

VIA CFTC PORTAL

30 June 2017

Mr Christopher Kirkpatrick  
Commodity Futures Trading Commission  
115 21<sup>st</sup> Street NW  
Three Lafayette Centre  
Washington DC 20581

**LCH Limited Self-Certification: Rule changes requiring the offering of gross omnibus client accounts for Canadian clients**

Dear Mr Kirkpatrick,

Pursuant to Commodity Futures Trading Commission (the "CFTC") Regulation §40.6(a), LCH Limited ("LCH"), a derivatives clearing organization registered with the CFTC, is submitting for self-certification changes to its rules restricting Clearing Members from opening net omnibus type of accounts for clients established in Canada, as required under new regulatory requirements on derivatives client clearing of the Canadian Securities Administrators ("CSAs").

**Part I: Explanation and Analysis**

LCH is recognised as a Clearing Agency by the Ontario Securities Commission (OSC) and as a Clearing House by the Autorité des Marchés Financiers (AMF Québec) to offer certain clearing services to clearing members in Ontario and Québec respectively. LCH Clearing Members also offer the SwapClear service to Canadian clients.

Pursuant to the *National Instrument 94-102 Derivatives - Customer Clearing and Protection of Customer Collateral and Positions* ("CSA requirements"), CCPs offering client clearing services in Canada must collect initial margin for each Canadian customer in an account on a gross basis. LCH is amending its rules to give effect to this regulatory requirement. Note that this requirement already applies under the Futures Commission Model (FCM) applicable to all US Clients.

The changes will go live on, or after, July 18, 2017.

**Part II: Description of Rule Changes**

A new subparagraph has been added to the part 1.12 (Jurisdictional Requirements) of the Procedures Section 1 of the LCH Rulebook; this defines Canadian clients and outlines the types of omnibus client accounts currently offered

by LCH which are not available to them, in line with the relevant CSA requirements. Each of these accounts is defined in Regulation 1 of the General Regulations.

There is no change required in the rules applicable to Clearing Members which are Futures Commission Merchants ("FCMs") and offer client clearing because the LSOC<sup>1</sup> client account structure is permitted under the CSA requirements.

The texts of the above changes are attached hereto as:

- **Appendix I – Procedure Section 1**

### **Part III: Core Principles Compliance**

LCH has reviewed the changes to its rules against the Core Principles and finds that these will continue to comply with all the requirements and standards therein.

### **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:

<http://www.lch.com/rules-regulations/proposed-rules-changes>

### **Part V: Opposing Views**

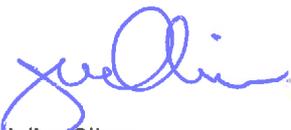
There were no opposing views expressed to LCH by governing board or committee members, members of LCH or market participants that were not incorporated into the rule.

### **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 please contact me at [julian.oliver@lch.com](mailto:julian.oliver@lch.com).

Yours sincerely



Julian Oliver  
Chief Compliance Officer  
LCH Limited

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<sup>1</sup> 'Legally segregated, operationally commingled': the model required for the segregation of customer funds under Part 22 of the CFTC Regulation.

**Appendix I**  
Procedure Section 1



**LCH.CLEARNET LIMITED**

**PROCEDURES SECTION 1**

**CLEARING MEMBER, NON-MEMBER MARKET  
PARTICIPANT AND DEALER STATUS**

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at: <http://www.lchclearnet.com/members-clients/members/fees-ltd/annual-account-structure-fees>.

1.12.2 Restrictions on Clearing Members and SCM Branches incorporated in or domiciled in Japan (each a “**Japanese Clearing Member**” or “**Japanese SCM Branch**”, respectively)

- (a) Japanese Clearing Members and Japanese SCM Branches are not permitted to participate in the Portfolio Margining Service.
- (b) Japanese Clearing Members and Japanese SCM Branches are not permitted to clear SwapClear STM Contracts.
- (c) Japanese Clearing Members and Japanese SCM Branches shall not clear Yen-denominated SwapClear Contracts.

1.12.3 Restrictions on Clearing Clients incorporated in or domiciled in Japan (“**Japanese Clearing Clients**”)

- (a) Clearing Members may not participate in the Portfolio Margining Service on behalf of Japanese Clearing Clients.
- (b) Clearing Members may not clear SwapClear STM Contracts on behalf of Japanese Clearing Clients.
- (c) Clearing Members shall not clear Yen-denominated SwapClear Contracts on behalf of Japanese Clearing Clients.

1.12.4 Restrictions on Clearing Clients organized under the laws of Canada, have their head office located in Canada or have their principal place of business in Canada (each, a “**Canadian Clearing Client**”)

- (a) A Clearing Member may not open the following types of Client Accounts on behalf of or with respect to a Canadian Clearing Client:
  - (i) Identified Client Omnibus Net Segregated Account;
  - (ii) Affiliated Client Omnibus Net Segregated Account;
  - (iii) Non-Identified Client Omnibus Net Segregated Account; or
- (b) A Clearing Member may not permit a Canadian Clearing Client to be a Combined Omnibus Gross Segregated Clearing Client.