

VIA CFTC PORTAL

13 December 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 on Auto-Repay Service of Excess Collateral**

Dear Mr Kirkpatrick

Pursuant to CFTC regulation §40.6(a), LCH Limited (“LCH”), a derivatives clearing organization registered with the Commodity Futures Trading Commission (the “CFTC”), is submitting for self-certification changes to its rules allowing a Clearing Member to request that LCH automatically repays any Collateral that has been posted in excess of the margin requirement by that Clearing Member. The rule changes do not apply to Clearing Members which are Futures Commission Merchants and their Customers.

### **Part I: Explanation and Analysis**

At least once on each business day, LCH notifies Clearing Members of the current collateral balance available in respect of their accounts, including both proprietary and Customer accounts. If the Clearing Member holds a collateral amount in excess of the margin required by LCH to cover its liabilities, the Clearing Member may request that LCH returns that excess amount.

Currently, Clearing Members can opt in to a service whereby the excess collateral is paid back to them automatically on each business day. However, this service does not apply to certain types of Customer accounts. LCH proposes to change its rules to remove this restriction and make the service available to any Clearing Members’ accounts, subject to certain conditions. The service is defined as “Auto-Repay Service” in the proposed rules.

Importantly, the rules clarify that only excess collateral paid by a Clearing Member to LCH is eligible for this service. Therefore, the service does not apply to excess collateral that LCH may receive directly from the Customer(s) of a Clearing Member.

The rule changes will go live on, or after, January 2, 2018.

## Part II: Description of Rule Changes

Procedures Section 3 (Financial Transactions) have been changed in section 1.3.1, paragraph f) to note that the Auto-Repay Service may be requested by Clearing Members in respect of one or more accounts, each defined as a "Selected Account", and one or more currencies, each defined as "Selected Currency", subject to the conditions set out in the LCH rules.

The section also includes the relevant LCH contact details for Clearing Members to use to request the Auto-Repay Service and a requirement that an authorised individual makes such requests to LCH on behalf of a Clearing Member.

Further, the section notes that LCH may decide to cease the service, at its discretion, in respect of a Clearing Member, an LCH Clearing Service or entirely. Should this occur, LCH will notify affected Clearing Members as well as relevant Regulators.

Procedures Section 4 ("Margin and Collateral") have been modified in section 1.1.2 to make reference to the revised paragraph of the Procedures Section 3 explained above.

The text of the changes to the Procedures Section 3 and Procedures Section 4 is attached hereto as **Appendix I** and **Appendix II**, respectively.

## Part III: Core Principle Compliance

LCH has reviewed the changes against the requirements of the Core Principles and finds that they 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 the 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

*pp. [Handwritten Signature]*

Julian Oliver  
Chief Compliance Officer  
LCH Limited

**Appendix I**  
Procedures Section 3  
(Financial Transactions)



**LCH LIMITED**

**PROCEDURES SECTION 3**

**FINANCIAL TRANSACTIONS**

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Each Clearing Member remains fully responsible for the payment to the Clearing House of all moneys due to the Clearing House as required, *inter alia*, by the Clearing Membership Agreement, clearing extension documentation and the Regulations, Default Rules and Procedures. Payment will only be recognised for this purpose if the relevant PPS bank (i) has performed its concentration function (being the transfer of net funds from the PPS bank to a central account in the name of the Clearing House), and (ii) any time permitted by the relevant payment system for the recall of any such payment has expired or funds received have been paid out to another Clearing Member using the same PPS bank.

Where payments are due to a Clearing Member, payments will be recognised by the Clearing House as having been made as soon as payment instructions in respect of that payment have been given to a PPS bank. For this purpose, a payment instruction will only be recognised to the extent that the Clearing House has taken steps to transfer to the PPS bank any such sums as may be necessary to enable that payment instruction to be performed by the PPS bank.

### 1.3.1 **PPS Mandates**

#### (a) *Introduction*

A Clearing Member is required to maintain a PPS bank account(s) in the currency or currencies in which it makes Contributions, and for each currency in which it incurs settlements, at one or more of the bank branches participating in the PPS system in London. As an exception, an Australian PPS bank may be used for all AUD settlement and margin payments. All PPS calls and payments in AUD will be settled using Australian PPS where the Clearing Member has opted to use Australian PPS.

Clearing Members may use different banks for different currencies.

Each Clearing Member is also required to maintain at least one US dollar PPS account with at least one of the US PPS banks.

Please refer to the following link for details: <http://www.lch.com/risk-collateral-management/collateral-management/protected-payments-system>.

Clearing Members are responsible at all times for ensuring that their PPS bank accounts have sufficient funds or credit lines to be able to meet margin calls from the Clearing House.

Any bank charges connected with the holding of any PPS bank accounts or related to any activity on that account must be paid by the Clearing Member holding the relevant account PPS mandates.

Each Clearing Member is required to complete a standard form UK PPS Mandate and US PPS Mandate and, where applicable, Australian PPS Mandate (copies are available from [collateral.clientservices@lch.com](mailto:collateral.clientservices@lch.com)) for each bank branch at which they wish to operate an account before clearing

can commence. The original of the mandate must be signed by a person with the appropriate authority within the Clearing Member institution and then forwarded to the relevant bank. A copy must also be forwarded at the same time to the Clearing House Membership Department.

(b) *Currency Conversion*

The Clearing House supports cross currency Collateral, which allows the Clearing Member to elect to use Collateral denominated in one currency in respect of initial and contingent margin liabilities calculated in another currency. Clearing Members must nominate the currency in which they wish to cover margin liabilities by prior arrangement with LCH Limited Treasury Operations.

(c) *Morning PPS Calls*

Clearing Members' liabilities are calculated overnight UK time. Should the relevant liability not be covered by acceptable forms of Collateral held by the Clearing House (see Section 1.5) any shortfall is called through either UK or Australian PPS with separate calls made for each currency. It is the responsibility of each Clearing Member to ensure that its PPS bank(s) meets all call instructions received from the Clearing House.

Confirmation of calls, as notified, must be received by the Clearing House from the relevant UK PPS bank(s) by 09:00 London time on the day on which the PPS call is made, or by 09:00 London time on the next day on which the Clearing House is open for business if the PPS call is made on a day on which the Clearing House is not open for business.

Confirmation of calls, as notified, must be received by the Clearing House from the relevant Australian PPS bank(s) within one hour of receipt of the PPS Call Instruction if the PPS Call Instruction is received on a day on which the Clearing House is open for business, or by 10:00 the next day on which LCH is open for business if the PPS Call Instruction is received on a day on which LCH is not open for business.

Failure of a bank to confirm a PPS call within the required deadline may result in the Clearing Member being declared in Default. Late confirmation of PPS calls are reported to the regulators of the Clearing House.

(d) *Intra-day PPS Calls*

An intra-day margin call by the Clearing House is for same-day payments. GBP, EUR or USD can be used to cover margin obligations intra-day. Between 14:30 – 16:00 (London time), GBP and USD will be called through UK PPS.

Normally the Clearing House will call intra-day margin through UK PPS accounts. However, where the Clearing House wishes to make such an

intra-day call after UK PPS closes (16:00 London time), such a call will be made upon the Clearing Member's nominated US PPS account.

Clearing Members must designate a currency ("GBP", "EUR" or "USD") that will be called by default during the hours of UK PPS for each mnemonic/sub-account. Clearing Members must request a change to the default currency no later than 09:30 London time in order for the change to be undertaken the following day. Members can submit a request to change their currency at the following link: <http://www.lch.com/risk-collateral-management/collateral-management/acceptable-collateral/preferred-currency>.

The Clearing House has the ability to call US dollars in respect of an intra-day margin call up until 16:00 New York time (21:00 London time).

The Clearing House may not accept delivery of US dollar cash other than in satisfaction of an intra-day margin call after 14:00 hours New York time.

The Clearing House must receive confirmation of payment from the Clearing Member's nominated PPS bank(s) within one hour of receipt of the intra-day call by the relevant bank.

Failure of a bank to confirm a PPS call within one hour may result in the Clearing Member being declared in Default. Late confirmation of PPS calls are reported to the regulators of the Clearing House.

(e) *Use of UK and US PPS*

Generally UK PPS will be used for Morning PPS Calls (including Contributions to the Default Fund), remitting surplus cash balances to a Clearing Member, and for intra-day margin calls up to 16:00 hours London time. However 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 hours London time to a Clearing Member's US PPS account in exceptional circumstances (an "**Exceptional PPS Call**"). The Clearing House will use all reasonable commercial endeavours to notify the Clearing Member in advance of issuing any such Exceptional PPS Call.

(f) *Auto-~~R~~epay Service*

The Clearing House may, at its discretion, provide an auto-repay service to a Clearing Member ("**Auto-Repay Service**") by which a Clearing Member may, in respect of one or more accounts it notifies to the Clearing House (each, a "**Selected Account**") and one or more of the currencies it notifies to the Clearing House (each, a "**Selected Currency**"), request that the Clearing House automatically repay to the Clearing Member, at such time as determined by the Clearing House on each business day, any cash Collateral (other than Client Collateral) which is in a Selected Currency and which constitutes "excess collateral" (as defined in Section 1.1.2 of Section 4 of the Procedures (*Margin*



and Collateral)) in respect of a Selected Account in accordance with, and subject to, Section 1.1.2 of Section 4 of the Procedures (Margin and Collateral) (each such request, a "Request").

A Clearing Member must contact Collateral Operations in order to make a Request (collateral.clientservices@lch.com or +44 (0)20 7426 7505). A Clearing Member represents and warrants to the Clearing House, at the time at which it makes a Request, that the individual making such Request on its behalf is duly authorised to do so.

The Clearing House may, at its discretion, cease to provide the Auto-Repay Service in respect of:

(i) a Clearing Member, in which case it will notify the affected Clearing Member accordingly; or

(ii) any Service or entirely, in which case it will notify the affected Clearing Members and each relevant Regulatory Body accordingly.

~~Clearing Members may request that they are automatically repaid any excess cash balances that remain on their accounts (other than an Individual Segregated Account or a Custodial Segregated Account) at the end of each day where the relevant Service of which the Clearing Member is a member provides an auto-repay mechanism. Clearing Members must contact Treasury Operations in order to have auto-repay applied to their accounts. (collateral.clientservices@lch.com or Tel +44 (0)20 7426 7505) Those Clearing Members who are not on auto-repay may request that any cash balances on their accounts (other than an Individual Segregated Account or a Custodial Segregated Account) be repaid on the same day, provided that such request is received by the Clearing House by 09:30 London time.~~

~~In certain circumstances and following notification to one or more relevant Regulatory Bodies, the Clearing House may disable the auto-repay functionality for all Clearing Members of a Service. The Clearing House will notify affected Clearing Members via Clearing member Circular in the event that the functionality is disabled.~~

(g) *Value Date*

PPS calls and payments are for value the same day as the day of the CAD, EUR, GBP and USD and with value for the next day for all currencies, subject to Section 1.3.1(g). Call instructions issued on a day when the Clearing House is not open for business (e.g. Saturdays) are for value the next day for CAD, EUR, GBP and USD and for value two days are the instruction for all other currencies. Payment instructions will not be issued on a day when the Clearing is not open for business.

(i) If, under Section 1.3.1(f), a PPS call or payment in a particular currency would be due to be made for value on a day ("**Payment Date**") which is a holiday in respect of that currency, the value date for such PPS transaction will be the first day which is not a holiday in respect of that currency occurring after the Payment Date; and

**Appendix II**  
Procedures Section 4  
(Margin and Collateral)



**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.

### 1.1.2 *Excess Collateral*

The Clearing House shall, at least once on each business day, notify each Clearing Member of the Required Margin Amount and the Total Required Margin Amount.

If a Clearing Member's Current Collateral Value exceeds the sum of that Clearing Member's Total Required Margin Amount and any other amounts which the Clearing Member is required to transfer to the Clearing House under Applicable Law (such excess, ~~being referred to in this Section 1.1.2 as the "excess collateral value"~~), then that Clearing Member may, in accordance with Sections 1.3 and 1.4 of these Procedures, [Section 1.3.1\(f\) of Section 3 of the Procedures \(\*Financial Transactions\*\)](#) and/or any other operational process the Clearing House determines, request that some or all of the Collateral comprising its Clearing Member Current Collateral Balance (other than any Client Collateral) having a value not exceeding the excess collateral value (such Collateral being referred to in these Procedures as "**excess collateral**") be returned or repaid by the Clearing House to, or to the order of, that Clearing Member. For the avoidance of doubt, for the purposes of determining whether there is an excess collateral value (for the purposes of this Section 1.1.2) at the time of the Clearing Member's request, the Clearing Member's Total Required Margin Amount shall not include the amounts of any margin requirements from the Clearing Member to the Clearing House (whether or not demanded of the Clearing Member) in respect of which the time for performance has not occurred at the time of such request.

In the event that the Clearing House expressly notifies the Clearing Member of a positive excess collateral value and that the Clearing House intends to levy a charge in respect of the excess collateral with effect from a date notified in that notification, and the Clearing Member does not take all reasonable steps to eliminate the positive excess collateral value before the date so notified, the Clearing House may, in its discretion, but only from the date so notified, charge the Clearing Member in respect of the excess collateral at the rate of 1 basis point per day until the excess collateral is eliminated. Payment of this charge shall be collected on a monthly basis through that Clearing Member's PPS sterling account.

If the Clearing House has received a request to return excess collateral, the Clearing House shall promptly take such steps as are necessary to transfer the amount of excess collateral specified in that request to or to the order of the relevant Clearing Member in respect of each account held by the Clearing Member with the Clearing House, provided that:

- (a) the Clearing House shall only be obliged to take such steps with respect to any Collateral pursuant to this Section 1.1.2:
  - (i) to the extent that it constitutes excess collateral;
  - (ii) if the Clearing Member is not a Defaulter;

- (iii) to the extent the Clearing House is permitted to take such steps and make such transfer under Applicable Law and the contractual provisions of any relevant Depository;
  - (iv) if the Clearing House considers it is not necessary or desirable to retain such Collateral in order to effect (or seek to effect) a transfer of Contracts and Collateral from an account of a Clearing Member to another account of a Clearing Member or FCM Clearing Member in accordance with the Rulebook, the FCM Regulations, the FCM Procedures and/or any relevant Collateral Management Agreement; and
  - (v) if there is no overnight margin and/or cash call (including an EOD Margin Run call) in respect of the relevant Clearing Member which remains outstanding.
- (b) where the Clearing Member has requested that non-cash Collateral of a particular type in respect of an account be transferred, the Clearing House shall transfer such non-cash Collateral unless it determines, acting in a commercially reasonable manner, that transferring such non-cash Collateral would result in the Clearing House being unable to satisfy its policies on concentration limits in respect of the various types of non-cash Collateral held by it from time to time ("**Concentration Limits**"), in which case the Clearing House shall notify the Clearing Member thereof and shall not be obliged to transfer the requested non-cash Collateral; and
- (c) where the Clearing Member has requested that cash Collateral of a particular currency in respect of an account be transferred, the Clearing House shall transfer such cash Collateral unless it determines, acting in a commercially reasonable manner, that transferring such cash Collateral would result in the account not satisfying the Clearing House's requirement for a minimum amount of cash Collateral in a particular currency to be held in, or attributed to, such account ("**Cash Requirement**"), in which case the Clearing House shall notify the Clearing Member thereof and shall not be obliged to transfer the requested cash Collateral.

#### 1.1.3 *Substitution of non-cash Collateral*

At any time, a Clearing Member may notify the Clearing House in accordance with Sections 1.3 and 1.4 of these Procedures that it wishes to substitute any non-cash Collateral in respect of an account which is subject to a Deed of Charge (the "**Original Collateral**") with replacement Collateral in respect of such account having a value not less than the Original Collateral (the "**New Collateral**") (such request being a "**Substitution Request**").

If the Clearing House has received a Substitution Request, it shall, promptly following the Clearing House being satisfied that the New Collateral has been transferred to the Clearing House in accordance with Section 1.3 and 1.4, take such steps as are necessary to transfer such Original Collateral to or to the