD and has pledged collateral in 2 currencies, below shows the treatment now and the change.

		Pre-haircut amount	FX Haircut in collateral system	Post-haircut amount
Current	USD cash	100	0%	100
	GBP cash	100	0%	100
	USD non-cash	100	5.25%	94.75
	GBP non-cash	100	5.25%	94.75
New	USD cash	100	0%	100
	GBP cash	100	5%	95
	USD non-cash	100	0%	100
	GBP non-cash	100	5%	95

- **Can I imply the new base/IR haircuts which will be left when 5.25% flat FX Haircut is removed?**

- Yes, subtracting 5.25% FX Haircut from the current all in haircuts on the public haircut schedule gives you the base component of your new all-in haircut. New FX Haircut will be applied on top of these. A revised haircut schedule will be available in member secure area 2 weeks before the go-live.

- **Will you change the haircuts numbers before go-live?**

- Although LCH policy is to review haircuts quarterly, the current haircuts are unlikely to change for the go-live.

- **What reports/screens can I use to see relevant changes?**

- CoR can be seen on the CMS screen (Enquiries -> Sub Accounts -> Currency of Risk) and in all three new collateral reports (REP00031, REP00046 and REP00046a).
 - When pledging the collateral on the Cash Deposit or Security Lodge screens CMS will automatically display the post haircut Collateral Value taking into consideration the account's Currency of Risk and any applicable haircuts.
 - CMS Cash Balances and Security Balances screens have also been updated to show haircut percentage and post haircut Collateral Value.
 - Collateral report REP00031 – Collateral and Exposure Summary replaces the old report REP00030 – Cover Calling Summary and is available in the Banking folder.
 - Two new collateral reports REP00046 – Cash Collateral Holdings and REP00046a – SOD Cash Collateral Holdings are introduced and available in the Banking folder.
 - Additionally there is a minor change to use of one field in REP00019 – Overnight Cover Distribution.
 - A detailed summary of the collateral report changes can be seen [here](#).
 - Liability report changes are applicable to EquityClear and LSEDM and are summarised below.
- **Are there any system/process changes I need to consider on my side?**
 - Please consider if your collateral management processes use REP00030 – Cover Calling Summary or REP00019 – Overnight Cover Distribution – these might change.
 - If you simulate the liability calculations of LCH please consider the changes to account for the FX risk against the Currency of Risk. These changes are applicable for services EquityClear, LSEDM. Summary of changes can be found below.
 - If you are pledging collateral through Euroclear triparty, you will be required to set up a new Eligibility Set and pledge your collateral under a new Triparty Transaction. You should have received guidelines for the changes from our Collateral Operations team. If you haven't heard from LCH yet and are a Euroclear triparty member, please contact collateral.operations@lch.com. (There are no changes for member who pledge Clearstream Triparty).
- **Are there any service specific changes?**
 - Yes:
 - EquityClear**
 - Changes are being implemented to the ERA Initial Margin methodology in order to fully account for FX risks between members' clearing portfolios and the collateral posted (this risk is covered today by Additional Margins)
 - The initial margin for all positions will be calculated in the Currency of Risk, to account for the FX risk between the various currencies within the portfolio.
 - The technical specifications to see the detailed impacts of these changes on the ERA Parameter Files, can be found [here](#).
 - Margin related reports that display IM calculations will be changed to display the calculations results in the Currency of Risk associated to the member's margin account.
 - Base Currency will be defined as the Currency of Risk associated to the member's margin account and will represent the currency in which the margin is calculated.

- The technical specifications to see the detailed impacts of these changes on the member reports, can be found [here](#).

LSEDM

- Changes are being implemented to the SPAN Initial Margin methodology in order to fully account for FX risks between members' clearing portfolios and the collateral posted (this risk is covered today by Additional Margins)
- Where new positions are in a currency different to the Currency of Risk associated to the member's margin account, the initial margin on these positions will be subject to a further margin component (the FX risk factor), to account for the FX risk between the two currencies.
- Margin related reports that display IM calculations will be changed to display an additional column (FX risk charge) to detail the result of the new FX risk factor margin component.
- The reports will also include the information of the Currency of Risk associated to the member's margin account.
- The technical specifications to see the detailed impacts of these changes on the member reports are available on request.

- **Who are the key contacts if I have more questions?**

General FX Haircut implementation questions	fx.haircut.project.enquiries@lch.com
Collateral Client Services	collateral.clientservices@lch.com
Collateral operations	Collateral.Operations@lch.com