

VIA CFTC Portal

15 December 2016

Mr. Christopher Kirkpatrick
Commodity Futures Trading Commission
1155 21st Street NW
Three Lafayette Centre
Washington DC 20581

Dear Mr Kirkpatrick:

LCH.Clearnet Ltd ("LCH"), a derivatives clearing organisation registered with the Commodity Futures Trading Commission (the "CFTC"), is submitting for self-certification, pursuant to CFTC regulation §40.6(a), Rulebook changes to implement a new type of account, the Custodial Segregated Account ("CSA") under its EMIR client clearing model. These Rulebook changes become effective on or after January 3, 2016.

Part I: Explanation and Analysis

The CSA provides legal and operational segregation of a Client's assets from those of any other Client or Clearing Member, as does an Individual Segregated Account ("ISA"). However, the main feature that distinguishes a CSA from an ISA is that the Client may elect to provide non-cash assets through a tri-party mechanism directly to LCH, to satisfy an initial margin ("IM") liability.

A Clearing member may request that LCH open a CSA in respect of a particular Client. In order to open a CSA, both the Clearing Member and Client enter into a Collateral Management Agreement ("CMA") and deed of charge ("CSA Client Charge") with LCH. The CMA and CSA Client Charge set out the terms of the direct collateralisation arrangements. The CMA gives the Client an optional right to collateralise LCH and for that reason, if the Client does not choose to deliver collateral directly, it cannot be called on to do so by LCH.¹

LCH recognises that a Clearing Member will have a security interest in such collateral posted directly to LCH, and may wish to apply a more limited collateral set that is within their own risk appetite. Consequently, a Clearing Member is able to define and have applied eligibility limits with respect to collateral for a specific Client (and the related CSA) over and above LCH requirements².

For each CSA, a clearing member will be billed in advance, twice a year. The initial fee incurred will be €750, applied on the first billing point³ after account opening. Thereafter, fees will be based on total client clearing fees⁴ (see table below) billed in respect of each underlying client (i.e. each Client Collective⁵ or where relevant, Client Representative⁶) during the prior period.

¹ The Clearing Member must provide any collateral required in respect of the CSA, to the extent the Client chooses not to provide such collateral directly.

² These are standard and apply to Clearing Members generally for collateral provided in respect of either House or Client accounts.

³ "Billing point" is the calculation dates of 30 June and 31 December, as currently defined.

⁴ Client clearing fees include all client clearing, compression and account fees (except custodial segregated account charges) irrespective of account type and clearing member.

⁵ Client Collective means the client(s) for whom a Client Representative (see below) undertakes investment, administrative and/or management activities.

⁶ Client representative means an entity which undertakes investment, administrative and/or management activities.

Annualised Client Clearing Fees Billed in Prior Period €	6 Month Billing Charge	Comparison Annual Cost
0 – 50,000	€20,000	€40,000
50,001 – 200,000	€5,000	€10,000
200,001 – 1,500,000	€1,250	€2,500
> 1,500,000	€750	€1,500

Part II: Description of Rule Changes

In support of this new account changes are being made to the LCH Rulebook as follows:

- General Regulations
- Default Rules
- Procedures Section 2C (SwapClear Clearing Service)
- Procedures Section 2J (Listed Interest Rates Clearing Service)
- Procedures Section 3 (Financial Transactions)
- Procedures Section 4 (Margin and Collateral)

The main amendment to the Default Rules is to Schedule 1 Client Clearing Annex to include language describing the CSA porting window, and to set out the procedures for the transfer of Client Securities Collateral and Redemption Proceeds by LCH to an ISA of a Backup Clearing member.

Black-line versions of the above and a matrix of the changes are included in the appendices of this letter.

Part III: Core Principle Compliance

LCH has reviewed this initiative against the requirements of the Core Principles, in particular Core Principle R and concludes that compliance with the Core Principles is not adversely impacted by these changes.

Part IV: Public Information

LCH has posted a notice of pending certification with the CFTC and a copy of this submission on the LCH website at <http://www.lchclearnet.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 this change.

Certification

LCH hereby certifies to the Commodity Futures Trading Commission, pursuant to the procedures set forth in 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 regarding this submission please contact me at julian.oliver@lch.com

Yours sincerely,

Julian Oliver
Chief Compliance Officer

LCH Rule Submission

Appendix A

Matrix of Rule Changes

LCH Rule Submission

Appendix B

General Regulations

LCH Rule Submission

Appendix C

Default Rules

LCH Rule Submission

Appendix D

Procedures Section 2C (SwapClear Clearing Service)

LCH Rule Submission

Appendix E

Procedures Section 2J (Listed Interest Rates Clearing Service)

LCH Rule Submission

Appendix F

Procedures Section 3 (Financial Transactions)

LCH Rule Submission

Appendix G

Procedures Section 4 (Margin and Collateral)