

	N°	Titre
 <b>Instruction</b>	<b>IV.4-1</b>	<b>COLLATERAL ACCEPTED TO MEET MARGIN REQUIREMENTS</b>

*Pursuant to Chapter 4 of Title IV of the Clearing Rule Book.*

## **PRELIMINARY PROVISIONS**

### **Article 1**

The provisions of this Instruction apply to Clearing Members, in the meaning defined in the Clearing Rule Book.

### **Article 2**

The provisions of this Instruction apply to the fulfilment of Margins (other than Variation Margin) requirements.

The amount of Collateral to be provided corresponds to the Margin requirements which are calculated according to the Clearing Member's Open Positions and the evaluation of the Collateral which has already been provided, (i.e. once the relevant haircuts have been applied).

The Margin requirements are sent, on a daily basis, to each Clearing Member by LCH SA. In addition, LCH SA shall send the Intra-day Margin requirements once or several times on each Clearing Day, pursuant to the terms and conditions described in a Notice.

### **Article 3**

Further to a trading halt, in application of the circuit breaker rules, Clearing Members may be required to pay additional Initial Margins to LCH SA, on the same day within a reasonable timeframe specified by LCH SA.

### **Article 4**

The Collateral posted by a Clearing Member to LCH SA is allocated or registered in the relevant Collateral Account held by LCH SA in the name of that Clearing Member exclusively pursuant to the instruction of the Clearing Member. Any Collateral that remains unallocated after a timeline specified in a Notice will be returned to the Clearing Member.

The Collateral posted to cover Client Positions of a Clearing Member shall aim at securing the Open Positions registered in the Clearing Member's Client Position Accounts only.

It shall not secure the Open Positions registered in the Clearing Member's House Position Account.

### **Article 5**

The deposits of Collateral in securities, currencies, and EUROS, are not mutually exclusive.

Unless the Clearing Member requests otherwise, LCH SA, when calculating the amount of Margin already available within the Clearing Member's accounts, shall take the following assets into account according to the following priority rule: first, government bonds and shares; then currencies; last of all EUROS.

### **Article 6**

The arrangements entered into by the Clearing Members, in order to meet their Margin obligations towards LCH SA related to their Open Positions on any market cleared by LCH SA, including the Trading & Matching Platforms, shall be notified in writing to LCH SA.

These arrangements shall also apply, where possible regarding the technical constraints, to the Clearing Member's contribution to the Default Fund(s).

#### **Article 7**

Pursuant to the "Settlement Finality Directive"<sup>1</sup> and the "Collateral Directive"<sup>2</sup> any matters (i.e. the legal nature, proprietary effects, validity and enforceability of such securities collateral) arising in relation to book entry securities Collateral shall be governed by the law of the country in which the relevant account is maintained".

As a principle, the Collateral LCH SA is provided with in order to secure the Clearing Members' financial obligations shall be transferred in full ownership.

An alternative solution offered to the Clearing Members consists in entering into a Central Bank Guarantee (as described in Chapter II), via, where relevant:

- The National Bank of Belgium ("NBB")
- The Dutch National Bank ("DNB").

For any information regarding Margins calculation methodology please refer to Instruction IV-2.1, IV.2-2, and IV-2.5.

At last, when a Clearing Member provides LCH SA with Collateral pursuant to Article 19, this Collateral is submitted to a legal privilege consisting in a first rank preferred right in favour of LCH SA.

#### **Article 8**

LCH SA may at any time, if it experiences liquidity constraints, impose, by way of a Notice which will come into force at a date to be specified in such Notice, any additional limits, restrictions or increase haircuts in relation to the posting by Clearing Members of non-Euro cash Collateral, of Securities Collateral or to the use of Central Bank Guarantees to cover Margin requirements.

### **CHAPTER 1 DEPOSIT OF CASH AND SECURITIES AS COLLATERAL BY THE CLEARING MEMBERS TO LCH SA**

As set out above, the Clearing Members can transfer some Collateral, in cash or securities, so as to cover their Open Positions, to LCH SA.

#### **Section 1.1 Transfer of cash**

The provisions of this chapter apply to the fulfilment of Margins requirements except for Variation Margins which are ruled by the provisions enclosed in another Instruction dealing with cash payment modalities.

##### **A. Eligible currencies as Collateral**

#### **Article 9**

A Clearing Member can provide LCH SA with cash in one of the following currencies:

- EURO;
- GBP;
- USD.

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<sup>1</sup> Article 9(2) : "Where securities (including rights in securities) are provided as collateral security to participants and/or central banks of the Member State or the future European central bank as described in paragraph 1, and their rights (or that of any nominee, agent or third party acting on their behalf) with respect to the securities is legally recorded on a register, account or centralised deposit system located in a Member State, the determination of the rights of such entities as holders of collateral security in relation to those securities shall be governed by the law of that Member State."

<sup>2</sup> Article 9 "any matters arising in relation to book entry securities collateral shall be governed by the law of the country in which the relevant account is maintained".

The transfer in full ownership of cash transferred as Collateral to LCH SA occurs when the relevant accounts are credited.

#### **Article 10**

The payments in EURO are performed through LCH SA' access to the Ancillary System Interface of TARGET2 for final payment in TARGET2 and credited on a TARGET2 Account opened in the name of LCH SA in the books of Banque de France, within the time limits set-up in a Notice.

The Clearing Member must therefore hold a TARGET2 Account with one of the central banks listed in a Notice, or be represented by a Payment Agent holding a TARGET2 Account with one of these central banks.

In the latter case the Clearing Member enters into an agreement with a Payment Agent whereby the Payment Agent undertakes to pay to LCH SA or receive from LCH SA the amounts in EURO, on behalf of the Clearing Member.

The Clearing Member or the Paying Agent, as relevant, shall provide LCH SA with the appropriate Power of Attorney or another arrangement to the latter's benefit.

#### **Article 11**

The Clearing Member, which does not use a Central Bank Guarantee to fulfil its Intra-day Margin obligations, must provide LCH SA with some Collateral in cash in EURO.

Cash in euro posted as Collateral shall be taken into account by LCH SA for Intra-day calculation session, if it is credited on LCH SA's account held at the central bank in compliance with the time limits set-up in a Notice.

#### **Article 12**

LCH SA pays interest on cash contributions. The enforceable interest rate is published on LCH SA treasury fee grid available on LCH SA web site.

#### **Article 13**

The payments in other currencies than Euro are credited on accounts opened in the name of LCH SA with the Central Securities Depositories of Reference, Securities settlement systems, national central banks or commercial banks described in Annex 1, in compliance with the time limits set-up in a Notice, on the day of issuance of the situation report. This solution does not apply to the Intra-day Margin call.

As for payments in USD and GBP, LCH SA applies a haircut on the equivalent in EURO calculated on the basis of the currency exchange rate, as published by the relevant financial data provider, and provided to the Clearing Members in the files downloaded the evening before the deposit. The applicable haircut is published on the treasury fee grid available on LCH SA website.

#### **Article 14**

The cash transferred as Collateral by Clearing Members to LCH SA is invested in liquid assets with no risk to the principal.

### **B. Re-use of the cash by LCH SA**

#### **Article 15**

For the sake of clarity, since the cash is transferred in full ownership to LCH SA, the latter shall benefit from all the prerogatives attached to such transfer of ownership, and notably the right to use/(re)sale such cash and to offset it with all related claims.

Notwithstanding the above, the re-use of deposited Collateral is applicable within the limits of LCH SA's relevant internal policies and all applicable legal and regulatory provisions governing Collateral provided to LCH SA acting as a clearing house and a Securities settlement system.

## **C. Realization of the cash Collateral in the event of a Default of a Clearing Member**

### **Article 16**

In the event of a default of a Clearing Member, LCH SA, as the owner of the cash, shall sell it off to fulfil the Clearing Member's remaining obligations set out in the Clearing Rule Book.

## **Section 1.2 Transfer of Securities**

### **A. Nature of the securities transferred to LCH SA**

#### **Article 17**

A Clearing Member can provide LCH SA with the securities listed in Annex 2, as Collateral.

For risk management purposes, LCH SA does not accept the deposit of "self issued securities", i.e. a Clearing Member's own securities, as Collateral.

#### **Article 18**

The securities shall be credited on accounts opened in the name of LCH SA with the Central Securities Depositories of Reference, securities settlement systems, national central banks or commercial banks described in Annex 1, on the day when the situation report has been issued, within the time limits set out in a Notice. This solution does not apply to the Intra-day Margin call.

The transfer in full ownership of securities as Collateral to LCH SA occurs when the relevant accounts are credited, in accordance with:

- Articles L.440-7 and L.440-8 of the French Monetary and Financial Code, or;
- Article 261 n°4 of the Portuguese Securities Code, or;
- Article 12 of the Belgian law dated 15 December 2004 "*relative aux sûretés financières et portant des dispositions fiscales diverses en matière de conventions constitutives de sûreté et de prêts portant sur des instruments financiers*".

#### **Article 19**

Notwithstanding the above, when a Clearing Member provides LCH SA with Collateral the Collateral is submitted to a legal privilege consisting in a first rank preferred right in favour of LCH SA, as provided in Article 31 §2 of the Belgian Act of 2 August 2002 and Royal Decree of June 9<sup>th</sup>, 1995 relating to the realisation procedure. The Belgian branch of LCH SA in turns holds the relevant securities accounts in NBB.

#### **Article 20**

In order to calculate the Margin requirements (at the exception of Variation Margins), LCH SA re-evaluates, on a daily basis, shares and government bonds Collateral in the light of their market value as published by the relevant financial data provider, and brought to the Clearing Member's knowledge via the files which can be downloaded beforehand /the day before the Margins are called.

The above principle also applies to Intra-day Margin requirements. The revaluation rules are set out in a Notice.

#### **Article 21**

A discount rate ("haircut") of 35 % shall be applied on shares.

Without prejudice to this principle, a different discount rate ("haircut"), as determined by LCH SA in a Notice, shall be applied to bonds according to the estimated price risk incurred on such Securities.

#### **Article 22**

As for each deposit or return of Collateral composed of securities, the Clearing Member must inform LCH SA through its collateral management system, specifying the allocation among Margin accounts.

Notifications of movements for value on day D must be received by LCH SA in compliance with the time limits set-up in a Notice.

Consequently, and at the Clearing Member's request, the available balance in EURO can be modified and a new situation report can be issued.

The securities posted as Collateral shall be taken into account by LCH SA and revaluated at their real time price at the Intra-day calculation session, if they are credited on LCH SA account held at the Central Securities Depository of Reference in compliance with the time limits set-out in a Notice.

#### **Article 23**

On request, LCH SA shall return the Collateral composed of securities provided that the Clearing Member has previously deposited some other Collateral to fulfil its Margin obligations and/or has fulfilled all its payment obligations towards LCH SA.

#### **Article 24**

With regards to the corporate events on shares held as Collateral, the Clearing Member can choose between one of the following options for the payment of dividends:

- dividends in shares are credited free of charges and less any relevant withholding tax, if any, to the Clearing Member's account with the relevant depository;
- dividends in cash are credited less any relevant withholding tax, if any, on the Clearing Member's account, its Payment Agent's account or the Clearing Member's account held with a central bank, as referred to in Annex 1, as soon as LCH SA has been credited;
- the shares are credited cum dividend less any relevant withholding tax, if any.

#### **Article 25**

Detached subscription or allotment rights are remitted to the Clearing Member's account held with the relevant central securities' depository as soon as LCH SA' account has been credited.

#### **Article 26**

In the case of a lengthy suspension of a security, the Clearing Member shall deposit, in replacement of such security other securities accepted as Collateral by LCH SA.  
In this case, LCH SA shall then return the suspended security.

#### **Article 27**

Securities are automatically returned in the case of a take-over bid, public exchange offer, split or reverse split.

#### **Article 28**

When debt securities are reaching, or are about to reach the minimum term to maturity, as set out in Appendix 2, Clearing Members shall retrieve from Collateral posted to LCH SA such debt securities, which do not longer comply with Collateral eligibility criteria. Such Collateral movements shall be performed with respect to time limits for Collateral deposit and returns as defined in a Notice.

#### **Article 29**

In order to ensure that securities held as Collateral by LCH SA remain sufficiently liquid and sufficiently diversified at all times, LCH SA monitors the credit quality, market liquidity and price volatility of each security eligible as Collateral.

For this purpose with regards to specific particular securities, and/or issuers, LCH SA is entitled to take specific measures which may apply to all Clearing Member or one of them, such as:

- modify the discount rate ("haircut").
- add concentration limits.

- exclude and/or limit the eligibility of some securities as Collateral, notably, but not only, if they are issued by a company belonging to the same Financial Group.

## **B. Re-use of the Securities by LCH SA**

### **Article 30**

For the sake of clarity, since the securities are transferred in full ownership to LCH SA, the latter shall benefit from all the prerogatives attached to such transfer of ownership, and notably the right to use/(re)sale such securities and to offset it with all related claims.

LCH SA shall give such securities back to the Clearing Member, or equivalent securities, when its Margin obligations have been fulfilled, or set off such securities with any related claim of the Clearing Member.

Notwithstanding the above, the re-use of deposited Collateral is applicable within the limits of LCH SA's relevant internal policies and all applicable legal and regulatory provisions governing Collateral provided to LCH SA acting as a clearing house and a securities settlement system.

LCH SA shall not transfer the securities posted as Collateral posted by Clearing Members to cover the risk associated to LCH SA's own positions in the framework of interoperability arrangements.

## **C. Realization of the securities Collateral in the event of a Default of a Clearing Member**

### **Article 31**

In the event of a Default of a Clearing Member, LCH SA, as the owner of the securities Collateral, shall sell it off to fulfil the Clearing Member's remaining obligations set out in the Clearing Rule Book.

## **CHAPTER 2 COLLATERAL PROVIDED BY THE CLEARING MEMBERS VIA A CENTRAL BANK GUARANTEE**

### **Section 2.1 Central Bank Guarantee Arrangements**

#### **Article 32**

The use of Central Bank Guarantee is an alternative solution to the transfer of Collateral to LCH SA as described in Chapter I.

The Belgian and Dutch Clearing Members can respectively enter into a Central Bank Guarantee with the National Bank of Belgium (NBB) or the Dutch National Bank (DNB).

#### **Article 33**

A Clearing Member established/having its headquarters in Belgium or in the Netherlands may enter into a Central Bank Guarantee with NBB or DNB, in order to fulfil its Margin obligations (excluding Variation Margins) by having its cash account debited or by transferring, directly or indirectly, assets accepted as collateral to NBB or DNB.

A Clearing Member shall enter into appropriate arrangements, to fulfil its Margin obligations, in order for NBB or DNB to issue a guarantee in favour of LCH SA.

#### **Article 34**

The Clearing Members which cannot enter into a central bank agreement with NBB or DNB directly, but wish to fulfil their Margin obligations through a Central Bank Guarantee, shall enter into a contractual agreement with a Credit Institution which can enter into an agreement with NBB/DNB.

The provisions of this paragraph shall compulsorily apply to Clearing Members which are not established in Belgium or in the Netherlands.

Such contractual agreement shall provide that the Credit Institution, which holds an account in the books of NBB or DNB is responsible for providing NBB/DNB with sufficient collateral regarding the Clearing

Member's Margin obligations under the same conditions described above. In this case, the Clearing Member entering into an agreement with a Credit Institution shall be considered to be an "allied member".

#### **Article 35**

In order for NBB or DNB guarantee to be effective, LCH SA shall receive a confirmation from NBB/DNB that the amounts corresponding to Margin requirements are guaranteed in compliance with the time limits set-up in a Notice.

The amount guaranteed by NBB or DNB is reviewed every time LCH SA sends new Margin requirements.

#### **Article 36**

With regards to DNB guarantee, the Clearing Member's credit capacity (i.e. the amount of cash which may be called by LCH SA to DNB) is determined according to the cash Collateral that has been deposited in an account held by DNB and the securities collateral that has been transferred to Euroclear Netherlands. These Securities, which shall be qualified by DNB as eligible collateral, are subject to a pledge granted to DNB in accordance with Article 42 of the "*Securities Giro Act*".

#### **Article 37**

These arrangements shall last until the membership of the Clearing Member terminates or until the Clearing Member notifies the termination of such arrangement.

### **Section 2.2 Realisation of the Collateral provided via a Central Bank Guarantee in case of a Clearing Member's default**

#### **Article 38**

Where a Clearing Member has fulfilled its Margins obligations through a Central Bank Guarantee, such central bank shall fulfil the obligations of the defaulting Clearing Member as follows:

- LCH SA shall address a formal request to the central bank to activate the liquidity arrangement containing a declaration of default and the amount that is requested to be activated;
- The liquidity arrangement may not exceed the total of Margin required from the defaulting Clearing Member;
- The central bank will then transfer the relevant amount in cash to LCH SA.

## **ANNEX 1**

### **LIST OF COMMERCIAL BANKS, CENTRAL SECURITIES DEPOSITORIES OF REFERENCE, SECURITIES SETTLEMENT SYSTEMS AND NATIONAL CENTRAL BANKS**

#### **COMMERCIAL BANKS:**

- for USD Euroclear Bank
  
- for GBP Euroclear Bank

#### **CENTRAL SECURITIES DEPOSITORIES OF REFERENCE, SECURITIES SETTLEMENT SYSTEMS AND NATIONAL CENTRAL BANKS:**

- for French government bonds Euroclear France / Euroclear Bank
- for French shares Euroclear France / Euroclear Bank
- for Belgian government bonds National Bank of Belgium/ Euroclear Bank / Euroclear France
- for Belgian shares Euroclear Bank
- for Dutch government bonds Euroclear Bank / Euroclear France
- for e Dutch shares Euroclear Bank
- for Portuguese government bonds Euroclear Bank / Interbolsa
- for Portuguese shares Euroclear Bank / Interbolsa
- for Spanish government bonds Euroclear Bank
- for Austrian government bonds Euroclear Bank
- for Finnish government bonds Euroclear Bank
- for other government bonds and shares Euroclear Bank

## ANNEX 2

### LIST OF SECURITIES ELIGIBLE AS COLLATERAL

#### GOVERNEMENT DEBT SECURITIES:

##### Debt Securities issued by the French State:

- Treasury bills (BTFs) issued for 13, 26 or 52 weeks with a minimum nominal value of EURO 100,000<sup>3</sup>;
- Annual fixed interest rate Treasury notes (BTANs) with a minimum nominal value of EURO 100,000<sup>3</sup>;
- Fungible Treasury Bonds (OATs and OATis) for a minimum nominal value of EURO 100,000<sup>3</sup>;
- Minimum term to maturity: 4 business days;

##### Debt Securities issued by the United State of America (USA):

- US Treasury Bills with a minimum nominal value of USD 250,000<sup>3</sup>;
- Minimum term to maturity: 3 business days;

##### Debt Securities issued by the German Federal State or by the Kreditanstalt für Wiederaufbau:

- Bunds with a minimal nominal value of EURO 100,000<sup>3</sup>;
- Minimum term to maturity: 3 business days;

##### Debt Securities issued by the British State:

- Gilts for a minimum nominal value of GBP 100,000<sup>3</sup>;
- Minimum term to maturity: 9 business days;

##### Debt Securities issued by the Belgian State:

- Belgian Treasury Certificates for a minimum nominal value of EURO 100,000<sup>3</sup>;
- Belgian Linear bonds (OLOs) for a minimum nominal value of EURO 100,000<sup>3</sup>;
- Minimum term to maturity: 4 business days

##### Debt Securities issued by the Dutch State:

- Debt Securities for a minimum nominal value of EURO 100,000<sup>3</sup>;
- Dutch Treasury certificates (DTCs) for a minimum nominal value of EURO 100,000<sup>3</sup>;
- Minimum term to maturity: 10 business days

##### Debt Securities issued by the Italian State:

- Treasury bills (BOTs, BTPs and BTPis with a minimum nominal value of EURO 100,000<sup>3</sup>;
- Certificates of Treasury (CCTs) with a minimum nominal value of EURO 100,000<sup>3</sup>;
- Minimum term to maturity: 3 business days

**Debt Securities issued by the Portuguese State** for a minimum nominal value of EURO 100,000<sup>3</sup>;  
Minimum term to maturity: 3 business days

##### Debt Securities issued by the Spanish State:

- Letras del Tesoro (LET) for a minimum nominal value of EURO 100,000<sup>3</sup>;
  - Bonos del Estado (BON) for a minimum nominal value of EURO 100,000<sup>3</sup>;
  - Obligaciones del Estado (OBE) for a minimum nominal value of EURO 100,000<sup>3</sup>.
- Minimum term to maturity: 3 business days

##### Debt Securities issued by the Austrian State:

- Republic of Austria Government Bonds (RAGB) with a minimum nominal value of EURO 100,000<sup>3</sup>;
- Minimum term to maturity: 4 business days;

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<sup>3</sup> Each Clearing Member must ensure that the Securities at LCH SA's accounts with the custodians or central securities depositories are not submitted to withholding tax. If they are, the Clearing Member must withdraw its Securities from LCH SA's account before the record date and replace them by Securities that are not submitted to withholding tax. If, at record date, Clearing Members have not withdrawn from LCH SA's accounts such Securities submitted to withholding tax, any coupon or dividend is paid net (less withholding tax)..

**Debt Securities issued by the Finnish State:**

- Republic of Finland Government Bonds (RFGB) with a minimum nominal value of EURO 100,000<sup>3</sup>;
- Minimum term to maturity: 4 business days;

Zero coupons bonds, strips bonds and perpetual bonds shall not be accepted as Collateral, with the exception of those listed in a Notice.

**SHARES:**

Shares incorporated in the EURO STOXX 50 index with the exception of those listed by LCH SA in a Notice.