

VIA CFTC Portal

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

16 January 2023

LCH Limited Self-Certification: Rulebook changes for Japanese securities

Dear Mr. Kirkpatrick,

LCH Limited (“LCH”), a derivatives clearing organization registered with the Commodity Futures Trading Commission (“CFTC”), is submitting for self-certification, pursuant to CFTC Regulation §40.6(a), changes to its Rulebook.

Part I: Explanation and Analysis

The Japanese Act on Book-Entry Transfer of Corporate Bonds and Shares (Act No. 75 of 2001) (“the Act”) requires that derivatives clearing organizations have a Japanese custody account with an authorised custodian and that Japanese securities are transferred from a proprietary account (pledgor ledger) to a custody account (pledgee ledger) (this includes Japanese government bonds). LCH has therefore added two new paragraphs to its Rulebook which set out what constitutes Japanese securities and the transfer of such securities between Clearing Member and LCH accounts. The changes reflect operations within LCH and recognize the requirements set out in the Act. There will be no change in arrangements with current custodians nor connections to any new custodians following this Rulebook amendment.

Part II: Description of Rule Changes

Provisions have been added to the LCH Procedures, Section 4: Margin and Collateral. Specifically, these are Sections 1.2.4 (Japanese Securities) and 1.2.5 (Transfer of Japanese Securities) which include the definition of Japanese securities and that the transfer of Japanese securities between LCH and a Clearing Member shall be made to and from a proprietary ledger to and from a pledge ledger with an authorized custodian under Japanese law.

The changes to the rules are included in **Appendix I** in black line form. This change will take effect on or after **30 January 2023**.

Part III: Core Principle Compliance

LCH reviewed the proposed changes against the requirements of the Core Principles and finds it will continue to comply with all the requirements and standards set forth therein. Specifically, these changes will not alter how LCH complies with the operational requirements set out in Core Principle D (Risk Management) and Core Principle E (Settlement Procedures).

An LSEG Business

LCH | 10 Paternoster Square | London EC4M 7LS | T: +44 (0)20 7426 7000 | F: +44 (0)20 7426 7001 | lch.com

LCH Group Holdings Limited | LCH Limited | Banque Centrale de Compensation | LCH.Clearnet LLC

LCH Group Holdings Limited. Registered in England No. 4743602 Registered Office: 10 Paternoster Square, London, EC4M 7LS

LCH already accepts these securities and believes they have minimal credit, market, and liquidity risks in accordance of Core Principle D and specifically §39.13(g)(10). LCH believes that articulating the existing operational process clearly in its Rulebook will not impact its compliance with Core Principle D. Furthermore, LCH will also remain compliant with Core Principle E and specifically §39.14(b), as it will continue to have the authority and operational capacity to affect a settlement with each clearing member following this amendment to its rulebook.

Part IV: Public Information

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

Part V: Opposing Views

There have been 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 rule submission complies with the Commodity Exchange Act, as amended, and the regulations promulgated thereunder.

Should you have any questions please contact me at ebba.andersson1@lseg.com.

Yours sincerely,



Ebba Andersson
Senior Compliance Officer
LCH Limited

Appendix I
Procedures Section 4: Margin and Collateral

An LSEG Business

LCH | 10 Paternoster Square | London EC4M 7LS | T: +44 (0)20 7426 7000 | F: +44 (0)20 7426 7001 | lch.com

LCH Group Holdings Limited | LCH Limited | Banque Centrale de Compensation | LCH.Clearnet LLC

LCH Group Holdings Limited. Registered in England No. 4743602 Registered Office: 10 Paternoster Square, London, EC4M 7LS



LCH LIMITED

PROCEDURES SECTION 4

MARGIN AND COLLATERAL

CONTENTS

Section	Page
1. Collateral	3
1.1 General Information	3
1.2 Documentation	<u>89</u>
1.3 Instructions via CMS	<u>1140</u>
1.4 Settlement Procedures – Securities Provided by a Clearing Member to the Clearing House on a Bilateral Basis	<u>1244</u>
1.5 Tax Arrangements	<u>1544</u>
1.6 References	<u>1746</u>
1.7 Contingency Arrangements	<u>1746</u>
1.8 Triparty Service of Euroclear and Clearstream	<u>1746</u>
1.9 Custodial Segregated Accounts	<u>1847</u>
1.10 [RESERVED]	<u>1948</u>
1.11 SwapClear Intra-Day Margin Call: Collateral Management	<u>1948</u>

transferred into an account with the Clearing House by the Clearing Member. The document is required to be executed in accordance with the instructions which accompany it. The Deed of Charge covers, *inter alia*, non-cash Collateral that is transferred to the Clearing House via bilateral settlement or via triparty arrangements. To operate triparty arrangements with the Clearing House, additional documentation must also be executed with the relevant triparty provider.

The Deed of Charge is available from the Clearing House. Where a Clearing Member transfers non-cash Collateral to the Clearing House in respect of a Proprietary Account and a Client Account, it must execute two separate Deeds of Charge.

1.2.2 Segregation Rules

Instructions relating to transfers and requests for the return of Collateral must indicate the particular account to which they relate. Any Collateral transferred to the Clearing House in respect of an account will be applied against the Clearing Member's margin liabilities on such account.

Collateral transferred to the Clearing House in respect of a Clearing Member's Client Account will not be applied by the Clearing House to the Clearing Member's liabilities on a Proprietary Account (see Regulation 10(d) (*Accounts*)) or on another Client Account, except in the case of a Cross-ISA Client Excess Deduction or pursuant to Rule 15(a)(ii) of the Default Rules or any Insufficient Resources Determination Rule.

Collateral transferred to the Clearing House in respect of a Clearing Member's Proprietary Account may be applied by the Clearing House towards the payment of any sum whatsoever due by the Clearing Member to the Clearing House, save that, subject to Rule 8(d) of the Default Rules and any Insufficient Resources Determination Rule, no Collateral (other than House Excess and, to the extent not already included in the relevant Clearing Member Current Collateral Balance, Client Buffer) transferred in respect of a Clearing Member's Proprietary Account shall be applied on or towards payment or satisfaction of any of the Clearing Member's liabilities to the Clearing House on any of the Clearing Member's Client Accounts.

1.2.3 Clearing Client Collateral

Where a Clearing Member wishes to transfer a Clearing Client's Collateral to the Clearing House, the Clearing Member must, *inter alia*, ensure that at all times it remains expressly agreed with the Clearing Client that the Clearing Member may charge the Collateral to the Clearing House, on the Clearing House's terms and free of the Clearing Client's or another owner's interest, to secure the Clearing Member's obligations to the Clearing House.

The Clearing House gives no undertaking that, on the Default of a Clearing Member, it will not utilise Clearing Clients' Collateral which has been transferred to it by a Clearing Member, before utilising any other form of Collateral the Clearing House may hold.

1.2.4 Japanese Securities

Where a Clearing Member wishes to transfer non-cash Collateral which constitutes Japanese Securities to the Clearing House, the Clearing Member acknowledges and agrees that the Deed of Charge will also constitute a security agreement for the purpose of creating a security interest in such Japanese Securities under the applicable provisions of Japanese law and pursuant to the agreement of the Clearing Member under the Deed of Charge to grant to the Clearing House a pledge (*shichiken*) over such Japanese Securities.

For the purposes of this Section 1.2.4 and Section 1.2.5 below, "**Japanese Securities**" means Japanese government bonds, corporate bonds and shares which are eligible for book-entry transfer through an applicable Japanese settlement system operated either by the Bank of Japan or Japan Securities Depository Center, Incorporated pursuant to the Act on Book-Entry Transfer of Corporate Bonds and Shares of Japan (*shasai, kabushikitou no furikae ni kansuru houritsu*) (Act No. 75 of 2001, as amended) (the "**Japanese Book-Entry Transfer Act**").

1.2.5 Transfer of Japanese Securities

The transfer of non-cash Collateral that consists of Japanese Securities from the Clearing Member to the Clearing House shall be made by a record of the transfer of such Japanese Securities from the proprietary ledger (*hoyu ran*) of the relevant securities account of the Clearing Member opened with a custodian which is authorised under relevant Japanese laws and regulations to act as custodian in respect of the Japanese Securities (the "**Clearing Member Japanese Securities Account**") to the pledge ledger (*shichiken ran*) of the securities account of the Clearing House which is specified by the Clearing House from time to time that is opened with a custodian (the "**Clearing House Japanese Custodian**") which is authorised under relevant Japanese laws and regulations to act as custodian in respect of the Japanese Securities (the "**Clearing House Japanese Securities Account**").

The transfer of non-cash Collateral that consists of Japanese Securities from the Clearing House to the Clearing Member shall be made by a record of the transfer of such Japanese Securities from the pledge ledger (*shichiken ran*) of the relevant Clearing House Japanese Securities Account maintained by the Clearing House Japanese Custodian to the proprietary ledger (*hoyu ran*) of the relevant Clearing Member Japanese Securities Account.

Any instruction in respect of the transfer of Japanese Securities shall be made by the Clearing Member or the Clearing House, as applicable, to its custodian in accordance with the Japanese Book-Entry Transfer Act.

Unless otherwise specified by the Clearing House, the Clearing House Japanese Securities Account will be an omnibus account in the name of the Clearing House maintained by the Clearing House Japanese Custodian for holding Japanese Securities posted as collateral to the Clearing House by multiple Clearing Members. The Clearing House will maintain separate

records enabling it to distinguish the Japanese Securities held in the Clearing House Japanese Securities Account for, and pledged to the Clearing House by, one Clearing Member under the terms of the Deed of Charge between the Clearing House and that Clearing Member from the Japanese Securities held in the Clearing House Japanese Securities Account for, and pledged by, any other Clearing Member under the terms of the Deed of Charge between the Clearing House and that other Clearing Member.

Where the Clearing Member transfers non-cash Collateral that consists of Japanese Securities to the pledge ledger (*shichiken ran*) of the relevant Clearing House Japanese Securities Account, references in the Regulations and these Procedures to an "Account" or any similar reference shall be construed as including a reference to the relevant Clearing House Japanese Securities Account if the context so requires.

Clearing Members are warned that the transfer of Collateral and the grant of a security interest are complex legal matters. The Rulebook and any communication with the Clearing House (whether of an oral or written nature) are not to be taken as legal or other advice. A Clearing Member should seek its own independent professional advice.

1.3 INSTRUCTIONS VIA CMS

The Clearing House will action instructions relating to Collateral that have been input and authorised via the CMS in accordance with, and subject to, this Section 4 of the Procedures.

For non-cash instructions to transfer securities and triparty Collateral, the details input on the CMS will form the basis of the matching instruction sent to the relevant Depository. Clearing Members must ensure that the details are input correctly in order to avoid unmatched transactions.

For cash instructions via PPS, the details the Clearing Member inputs into the CMS will form the basis of the call or the SWIFT MT202 payment instruction sent to the relevant PPS Bank.

For cash instructions via any real-time gross settlement system (“RTGS”):

- 1.3.1 The Clearing Member must input the relevant details into the CMS, to ensure that the Clearing House credits/debits the correct amount of cash to the Clearing Member’s Collateral Account.
- 1.3.2 If the Clearing House’s policies in respect of concentration limits are satisfied, the Clearing Member will supply the Unique End-to-End Transaction Reference (the “UETR”) of the SWIFT MT202 payment instruction into the UETR field in the CMS.
- 1.3.3 If the payment does not match up with an authorised CMS instruction featuring the same UETR, the Clearing House will return the cash to the Clearing Member on or after the cash deadline for the relevant currency, on