

VIA CFTC PORTAL

May 31, 2022

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

LCH Limited Self-Certification: Payment Arrangement Enhancements

Dear Mr. Kirkpatrick,

Pursuant to Commodity Futures Trading Commission ("CFTC") Regulation §40.6(a), LCH Limited ("LCH"), a derivatives clearing organization registered with the CFTC, is submitting for self-certification revisions to its rules to provide for the requirement for annual member testing of contingency payment arrangements.

Part I: Explanation and Analysis

LCH has made changes to its Rulebook to ensure that Clearing Members test their contingency payment arrangements annually with LCH. LCH believes this change enhances its management of risks related to payments.

In order to implement these enhancements, LCH plans to revise its rules, specifically the LCH Procedures (Section 3 Financial Transactions) and LCH FCM Procedures.

Part II: Description of Rule Changes

LCH will make amendments to the LCH Procedures Section 3 (Financial Transaction Service) paragraph 1.3.1 (i) and the FCM Procedures paragraphs 1.2.1 (g) and 3.2.1 (j):

LCH will make changes to the LCH Procedures Section 3 (Financial Transactions) and its FCM Procedures to require Clearing Members test their contingency payment arrangements with LCH annually in order to ensure Clearing Members have arrangements in place to continue to meet their margin obligations in the event of a failure of their nominated payment arrangement.

The changes to the rules are included as **Appendices I - II** in black line form. The changes will be effective not earlier than June 14, 2022.

Part III: Core Principle Compliance

LCH reviewed the proposed rule changes against the requirements of the Core Principles and finds it will continue to comply with all requirements and standards set forth therein. Specifically, this rule change has potential relevance to Core Principle F (Treatment of Funds).

LCH believes the changes described in this filing will not impact LCH's ongoing compliance with the objectives of Core Principle F. Regulation §39.15(d) requires LCH to hold funds and assets belonging to clearing members and their customers in a manner which minimizes the risk of loss or of delay in the access by LCH to such funds and assets. LCH considered its requirements

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related to the treatment of funds and believes the required testing described in this submission enhances its compliance with Core Principle F and regulation §39.15.

LCH believes these changes are consistent with the requirements of Core Principle F on the Treatment of Funds and CFTC regulation §39.15.

Part IV: Public Information

LCH has posted a notice of pending certification with the CFTC and a copy of the submission on LCH's website at: <https://www.lch.com/resources/rulebooks/proposed-rule-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.

Certification

LCH hereby certifies to the CFTC, pursuant to the procedures set forth in CFTC Regulation §40.6, that the attached submission complies with the Commodity Exchange Act, as amended, and the regulations promulgated thereunder.

Should you have any questions please contact me at michelle.weiler@lseg.com.

Sincerely,



Michelle Weiler
US Compliance Officer
LCH Limited

Appendix I
LCH Procedures (Section 3 Financial Transactions)
Changed Pages

Please refer to Clearing Member circulars for details of Clearing House opening days and currency holidays at the following link www.lch.com/news-events/members-updates/general-information.

(i) *Contingency Payment Arrangements*

Clearing Members are required to have contingency payment arrangements in place to ensure that they can continue to meet their margin obligations in the event of failure of their nominated PPS bank(s). During the application process, the Clearing House will require the applicant to provide evidence of these arrangements and will test these prior to the applicant becoming a Clearing Member. The Clearing Member will be required to provide evidence of their contingency payment arrangements and undertake testing of such arrangements with the Clearing House, at least once a year~~on an ongoing basis at the Clearing House's request.~~

(j) *Recovery from Insolvent PPS Banks*

In the event that payment is not completed by the relevant PPS bank, due to insolvency rather than technical failure, and the affected Clearing Member(s) make alternative payments, the Clearing House, should it make a recovery from the estate of the PPS bank, will credit such recovery, net of cost, to the accounts of the affected Clearing Members in proportion to the amount of the original missed payment.

1.4 New MAS Electronic Payment and Book-Entry System

- 1.4.1 The Monetary Authority of Singapore (“MAS”) operates a real-time gross settlement system (“RTGS”) known as the New MAS Electronic Payment and Book-Entry System (“MEPS+”). The Clearing House maintains an account on MEPS+, exclusively for the purpose of facilitating the transfer of cash denominated in SGD to and from Clearing Members in respect of initial margin.
- 1.4.2 The Clearing House will accept delivery of SGD via MEPS+ only to meet initial margin requirements. Cash collateral denominated in SGD cannot be used to meet the requirements of on demand initial margin calls
- 1.4.3 Any payment by a Clearing Member denominated in SGD to satisfy variation margin requirements will be collected via PPS.
- 1.4.4 To transfer cash denominated in SGD to the Clearing House’s account on MEPS+ on a certain business day, a Clearing Member or its agent must submit a valid and complete payment instruction on that business day. MAS will not action such instructions on a SGD holiday. If a payment instruction, which a Clearing Member or its agent submits to the Clearing House on a business day is not subsequently fulfilled by the Clearing Member, or if the Clearing Member inputs an incorrect CMS Reference (as defined in Section 1.3 of Section 4 of the Procedures (*Collateral*), meaning that the Clearing House cannot action the payment instruction, the Clearing House will delete the instruction at 09:00 hours London

Appendix II
LCH FCM Procedures
Changed Pages

evidence of these arrangements and will test these prior to the applicant becoming an FCM Clearing Member. The FCM Clearing Member will be required to provide evidence of their contingency payment arrangements and undertake testing of such arrangements with the Clearing House, at least once a year on an ongoing basis at the Clearing House's request.

The applicant must maintain a back office:

- (A) remote from both the trading floor and/or trading desks;
- (B) with adequate systems (including but not limited to computer and communications systems) and records;
- (C) with an adequate number of administrative staff fully conversant with procedures for the management of business transacted in the markets and contracts cleared by the Clearing House and in which the FCM Clearing Member participates; and
- (D) with such equipment (including technology and connectivity) as may be stipulated by the Clearing House or by any relevant Exchange(s).

Applicants for FCM Clearing Member status and FCM Clearing Members must at all times respond promptly to enquiries or requests for information made by the Clearing House. Such enquiries may require applicant FCM Clearing Members to demonstrate compliance with the applicable FCM clearing membership criteria and/or Applicable Law.

FCM Clearing Members are required to promptly notify or pre-notify the Clearing House of any changes which may result in non-compliance with the Clearing Member status criteria as stated in these FCM Procedures.

Termination of FCM Clearing Member Status: In the event that an FCM Clearing Member wishes to retire from FCM Clearing Member status, it may do so by giving written notice to the Clearing House not less than three months ahead of the proposed termination date. By the close of business on the proposed termination date, the Retiring Member shall ensure that all FCM Contracts registered in the Retiring Member's name have been closed-out or transferred so as to ensure that there are no open FCM Contracts to which the Retiring Member is a party at the proposed termination date. Once all such FCM Contracts have been closed-out or transferred, such Retiring Member shall be entitled to request that the Clearing House releases and returns to it any collateral held by the Clearing House for such Retiring Member. For further information on the retirement process, FCM Clearing Members should contact the Clearing House's Membership Department.

If an FCM Clearing Member has not been active on any exchange or market for a continuous period of three months, they will be asked to confirm that they intend to utilize their FCM Clearing Member status and, failing a

(i) *Use of UK PPS and US PPS*

These FCM Procedures indicate which part of the PPS system will be used in the normal course of events for making PPS calls. Generally, UK PPS will be used for Morning PPS calls (including Contributions to the default fund), remitting surplus cash balances to an FCM Clearing Member, and for making intra-day margin calls up to 16:00 London time. However, FCM Clearing Members should be aware that the Clearing House reserves the right to direct a Morning PPS call or intra-day margin calls before 16:00 London time to an FCM Clearing Member's US PPS account in exceptional circumstances (an “**Exceptional PPS Call**”). The Clearing House will use all reasonable commercial efforts to notify the FCM Clearing Member in advance of issuing any such Exceptional PPS Call.

(j) *Contingency Payment Arrangements*

FCM Clearing Members are required to have contingency payment arrangements in place to ensure that they can continue to meet their margin, Variation Settlement, Price Alignment Amount and other obligations in the event of failure of their nominated PPS bank. During the application process, the Clearing House will require the applicant to provide evidence of these arrangements and will test these prior to the applicant becoming an FCM Clearing Member. The FCM Clearing Member will be required to provide evidence of their contingency payment arrangements and undertake testing of such arrangements with the Clearing House, at least once a year on an ongoing basis at the Clearing House's request.

(k) *Recovery from Insolvent PPS Banks*

In the event that payment is not completed by the relevant PPS bank, due to insolvency rather than technical failure, and the affected FCM Clearing Member(s) make alternative payments, should the Clearing House make a recovery from the estate of the PPS bank, it will credit such recovery, net of costs, to the accounts of the affected FCM Clearing Members in proportion to the amount of the original missed payment.

3.3 **Acceptable Forms of Cover**

The Clearing House accepts certain types of securities and cash in the Clearing House's prescribed form as Collateral against liabilities of the relevant FCM Clearing Member.

Please refer to the following link for further details:

http://www.lch.com/risk_management/ltd/acceptable_collateral.asp

The Clearing House may vary, at its discretion, the standard requirements and valuation procedures set out in this Section, either generally or in a particular case,