



**VIA CFTC PORTAL**

20 March 2015

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

Dear Mr Kirkpatrick:

Pursuant to CFTC regulation §40.6(a), LCH.Clearnet Limited ("LCH.Clearnet"), a derivatives clearing organization registered with the Commodity Futures Trading Commission (the "CFTC"), hereby submits for self-certification an amendment to the LCH.Clearnet Rulebook. These changes become effective on April 7, 2015.

**Part I: Explanation and Analysis**

The purpose of these changes is to amend the Procedures Section 3 - Financial Transactions as follows:

- i) Paragraph 1.3.1(e) is amended to clarify that the auto-repay functionality may be disabled for all members of a service in certain circumstances.
- ii) Paragraph 1.3.1(g) is amended to clarify the arrangements with UK PPS banks with respect to UK Banking days when there are currency holidays in countries other than the UK and the applicable value dates for such payments resulting from a PPS call.
- iii) Paragraph 1.4.2 is amended by deleting "Gold" from the title. Gold is no longer eligible collateral following cessation of LME clearing through LCH.Clearnet in 2014.
- iv) Paragraph 1.4.4 is amended by deleting references to "LME credit" and "Turquoise Derivatives".

**LCH.Clearnet Limited Aldgate House, 33 Aldgate High Street, London EC3N 1EA**  
Tel: +44 (0)20 7426 7000 Fax: +44 (0)20 7426 7001 [www.lchclearnet.com](http://www.lchclearnet.com)  
LCH.Clearnet Group Limited | LCH.Clearnet Limited | LCH.Clearnet SA | LCH.Clearnet LLC



## **Part II: Description of Rule Changes**

The changes are reflected in the black-lined version of the Procedures - Section 3 attached as Exhibit A.

## **Part III: Certification by LCH.Clearnet**

LCH.Clearnet certifies to the CFTC, in accordance with CFTC Regulation §40.6, that the planned changes comply with the Commodity Exchange Act and the CFTC Regulations promulgated there under. LCH.Clearnet further certifies that, prior to submission of this material, in compliance with §39.21 of the Commission's regulations, LCH.Clearnet has posted a notice of pending certification with the CFTC and a copy of the submission on the LCH.Clearnet website at

[http://www.lchclearnet.com/rules\\_and\\_regulations/ltd/proposed\\_rules.asp](http://www.lchclearnet.com/rules_and_regulations/ltd/proposed_rules.asp)

## **Part IV: Compliance with Core Principles**

LCH.Clearnet has concluded that its compliance with the Core Principles would not be adversely affected by these changes. The changes reflected herein will ensure continued compliance with the Core Principles and, in particular with Core Principle L.

## **Part V: Opposing Views**

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

Should you have any questions please contact me at [julian.oliver@lchclearnet.com](mailto:julian.oliver@lchclearnet.com).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Julian Oliver', written over a light blue circular stamp.

**Julian Oliver**  
**Chief Compliance Officer**

**LCH.Clearnet Rule Submission**

**Exhibit A**

**LCH.Clearnet Rulebook – Procedures Section 3 (Financial Transactions)**



**LCH.CLEARNET LIMITED**

**PROCEDURES SECTION 3**

**FINANCIAL TRANSACTIONS**

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Details of Collateral balances, valuations and instructions are also available using the on-line Collateral Management System (CMS).

### 1.3 Protected Payments System (PPS)

The Clearing House operates a direct debit system, known as the Protected Payments System ("**PPS**"), for the transfer of funds to and from Clearing Members. PPS is a recognised interbank payments system overseen by the Bank of England.

PPS is operated in both London ("**UK PPS**") and in the United States (where it is known as "**US PPS**"). In this Section, a day on which PPS is open is referred to as a "**working day**". The Clearing House also operates accounts in Hong Kong where Clearing Members will be mandated to hold accounts for the operation of certain Asian markets.

Clearing Members should note that the PPS (both in London and in the US) is a system for facilitating payment to the Clearing House of moneys due from Clearing Members to the Clearing House and vice versa. The giving of a commitment by a participating bank through PPS to make any payment, and the receipt of that commitment by the Clearing House, is not to be regarded as satisfaction of any payment due to the Clearing House.

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 is only completed when the funds have been credited for value to the relevant Clearing House bank account, and any time permitted by the relevant payment settlement system for the recall of any such payment has expired.

#### 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. Different banks may be used for different currencies.

Each Clearing Member is 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.lchclearnet.com/risk-collateral-management/collateral-management/protected-payments-system>

Clearing Members are responsible at all times for ensuring that their PPS banks 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/or US PPS Mandate (copies are available from [treasury.ops.uk@lchclearnet.com](mailto:treasury.ops.uk@lchclearnet.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.Clearnet Limited Treasury Operations.

(c) *Morning PPS Calls*

Clearing Members' liabilities are calculated overnight. Should the relevant liability not be covered by acceptable forms of Collateral held by the Clearing House (see Section 1.4) any shortfall is called through UK PPS with separate calls made for each currency. It is the responsibility of each Clearing Member to ensure that its UK PPS bank(s) meets all payment instructions received from the Clearing House. Confirmation of payments, as notified, must be received by the Clearing House from the relevant PPS bank(s) by 09:00 London time, or within one hour of a subsequent call, on the day on which the PPS call is made. Payments will only be recognized 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), (ii) has made such payments, and (iii) any time permitted by the relevant payment settlement system for the recall of any such payment has expired.

Where payments are due to a Clearing Member, payments will be recognized 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.

(d) *Intra-day PPS Calls*

The intra-day margin call by the Clearing House is for intra-day Collateral payments. GBP, EUR or USD can be used to cover margin obligations intra-day. Between 14:30 – 16:00 (London time) only USD will be called in London.

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 may 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.lchclearnet.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).

It is noted that the Clearing House will 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 branch.

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 LCH.Clearnet Group.

(e) *Auto-repay*

Clearing Members may request that they are automatically repaid any excess cash balances that remain on their accounts (other than an Individual 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. ([treasury.ops.uk@lchclearnet.com](mailto:treasury.ops.uk@lchclearnet.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) 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 ~~one or more~~ 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.

(f) *Value Date*

Although confirmation from the banks that PPS payments will be made must be received within the deadlines set out in Section 1.3.1(d), subject to Section 1.3.1(h), all currency transactions are processed by PPS with next business day value with the exception of the following currencies: CAD, EUR, GBP and USD, which are processed with value for the same business day.

(g) *Foreign Bank Holidays*

The Clearing House has made arrangements with UK PPS banks to operate the PPS on each day (except a Saturday or Sunday) on which banks in the UK are open for business (each a “UK Banking Day”), all UK banking days including all UK Banking Days which are foreign bank currency -holidays in countries other than the UK.

The Clearing House must receive ~~C~~confirmation that PPS payments will be made ~~must be received~~ within the deadlines set out in Section 1.3.1(d).

However if:

- (i) PPS payment in a particular currency (other than AUD) is due to be made on a day (“Payment Date”) which is a holiday in respect of that currency, the value date for such any PPS transactions made on a day which is a bank or public holiday in the country of that currency will be the first Value Date occurring after the Payment Date; and
- ~~(i)~~(ii) for a PPS payment in AUD is due to be made on a Payment Date which is a holiday for such currency, the date for such PPS payment will be the second Value Date occurring after the Payment Date. the next business day on which both the foreign currency centre and the Clearing House are open for business. This applies to GBP, CAD, EUR and USD.

For the purposes of this section 1.3.1(g) “Value Date” means, in respect of a PPS payment in a particular currency, a day which is both (i) a business day and (ii) not a holiday for such currency.

Example: 20 August is a public holiday in the USA but not in the UK. 21 August is a normal banking day in the USA.

On 20 August, the Clearing House will issue its normal USD instructions to PPS banks, and receive confirmation in response to the PPS ~~call~~; the Value Date for such call will be for value on 21 August.

(e) *Value Date*

Clearing Members must meet these margin calls for all USD working days even if it is a Hong Kong holiday, if the markets are open.

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 is only completed when the funds have been credited for the full value to the Clearing House bank account, at the nominated Hong Kong bank, and at the point in time when the Clearing House is able to verify that the funds are within the account.

#### 1.4 **Acceptable Forms of Collateral**

The Clearing House accepts certain types of Collateral in the Clearing House's prescribed form against liabilities. Please refer to the following link for further details: <http://www.lchclearnet.com/risk-collateral-management/collateral-management/acceptable-collateral>

**The Clearing House may vary, at its discretion, the standard requirements and valuation procedures set out in this Section 1.4, either generally or in a particular case, without giving prior written notice to Clearing Members. Further, the Clearing House may vary the types of Collateral acceptable to it.**

##### 1.4.1 *Cash*

In order not to fall within the scope of deposit-taking regulations applying to banks and similar institutions, the Clearing House can accept cash from Clearing Members only in relation to current or anticipated obligations.

Cash used as Collateral need not be provided in the same currency as that of the liability. In such cases, currencies will be notionally converted with reference to quoted exchange rates determined at approximately 16:45 London time the previous business day.

Clearing Members must give LCH.Clearnet Limited Treasury Operations no less than two business days' notice of their intention to substitute existing cash Collateral with non-cash Collateral or cash Collateral in a different currency where the amount of cash is 50 million GBP or greater. Where a Clearing Member fails to give such notice, the Clearing House may decline to transfer or release the cash Collateral to be withdrawn until the end of the required notice period.

#### 1.4.2 **Securities ~~and Gold~~**

Please refer to the following pages on our website for both prevailing haircuts and notes on Collateral acceptable to the Clearing House:

[http://www.lchclearnet.com/risk\\_management/ltd/acceptable\\_collateral.asp](http://www.lchclearnet.com/risk_management/ltd/acceptable_collateral.asp)

#### 1.4.3 **Value Notification**

Clearing Members may obtain details on the value ascribed to non-cash Collateral on their account for the purpose of calculating their Current Collateral Value by viewing the relevant reports available on the Member Reporting Website. The value of Collateral can be viewed on the Clearing Management System. Details of Collateral balances, valuations and instructions are also available using the on-line Collateral Management System (CMS).

#### 1.4.4 **Use of Credits as Collateral**

The following credit amounts are not paid in cash, but may (subject to the restrictions described below) be offset against certain specific margin obligations, with the result that the relevant Clearing Member will need to provide less Collateral in respect of those margin obligations:

~~(a) — LME credit contingent variation margin and credit net liquidating value may be used to offset LME debit contingent variation margin, debit net liquidating value and initial margin across currencies;~~

~~(b)~~(a) EquityClear credit contingent margin may be used to offset EquityClear debit contingent variation margin and initial margin across currencies;

~~(c)~~(b) ~~LSE DM Turquoise Derivatives~~ credit contingent variation margin (for forwards) and credit net liquidating value may be used to offset Turquoise Derivatives debit contingent variation margin, debit net liquidating value and initial margin across currencies;

~~(d)~~(c) EnClear credit net liquidating value may be used to offset EnClear debit net liquidating value and initial margin across currencies; and

~~(e)~~(d) RepoClear credit variation margin may be used to offset RepoClear debit variation margin and initial margin across currencies.

#### 1.5 **Distribution of Collateral**

**The following procedures are not in any way intended to restrict, vary, or alter the Clearing House's rights to apply Collateral held (including any described in Clearing House reports/records as "unutilised" or "excess") to meet the Clearing Member's liabilities/obligations to the Clearing House.**