

# 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 PFMIs**

In April 2014, the Basel Committee on Banking Supervision published the Capital Requirements for Bank Exposures to CCPs<sup>2</sup>, part of Basel III. 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.

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<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/about-us/structure-and-governance/company-structure>

<sup>2</sup> BCBS 282 (April 2014) [https://www.bis.org/basel\\_framework/chapter/CRE/54.htm?inforce=20191215](https://www.bis.org/basel_framework/chapter/CRE/54.htm?inforce=20191215)

<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>PFMIs</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>UK EMIR and Technical Standards<sup>8</sup> which are consistent with, and exceed in some areas, the PFMIs</li> </ul>	NA
Canada	<p><i>For Canadian financial institutions<sup>9</sup>:</i></p> <p>Under the Canadian Banking Guidelines<sup>10</sup> a QCCP is defined in line with Basel III</p>	<p>Compliant with:</p> <ul style="list-style-type: none"> <li>PFMIs</li> <li>Clearing Agency requirements by the Canadian Securities Administrators (CSA)<sup>11</sup></li> <li>UK 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>Clearing Agency requirements by the Canadian Securities Administrators (CSA), where applicable.</li> <li>EMIR which is consistent with, and exceeds in some areas, the PFMIs</li> </ul>
EU	<p><i>For EU financial institutions:</i></p> <ul style="list-style-type: none"> <li>Under the CRD IV package of the European Parliament</li> </ul>	Recognised under EMIR as third country CCP	Authorised under EMIR <sup>13</sup>

<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> "UK EMIR" means Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC Derivatives, Central Counterparties, and Trade Repositories as it has become retained EU law and effective in the United Kingdom under the European Union (Withdrawal) Act 2018. <https://www.bankofengland.co.uk/eu-withdrawal/information-on-the-effect-of-the-uks-withdrawal-from-the-eu-on-fmi-supervision>

<sup>9</sup> Please note that LCH Ltd is currently recognised to serve clearing members based in Québec and Ontario, among the Canadian provinces. LCH SA has been granted an exemption from the requirement to be recognized as a clearing agency to serve clearing members based in Québec and Ontario.

<sup>10</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>11</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)

<sup>13</sup> Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC Derivatives, Central Counterparties, and Trade Repositories [https://ec.europa.eu/info/law/derivatives-emir-regulation-eu-no-648-2012\\_en](https://ec.europa.eu/info/law/derivatives-emir-regulation-eu-no-648-2012_en)

	and Council <sup>12</sup> , a QCCP is defined as a CCP authorised or recognised under EMIR		
Hong Kong	<p><i>For Hong Kong banks:</i></p> <p>Under the Banking Capital Rules of the Hong Kong Monetary Authority (HKMA)<sup>14</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>• UK EMIR which is consistent with, and exceeds in some areas, the PFMI</li> </ul>	
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>• UK EMIR which is consistent with, and exceeds in some areas, the PFMI</li> </ul>	
Norway	<p><i>For Norwegian banks:</i></p> <p>Basel III has been implemented via the EU CRDIV package, following its incorporation in the EEA Agreement. Therefore, the QCCP definition is aligned to that in the EU</p>	Recognised under EMIR	NA
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>15</sup></p>	<p>Compliant with:</p> <ul style="list-style-type: none"> <li>• PFMI</li> <li>• Securities and Futures Act and Securities and Futures (Clearing Facilities) Regulations<sup>16</sup></li> <li>• UK EMIR which is</li> </ul>	NA

<sup>12</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> HKMA Banking Capital Rules (2012), section 226V. <https://www.elegislation.gov.hk/hk/cap155L>

<sup>15</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>16</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>

		consistent with, and exceeds in some areas, the PFMIs	
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>• UK 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>• EMIR which is consistent with, and exceeds in some areas, the PFMIs</li> </ul>
US	<p><i>For US financial institutions:</i></p> <ul style="list-style-type: none"> <li>• Under the Regulatory Capital Rules<sup>17</sup> a QCCP is defined as a designated financial market utility, which is systemically important, under Title VIII of the Dodd-Frank Act 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 PFMIs</li> <li>• Systemically important DCOs must also comply with the Subpart C Rules<sup>18</sup>. Other DCOs may opt to comply with the Subpart C Rules to be treated as QCCPs</li> </ul>	<p>Compliant with:</p> <ul style="list-style-type: none"> <li>• PFMIs</li> <li>• DCO Requirements<sup>19</sup></li> <li>• UK 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>• DCO Requirements</li> <li>• EMIR which is consistent with, and exceeds in some areas, the PFMIs</li> </ul>

<sup>17</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>18</sup> The CFTC's Subpart C Rules have been adopted to address any gaps between the CFTC's DCO Core Principles and the PFMIs <https://www.gpo.gov/fdsys/pkg/FR-2013-12-02/pdf/2013-27849.pdf>

<sup>19</sup> CFTC's DCO Requirements (2012) [http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title17/17cfr1\\_main\\_02.tpl](http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title17/17cfr1_main_02.tpl)

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