

# Regulatory framework and QCCP Status of LCH

**LCH** The Markets'  
Partner



## Introduction

This document aims to provide guidance as to how LCH Limited and LCH SA meet the criteria to be qualified as Qualifying Central Counterparties (“QCCPs”) under the regulatory regimes of the jurisdictions where they provide clearing services<sup>1</sup>.

## What is the purpose of being a QCCP?

### Basel III and CPMI-IOSCO PFMI

In April 2014, the Basel Committee on Banking Supervision published the Capital Requirements for Bank Exposures to CCPs, part of Basel III<sup>2</sup>. These standards impose a capital charge on banks’ exposures to CCPs arising from certain transactions, including derivatives and securities financing transactions, but provide for lower capital charges for banks’ exposures to a QCCP, as opposed to a non-QCCP.

Basel III defines a QCCP as an entity that is licensed to operate as a CCP by the relevant regulator and that is based and prudentially supervised in a jurisdiction where the relevant regulator has implemented domestic rules for financial market infrastructures that are consistent with the Principles for Financial Market Infrastructures (“PFMIs”) by CPMI-IOSCO<sup>3</sup>. Both the PFMIs and the Basel III standards have to be transposed into an individual jurisdiction’s legal framework in order to take effect.

## How do LCH LTD and LCH SA meet the criteria of QCCPs in given jurisdictions?

The below table provides an overview of the definition of a QCCP under specific regulatory regimes and how the relevant CCP meets the definition, as a guidance to clearing members and clients.

<sup>1</sup> The company structure and the regulatory status of LCH in given jurisdictions is available on the website at: <https://www.lch.com/index.php/about-us/structure-and-governance/company-structure>

<sup>2</sup> BCBS 282 (April 2014) <http://www.bis.org/publ/bcbs282.pdf>

<sup>3</sup> PFMIs (April 2012) are minimum international standards for financial market infrastructures, including CCPs <http://www.bis.org/cpmi/publ/d101a.pdf>

Jurisdiction	Definition of a QCCP	LCH Ltd	LCH SA
Australia	<p><i>For Australian authorised deposit-taking institutions<sup>4</sup>:</i></p> <p>Under the prudential standards of the Australian Prudential Regulation Authority (APRA)<sup>5</sup> a QCCP is defined in line with Basel III</p>	<p>Compliant with:</p> <ul style="list-style-type: none"> <li>• PFMI</li> <li>• Financial Stability Standards (FSS) by the Reserve Bank of Australia (RBA)<sup>6</sup> and the Corporations Act 2001 (Cth)<sup>7</sup></li> <li>• EMIR<sup>8</sup> and Technical Standards<sup>9</sup> which are consistent with, and exceed in some areas, the PFMI</li> </ul>	NA
Canada	<p><i>For Canadian financial institutions<sup>10</sup>:</i></p> <p>Under the Canadian Banking Guidelines<sup>11</sup> a QCCP is defined in line with Basel III</p>	<p>Compliant with:</p> <ul style="list-style-type: none"> <li>• PFMI</li> <li>• Clearing Agency requirements by the Canadian Securities Administrators (CSA)<sup>12</sup></li> <li>• EMIR which is consistent with, and exceeds in some areas, the PFMI</li> </ul>	NA

<sup>4</sup> As defined under Australian law

<sup>5</sup> APRA's Prudential Standard APS 112: <https://www.apra.gov.au/sites/default/files/Final-Prudential-Standard-APS-112.pdf>

<sup>6</sup> RBA's FSS (2013) <http://www.rba.gov.au/payments-and-infrastructure/financial-market-infrastructure/clearing-and-settlement-facilities/standards/financial-stability-standards.html>

<sup>7</sup> Corporations Act 2001 (Cth) <https://www.legislation.gov.au/Details/C2015C00336>

<sup>8</sup> EMIR [https://ec.europa.eu/info/law/derivatives-emir-regulation-eu-no-648-2012/law-details\\_en](https://ec.europa.eu/info/law/derivatives-emir-regulation-eu-no-648-2012/law-details_en)

<sup>9</sup> EMIR Regulatory Technical Standards <https://eur-lex.europa.eu/legalcontent/EN/TXT/PDF/?uri=OJ:L:2013:052:FULL&from=EN>; EMIR Implementing Technical Standards <https://eurlex.europa.eu/legalcontent/EN/TXT/PDF/?uri=CELEX:32017R0105&from=EN>; <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:352:0030:0031:EN:PDF>; <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:352:0032:0039:EN:PDF>

<sup>10</sup> LCH Ltd is currently recognised to serve clearing members based in Québec and Ontario, among the Canadian provinces.

<sup>11</sup> Section 4.1.1. 'Definitions and general terminology': [http://www.osfi-bsif.gc.ca/Eng/fi-if/rg-ro/gdn-ort/gld/Pages/CAR18\\_chpt4.aspx#411](http://www.osfi-bsif.gc.ca/Eng/fi-if/rg-ro/gdn-ort/gld/Pages/CAR18_chpt4.aspx#411)

<sup>12</sup> [https://www.osc.gov.on.ca/en/SecuritiesLaw/ni\\_20151203\\_24-102\\_rfc-proposed-clearing-agency.htm](https://www.osc.gov.on.ca/en/SecuritiesLaw/ni_20151203_24-102_rfc-proposed-clearing-agency.htm)

EU	<p><i>For EU financial institutions:</i></p> <p>Under the CRD IV package of the European Parliament and Council<sup>13</sup>, a QCCP is defined as a CCP authorised or recognised under EMIR</p>	Authorised under EMIR <sup>14</sup>	Authorised under EMIR <sup>15</sup>
Hong Kong	<p><i>For Hong Kong banks:</i></p> <p>Under the Banking Capital Rules of the Hong Kong Monetary Authority (HKMA)<sup>16</sup> a QCCP is defined in line with Basel III</p>	<p>Compliant with:</p> <ul style="list-style-type: none"> <li>• PFMI</li> <li>• EMIR which is consistent with, and exceeds in some areas, the PFMI</li> </ul>	NA
Japan	<p><i>For Japanese banks:</i></p> <p>Under the banking legislation by the Japanese Financial Services Agency (JFSA) a QCCP is defined in line with Basel III</p>	<p>Compliant with:</p> <ul style="list-style-type: none"> <li>• PFMI</li> <li>• EMIR which is consistent with, and exceeds in some areas, the PFMI</li> </ul>	NA
Mexico	<p><i>For Mexican Credit Institutions:</i></p> <p>Under the General Provisions Applicable to Credit Institutions of the National Banking and Securities Commission (CNBV) a QCCP is defined in line with Basel III</p>	<p>Compliant with:</p> <ul style="list-style-type: none"> <li>• PFMI</li> <li>• EMIR which is consistent with, and exceeds in some areas, the PFMI</li> </ul>	NA
Norway	<p><i>For Norwegian banks:</i></p> <p>Basel III is being implemented via the EU CRDIV package, pending its incorporation in the EEA Agreement. Therefore, we expect the</p>	Authorised under EMIR	NA

<sup>13</sup> The CRDIV package consists of the Capital Requirements Directive IV and Regulation (2013) [https://ec.europa.eu/info/business-economy-euro/banking-and-finance/financial-supervision-and-risk-management/managing-risks-banks-and-financial-institutions/prudential-requirements\\_en](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/financial-supervision-and-risk-management/managing-risks-banks-and-financial-institutions/prudential-requirements_en)

<sup>14</sup> ESMA Register, including list of CCPs authorised in the EU [https://www.esma.europa.eu/system/files/force/library/ccps\\_authorized\\_under\\_emir.pdf](https://www.esma.europa.eu/system/files/force/library/ccps_authorized_under_emir.pdf)

<sup>15</sup> ESMA Register, including list of CCPs authorised in the EU [https://www.esma.europa.eu/system/files/force/library/ccps\\_authorized\\_under\\_emir.pdf](https://www.esma.europa.eu/system/files/force/library/ccps_authorized_under_emir.pdf)

<sup>16</sup> HKMA Banking Capital Rules (2012), section 226V. <https://www.elegislation.gov.hk/hk/cap155L>

	QCCP definition to be as in the EU		
Singapore	<p><i>For Singaporean banks:</i></p> <p>Under the Banking Act of the Monetary Authority of Singapore (MAS) a QCCP is defined in line with Basel III<sup>17</sup></p>	<p>Compliant with:</p> <ul style="list-style-type: none"> <li>• PFMIs</li> <li>• Securities and Futures Act and Securities and Futures (Clearing Facilities) Regulations<sup>18</sup></li> <li>• EMIR which is consistent with, and exceeds in some areas, the PFMIs</li> </ul>	NA
Switzerland	<p><i>For Swiss financial institutions:</i></p> <p>Under the Capital Adequacy Ordinance (CAO) of the Swiss Federal Banking Commission a QCCP is defined in line with Basel III</p>	<p>Compliant with:</p> <ul style="list-style-type: none"> <li>• PFMIs</li> <li>• Financial Market Infrastructure Act (FMIA)<sup>19</sup></li> <li>• EMIR which is consistent with, and exceeds in some areas, the PFMIs</li> </ul>	<p>Compliant with:</p> <ul style="list-style-type: none"> <li>• PFMIs</li> <li>• Financial Market Infrastructure Act (FMIA)</li> <li>• EMIR which is consistent with, and exceeds in some areas, the PFMIs</li> </ul>
US	<p><i>For US financial institutions:</i></p> <p>Under the Regulatory Capital Rules<sup>20</sup> a QCCP is defined as a designated financial market utility, which is systemically important, under Title VIII of</p>	<p>Compliant with:</p> <ul style="list-style-type: none"> <li>• PFMIs</li> <li>• CFTC DCO Requirements<sup>21</sup></li> <li>• EMIR which is consistent with, and exceeds in some areas, the PFMIs</li> </ul>	<p>Compliant with:</p> <ul style="list-style-type: none"> <li>• PFMIs</li> <li>• CFTC DCO Requirements</li> <li>• SEC Requirements<sup>22</sup></li> <li>• EMIR which is consistent with, and exceeds in</li> </ul>

<sup>17</sup> MAS Notice 637 (2014), Annex 7AJ

<http://www.mas.gov.sg/~media/MAS/Regulations%20and%20Financial%20Stability/Regulations%20Guidance%20and%20Licensing/Commercial%20Banks/Regulations%20Guidance%20and%20Licensing/Notices/MAS%20Notice%20637%20Amendment%20No%202%202014.pdf>

<sup>18</sup> Securities and Futures Act <http://statutes.agc.gov.sg/aol/search/display/view.w3p;page=0;query=DocId%3A25de2ec3-ac8e-44bf-9c88-927bf7eca056%20Depth%3A0%20Status%3Ainforce;rec=0;whole=yes> and MAS SFR (2013) <http://www.mas.gov.sg/regulations-and-financial-stability/regulations-guidance-and-licensing/securities-futures-and-funds-management/regulations/2013/securities-and-futures-clearing-facilities-regulations-2013.aspx>

<sup>19</sup> FMIA <https://www.admin.ch/opc/en/classified-compilation/20141779/index.html> and related Ordinance <https://www.admin.ch/opc/en/classified-compilation/20152105/index.html>

<sup>20</sup> Regulatory Capital Rules of the Governors of the Federal Reserve Board and the Office of the Comptroller of the Currency (2013) <https://www.gpo.gov/fdsys/pkg/FR-2013-10-11/pdf/2013-21653.pdf>

<sup>21</sup> CFTC's DCO Requirements <https://www.ecfr.gov/cgi-bin/text-idz?SID=53f73687f65f454e1c75a056e0049279&mc=true&node=pt17.1.39&rgn=div5>

<sup>22</sup> SEC's requirements for registered and covered clearing agencies <https://www.gpo.gov/fdsys/pkg/FR-2016-10-13/pdf/2016-23891.pdf>

	the Dodd-Frank Act, or complies with the Subpart C Rules or, if not located in the US, one that meets or exceeds the risk management requirements of its home country that are consistent with the PFMI		some areas, the PFMI
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