

**VIA CFTC PORTAL SUBMISSION**

02 November 2018

Mr Christopher Kirkpatrick  
Commodity Futures Trading Commission  
1155 21<sup>st</sup> Street NW  
Three Lafayette Centre  
Washington DC 20581

Dear Mr Kirkpatrick:

LCH Limited ("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), changes to its Rulebook in respect of accounts being offered by LCH at the CSDs where LCH accepts member margin non-cash collateral and the fees associated with such accounts. These changes takes effect on or after 20 November 2018.

**Part I: Explanation and Analysis**

LCH is amending its Rulebook to comply with requirements of the Central Securities Depository Regulation (EU) 909/2014 ("CSDR")<sup>1</sup>. CSDR requires that a participant of a Central Securities Depository ("CSD"), should offer its clients the choice of individually segregated accounts or omnibus segregated accounts at the CSD. Consequently, LCH is amending its Rulebook to offer its clearing members such choice in respect of the CSD accounts used to hold non-cash collateral posted to the clearing house as margin collateral.

LCH will apply a charge for the setup and ongoing maintenance of each bilateral individually segregated account opened at the CSD. The fees for all accounts available at a CSD will be displayed on the LCH website as per Appendix A.

**Part II: Description of Rule Changes**

The following sections of the LCH Rulebook are amended to support this initiative and marked-up versions are attached hereto in the appendices:

- General Regulations – Appendix B
- Procedures Section 4 (Margin and Collateral) – Appendix C

**Part III: Core Principle Compliance**

LCH has reviewed the changes against the requirements of the Core Principles and concludes that compliance with the Core Principles will not be adversely impacted and in particular, continues to comply with Core Principles L.

**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 <https://www.lch.com/resources/rules-and-regulations/proposed-rule-changes-0>

**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 these changes.

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<sup>1</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32014R0909>

**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.

Yours sincerely,



Julian Oliver  
Chief Compliance Officer

**LCH Rule Submission**

**Appendix A**

**Annual CSD Account Segregation Fees**

## Annual CSD Account Segregation Fees

LCH opens accounts in its name with CSDs and holds securities collateral posted to it by Clearing Members in such accounts. LCH makes two types of CSD account segregation available to Clearing Members, in respect of such securities collateral:

- Individual CSD-Level Segregation, where each account that LCH opens with a CSD in order to provide such segregation is a “CSD ISA”; and
- Omnibus CSD-Level Segregation, where each account that LCH opens with a CSD in order to provide such segregation is a “CSD OSA”.

Securities collateral, which LCH holds at a CSD for a Clearing Member, will always be held in a CSD OSA or CSD ISA, regardless of the LCH account(s) a Clearing Member has with LCH. By default, LCH will hold a Clearing Member’s securities collateral in a CSD OSA, unless the Clearing Member has requested a CSD ISA or requested to operate a triparty transaction with the CSD and LCH.

A CSD ISA is used to hold securities collateral for a single Clearing Member. Accordingly, such securities collateral is held separately from the securities collateral of any other Clearing Member. By contrast, a CSD OSA is used to hold securities collateral for a number of Clearing Members on a collective basis.

LCH provides CSD OSAs and Triparty CSD ISAs free of charge, but will charge a Clearing Member for each Bilateral CSD ISA it requests as outlined in the table below. All charges are subject to periodic and on-going review and change by LCH.

CSD Name	CSD OSA	Triparty CSD ISA	Bilateral CSD ISA
Euroclear Bank	€0	€0	€2,320
Euroclear UK & IE	£0	£0	£1,000
Clearstream	€0	€0	N/A

The fee will be charged upon opening of the account and then again on the first LCH business day of the calendar year that the account remains open.

The following disclosure notice is provided as required under Article 38(6) of CSDR setting out the levels of protection associated with the types of CSD account segregation, a description of the main legal implications associated with the accounts, information on the insolvency law applicable and the further information on the costs associated for the accounts.

**LCH Rule Submission**

**Appendix B**

**General Regulations**



**GENERAL REGULATIONS OF  
LCH LIMITED**

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## REGULATION 1 DEFINITIONS

In these Regulations and the Procedures, except where the context otherwise requires, the following words and expressions shall have the following meanings:

<b>"Account Balance"</b>	means, in relation to a Relevant Client Clearing Business of a Clearing Member, an Individual Segregated Account Balance, an Indirect Gross Account Balance, a Custodial Segregated Account Balance or an Omnibus Segregated Account Balance
<b>"ACSP Compression Cycle"</b>	means a Multilateral Compression Cycle established by the Clearing House and facilitated by an ACSP nominated by the Clearing House, which shall be open to participation by SwapClear Clearing Members either on their own account or with respect to a SwapClear Clearing Client in accordance with the provisions of Regulation 56 and relevant Compression Documentation
<b>"Account Information Documents"</b>	means the documents called "LCH Account Structures under EMIR" and "Fees for EMIR Segregation Accounts", as published by the Clearing House on its website and made available to Clearing Members and Clearing Clients upon request
<b>"Affected ForexClear Option Clearing Member"</b>	has the meaning assigned to it in Regulation 101
<b>"Affiliated Client Omnibus Net Segregated Account"</b>	means, in relation to a Relevant Client Clearing Business, an account opened within the Clearing House by a Clearing Member on behalf of a group of Affiliated Omnibus Segregated Clearing Clients which is designated by the Clearing House as an Affiliated Client Omnibus Net Segregated Account
<b>"Affiliated Client Omnibus Segregated Account"</b>	means, in relation to a Relevant Client Clearing Business, (i) an Affiliated Client Omnibus Net Segregated Account or (ii) an Omnibus Gross Segregated Account opened on behalf of a group of Affiliated Omnibus Segregated Clearing Clients
<b>"Affiliated Omnibus Net Segregated Clearing Clients"</b>	means Affiliated Omnibus Segregated Clearing Clients in respect of whom the relevant Clearing Member clears Contracts with the Clearing House in an Affiliated Client Omnibus Net Segregated Account

<b><u>"Authorised CSD"</u></b>	<u>means a central securities depository, which is authorised or recognised under Regulation (EU) No. 909/2014 of the European Parliament and of the Council of 23 July 2014, as amended from time to time</u>
<b>"Automated Trading System"</b>	means an automated trading system in respect of which the Clearing House has an agreement with the operator thereof and in respect of which the Clearing House has notified RepoClear Participants in accordance with the Procedures
<b>"Automatic Early Termination Event"</b>	has the meaning ascribed to such term in Rule 5 of the Default Rules
<b>"Backup Clearing Member"</b>	means the Clearing Member(s) (a) indicated by a Clearing Client as acting as such, and (b) notified to the Clearing House from time to time in an Appointment Notice and in accordance with the procedure determined by the Clearing House
<b>"Backup Client"</b>	means an Indirect Gross Account Clearing Client identified by a Clearing Member to the Clearing House for the purposes of a transfer of Related Contracts pursuant to a Client to Client Porting
<b>"Backload Registration Cycle"</b>	has the meaning assigned to it in the Procedures
<b>"Backloaded Registration Trade"</b>	has the meaning assigned to it in the Procedures
<b>"Block IRS Trade"</b>	means a trade the notional amount of which is at or above the minimum block size established by the CFTC pursuant to CFTC Regulation 43.6 for the interest rate asset class and in effect as of the date of submission of such trade to the Clearing House for registration
<b>"Board"</b>	means the board of directors or other governing body (whether called a board, a committee or otherwise) of an Exchange
<b>"Bond Trade"</b>	means a trading activity in which a RepoClear Participant offers to sell RepoClear Eligible Securities, and another RepoClear Participant offers to purchase those RepoClear Eligible Securities, and a trade subsequently ensues
<b>"Bulk Event"</b>	has the meaning as described in Regulation 60(f)
<b>"Bulk Event Cycle"</b>	has the meaning as described in Regulation 60(f)

**"Indirect Gross Account Balance"**

means, in respect of an Indirect Gross Account Clearing Client, the Clearing Member Current Collateral Balance of the Indirect Gross Account held by the relevant Clearing Member on behalf of such Indirect Gross Account Clearing Client (together with any receivables, rights, intangibles and any other collateral or assets deposited or held with the Clearing House in connection with such account)

**"Indirect Gross Account Clearing Client"**

means a Clearing Client in respect of whom the relevant Clearing Member clears Contracts with the Clearing House in an Indirect Gross Account

**"Indirect Gross Sub-Account"**

means, in respect of an Indirect Gross Account, a segregated sub-account of such Indirect Gross Account, which is established on the books of the Clearing House for the purpose of recording Contracts which (i) the relevant Clearing Member has entered into with the Clearing House in respect of the relevant Indirect Gross Account Clearing Client, and (ii) are referable to a particular Indirect Clearing Client of such Indirect Gross Account Clearing Client

**"Indirect Net Account"**

means, in relation to a Relevant Client Clearing Business, an Omnibus Segregated Account which is (i) opened by a Clearing Member for the purpose of providing Client Clearing Services to one or more Indirect Net Account Clearing Clients who are, in turn, providing clearing services to their Indirect Clearing Clients, and (ii) designated by the Clearing House as an Indirect Net Account, but, for the avoidance of doubt, does not include any Omnibus Segregated Account comprising Determined Omnibus Net Segregated Clients

**"Indirect Net Account Clearing Client"**

means an Omnibus Segregated Clearing Client (i) in respect of whom the relevant Clearing Member clears Contracts with the Clearing House in an Indirect Net Account, and (ii) whose identity is not recorded by the Clearing House but, for the avoidance of doubt, does not include any Determined Omnibus Net Segregated Client

**"Individual CSD-Level Segregation"**

means, in respect of an Authorised CSD and an account which the Clearing House has opened with such Authorised CSD, that the Clearing House holds Securities Collateral for one Clearing Member only (and no other person) in such account together with Sponsored Clearing Securities Collateral (if any) that the Clearing House holds for the same Clearing Member in its capacity as an Agent Member or Sponsored Member

<b>"NPV Reset"</b>	<p>has:</p> <ul style="list-style-type: none"> <li>(i) in the case of a SwapClear STM Contract, the meaning assigned to it in Regulation 57A; and</li> <li>(ii) in the case of a ForexClear STM Contract, the meaning assigned to it in Regulation 106A</li> </ul>
<b>"Off-Market Provider"</b>	has the meaning assigned to it in Section 2C1.27.4 of the Procedures
<b>"official quotation"</b>	means a price determined by the Clearing House under Regulation 22
<b><u>"Omnibus CSD-Level Segregation"</u></b>	<u>means, in respect of an Authorised CSD and an account which the Clearing House has opened with such Authorised CSD, that the Clearing House holds Securities Collateral for a Clearing Member in such account together with (a) other Securities Collateral that the Clearing House holds for other Clearing Members, and/or (b) Sponsored Clearing Securities Collateral that the Clearing House holds for Agent Members and/or Sponsored Members</u>
<b>"Omnibus Gross Segregated Account"</b>	means, in relation to a Relevant Client Clearing Business, an account opened within the Clearing House by a Clearing Member on behalf of a group of Omnibus Gross Segregated Clearing Clients which is designated by the Clearing House as an Omnibus Gross Segregated Account
<b>"Omnibus Gross Segregated Clearing Clients"</b>	means Affiliated Omnibus Segregated Clearing Clients or Identified Omnibus Segregated Clearing Clients (as applicable) in respect of whom the relevant Clearing Member clears Contracts with the Clearing House in an Omnibus Gross Segregated Account
<b>"Omnibus Segregated Account"</b>	means an account opened within the Clearing House by a Clearing Member or an FCM which enables the relevant Clearing Member or FCM (as applicable) to distinguish its assets and positions from the assets and positions held for the account of its clients (or a group of clients). For the avoidance of doubt, the term includes Identified Client Omnibus Segregated Accounts, Affiliated Client Omnibus Segregated Accounts, Non-Identified Client Omnibus Net Segregated Accounts and Indirect Net Accounts

<b>"Revised Caps"</b>	has the meaning assigned to it in Regulation 100
<b>"Revised Limits"</b>	has the meaning assigned to it in Regulation 100
<b>"Risk Neutralisation"</b>	has the meaning assigned to it in the Default Rules
<b>"Rule 19 Certificate"</b>	has the meaning assigned to it in Rule 19 of the Default Rules
<b>"Rulebook"</b>	means the Regulations, Default Rules, Settlement Finality Regulations, Procedures, and such other rules of the Clearing House, as published and amended from time to time
<b>"Rules Change Committee"</b>	means the decision-making body that will oversee and implement all material alterations, amendments or extensions to the Rulebook or the Clearing Membership Agreement in accordance with its terms of reference
<b>"Rules of the Clearing House"</b>	means the Rulebook of the Clearing House including the General Regulations, Default Rules, Settlement Finality Rules and Procedures
<b>"SC Regulations"</b>	means the rules and regulations of the Clearing House denoted as such
<b>"SCM Branch"</b>	means a branch or part of a SwapClear Clearing Member, not being a different legal person from the SwapClear Clearing Member, which is authorized by the Clearing House to submit to the Clearing House, in the name of that SwapClear Clearing Member, SwapClear Transactions for registration, subject to these Regulations and the Procedures, by the Clearing House as SwapClear Contracts
<b><u>"Securities Collateral"</u></b>	<u>means Collateral that is in the form of securities</u>
<b>"Security Deed"</b>	means a security deed entered into by a Clearing Member in favour of its Clearing Clients in the form prescribed by the Clearing House from time to time and published on the Clearing House's website
<b>"segregated client"</b>	means a person whose monies are held by a Member separately from the Member's own monies with whom the Member has agreed (or in respect of which the Member is required) not to use such person's monies for the Member's own account



which has concluded a Clearing Membership Agreement with the Clearing House in such form as the parties may agree, pursuant to which such organisation clears specific types of Contract and agrees to be bound by these Regulations as a Member, to the extent and subject to any variations agreed in such Clearing Membership Agreement

**"Specified Exchange"**

means London Stock Exchange plc, Hong Kong Mercantile Exchange Limited or any Exchange succeeding to any such person

**"Sponsored Clearing Securities Collateral"**

means "Collateral" as defined in the SC Regulations that is in the form of securities

**"Sponsored Member"**

has the meaning assigned to it in the SC Regulations

**"Spot Settled ForexClear Option Transaction"**

means a ForexClear Option Transaction which the parties thereto have agreed (as evidenced by the ForexClear Spot Contract Terms applicable to that ForexClear Option Transaction) shall be settled by the entry into of a ForexClear Spot Transaction

**"Standard Terms"**

means that part of the SwapClear Contract Terms, the RepoClear Contract Terms, the ForexClear Contract Terms, or, in respect of a Designated Listed Interest Rates Contract, the Listed Interest Rates Contract Terms designated as Standard Terms by the Clearing House from time to time

**"STM Conversion Contracts"**

has the meaning assigned to it in Regulation 57A

**"STM Conversion Date"**

has the meaning assigned to it in Regulation 57A

**"STM Conversion Request"**

has the meaning assigned to it in Regulation 57A

**"strike price"**

means the price specified in an option contract which becomes the price of the reference asset or commodity under a contract for the future sale and purchase of that reference asset or commodity for future delivery or, as the case may be, under a delivery contract, in either case on the exercise of the option the subject of such option contract, in accordance with Exchange Rules, these Regulations and the Procedures, as applicable

**LCH Rule Submission**

**Appendix C**

**Procedures Section 4**



**LCH LIMITED**

**PROCEDURES SECTION 4**

**MARGIN AND COLLATERAL**

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## 1. Collateral

### 1.1 GENERAL INFORMATION

The Clearing House is, at its sole discretion, entitled to determine what will be acceptable to it as Collateral and to determine when collateral will cease to be acceptable as Collateral.

If any cash, instrument or security, lodged in accordance with any of the following Procedures, is in any way found to be unacceptable, it will immediately be given a zero value for the purposes of calculating the value of the Clearing Member Current Collateral Balance (the "**Current Collateral Value**").

#### 1.1.1 Instructions

The Clearing House accepts instructions to lodge, release and transfer cash, securities and triparty Collateral via its online CMS and/or any other operational process the Clearing House determines.

If there is an outage of the CMS, a Clearing Member may send certain instructions using the appropriate form in the Schedules of these Procedures, by fax and email to:

Email to: [collateral.ops.uk@lch.com](mailto:collateral.ops.uk@lch.com)

Fax: +44 (0)20 7375 3518

Collateral Operations can be contacted on +44 (0)20 7426 7593.

The Clearing House is entitled to act upon instructions or communications appearing to have been issued by or on behalf of, or to have come from, a Clearing Member. These will be accepted by the Clearing House as genuine even if, for example, they are later found:

- (a) to be inaccurate, whether in whole or in part; or
- (b) not to have been given by the Clearing Member or with the authority of the Clearing Member.

The Clearing House will only accept delivery of non-cash Collateral from a Clearing Member in accordance with these Procedures and will not sell or purchase cash or non-cash Collateral for Clearing Members, except in so far as it is acting under its Default Rules and related Regulations or in relation to Exchange Rules.

The Clearing House reserves the right to require a Clearing Member to execute revised versions of the Deed of Charge and Client Consent documentation whenever the Clearing House, at its sole discretion, considers that it would be appropriate to do so.

The Clearing House reserves the right to change the information required on instructions received via the CMS whenever the Clearing House, at its sole discretion, considers that it would be appropriate to do so.

### 1.1.9 *Security Deed*

Notwithstanding clause 5.3 of any Security Deed, a Clearing Member shall provide Collateral to the Clearing House, in respect of an Indirect Gross Account, in accordance with, and subject to, the Rulebook.

### 1.1.10 *Authorised CSD - Segregation*

A Clearing Member may request that Securities Collateral which the Clearing House holds in an account with an Authorised CSD for the Clearing Member be subject to either Individual CSD-Level Segregation or Omnibus CSD-Level Segregation (each such request, a “**Segregation Request**”).

The Clearing House will, as soon as reasonably practicable after receipt of a Segregation Request and where the Clearing Member is not a Defaulter, implement such Segregation Request.

Each Clearing Member acknowledges that it has read and understood the disclosure document located on the Clearing House website, which relates to the costs, risks and levels of protection associated with Individual CSD-Level Segregation and Omnibus CSD-Level Segregation.

## 1.2 **DOCUMENTATION**

### 1.2.1 *Deed of Charge*

Clearing Members wishing to transfer non-cash Collateral to the Clearing House must complete and maintain a Deed of Charge. This document establishes a fixed charge over the Clearing Member's interests pursuant to the custody relationship which arises upon specified non-cash Collateral being transferred into an account with the Clearing House by the Clearing Member. The document is required to be executed in accordance with the instructions which accompany it. The Deed of Charge covers, *inter alia*, non-cash Collateral that is transferred to the Clearing House via bilateral settlement or via triparty arrangements. To operate triparty arrangements with the Clearing House, additional documentation must also be executed with the relevant triparty provider.

The Deed of Charge is available from the Clearing House. Where a Clearing Member transfers non-cash Collateral to the Clearing House in respect of a Proprietary Account and a Client Account, it must execute two separate Deeds of Charge.

### 1.2.2 *Segregation Rules*

Instructions relating to transfers and requests for the return of Collateral must indicate the particular account to which they relate. Any Collateral transferred to the Clearing House in respect of an account will be applied against the Clearing Member's margin liabilities on such account.