

**VIA CFTC PORTAL SUBMISSION**

20 July 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), a change to its Rulebook related to Collateral application. This change takes effect on or after 6 August 2018.

**Part I: Explanation and Analysis**

LCH is amending its Rulebook Procedures – Section 3 to reflect how the Clearing House will apply Collateral (posted to the Clearing House as margin collateral) against clearing member liabilities.

**Part II: Description of Rule Changes**

The Clearing House will publish on its website the order in which such Collateral will be applied, which will be based on the least expensive collateral group and thereafter in ascending order of fees. Rulebook Procedures – Section 3, paragraphs 1.4.2, 1.4.3 and 1.5.1 are amended accordingly.

**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.

**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 LIMITED**

**PROCEDURES SECTION 3**

**FINANCIAL TRANSACTIONS**

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<http://www.lch.com/risk-collateral-management/collateral-management/acceptable-collateral>

**The Clearing House may vary, at its discretion, the standard requirements and valuation procedures set out in this Section 1.4, either generally or in a particular case, without giving prior written notice to Clearing Members. Further, the Clearing House may vary the types of Collateral acceptable to it.**

#### 1.4.1 *Cash*

In order not to fall within the scope of deposit-taking regulations applying to banks and similar institutions, the Clearing House can accept cash from Clearing Members only in relation to current or anticipated obligations.

Cash used as Collateral need not be provided in the same currency as that of the liability. In such cases, currencies will be notionally converted with reference to quoted exchange rates determined at approximately 16:45 London time the previous business day.

Clearing Members must give the Clearing House's Treasury Operations no less than two business days' notice of their intention to substitute existing cash Collateral with non-cash Collateral or cash Collateral in a different currency where the amount of cash is GBP 50 million or greater. Where a Clearing Member fails to give such notice, the Clearing House may decline to transfer or release the cash Collateral to be withdrawn until the end of the required notice period.

#### 1.4.2 *Securities*

Please refer to the following pages on our website for ~~both prevailing haircuts and~~ notes on Collateral acceptable to the Clearing House:

[http://www.lch.com/risk\\_management/ltd/acceptable\\_collateral.asp](http://www.lch.com/risk_management/ltd/acceptable_collateral.asp)

#### 1.4.3 *Value Notification*

Clearing Members may obtain details on the value ascribed to ~~non-cash~~ Collateral recorded to their account via:

- (a) the relevant reports available on the Clearing House website portal;
- (b) the CMS; and/or
- (c) SWIFT message sent from the Clearing House to the relevant Clearing Member.

[Please refer to the following pages on our secure website for haircuts on Collateral:](#)

[https://secure-area.lchclearnet.com/secure\\_area/secure/default.asp?area=7](https://secure-area.lchclearnet.com/secure_area/secure/default.asp?area=7)

#### 1.4.4 *Use of Credits as Collateral*

The following credit amounts are not paid in cash, but may (subject to the restrictions described below) be offset against certain specific margin obligations, with the result that the relevant Clearing Member will need to provide less Collateral in respect of those margin obligations:

- (a) EquityClear credit contingent margin may be used to offset EquityClear debit contingent variation margin and initial margin across currencies;
- (b) LSEDM credit contingent variation margin (for forwards) and credit net liquidating value may be used to offset LSEDM debit contingent variation margin, debit net liquidating value and initial margin across currencies; and
- (c) Rates Exchange credit contingent variation margin may be used to offset Rates Exchange debit contingent variation margin and initial margin across currencies.

### 1.5 **Distribution of Collateral**

**The following Procedures are not in any way intended to restrict, vary or alter the Clearing House's rights to apply any Collateral held by it to meet the Clearing Member's liabilities and obligations to the Clearing House.**

#### 1.5.1 *Collateral Application*

The Clearing House will apply Collateral (in turn) to each liability in relation to the collateral utilisation fees charged in respect of each collateral group categorisation by the Clearing House, as published from time to time at the following link <https://www.lch.com/risk-collateral-management/ltd-collateral-management/ltd-fees-collateral> such that the least expensive collateral group will be applied first and thereafter each collateral group will be applied in ascending order of fees.

In the event that the amount charged is the same for more than one collateral group, they will be applied in alphabetical order by ~~country of issue and security type~~.

~~In the absence of a Clearing Member election, the Clearing House will apply Collateral (in turn) to each liability in the following order:~~

- ~~(a) non-cash Collateral denominated in the same currency as the liability;~~
- ~~(b) non-cash Collateral denominated in other currencies, in the following order:~~
  - ~~(i) GBP;~~

- ~~(ii) — USD;~~
- ~~(iii) — CHF;~~
- ~~(iv) — EUR;~~
- ~~(v) — JPY;~~
- ~~(vi) — SEK;~~
- ~~(vii) — CAD;~~
- ~~(viii) — NOK~~
- ~~(ix) — DKK;~~
- ~~(x) — AUD; then~~
- ~~(e) — cash Collateral in the same currency as the liability; then~~
- ~~(d) — cash Collateral in a different currency to the liability, in the nominated currency preference order.~~

~~Clearing Members may make the following choices:~~

- ~~(i) — whether to have cash Collateral applied before or after non-cash Collateral;~~
- ~~(ii) — whether to apply non-cash Collateral to liabilities in a different currency; and~~
- ~~(iii) — whether to apply cash Collateral to liabilities in a different currency.~~

### 1.5.2 **Cash Currency Preference**

Clearing Members may nominate the sequence of cash Collateral distribution.

In the absence of a nominated sequence of currency preferences, a Clearing Member's liabilities will be covered by cash in the same currency as the liability. This means that a GBP liability will be covered in GBP cash, a EUR liability will be covered in EUR cash and so forth. Any further liabilities in the relevant currency will be covered by cash called via PPS.

Clearing Members may define their own sequence of cash Collateral utilisation for each mnemonic and each account type (i.e. House or Client). The sequence does not have to be on a like for like basis and a Clearing Member may choose any eligible currency to cover its liability (for example, a GBP liability can be covered in EUR cash).

Any changes to a Clearing Member's nominated currency sequence, or a request relating to excess cash currency balances in a particular currency, should be