

VIA CFTC PORTAL

07 May 2019

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

### **LCH Limited Self-Certification: Excess Sub-Account**

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 to permit its Futures Commission Merchants (FCMs) clearing members to post client excess collateral to an additional sub-account of an FCM’s Cleared Swaps Customer Account.

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

LCH has different types of collateral accounts for its members and clients. LCH can permit an FCM to open an “excess account” in the FCM’s name; such excess account is a sub-account of the FCM’s Cleared Swaps Customer Account (as defined in Part 22 of the CFTC Regulations). This excess account will be used to post and cover initial margin liabilities related to client business that are not posted as part of LCH’s general overnight margin process, which are typically covered by an intraday margin call to the given FCM. Collateral recorded to the excess remains operationally segregated in accordance with the CEA and the CFTC regulations. Further, the rule changes will expressly state that such delivered collateral is the property of the given FCM, and not of its clients.

The rule changes will go live on, or after, 22 May 2019.

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

Section 2.1.6 (Financial Accounts) of the FCM Procedures has a new paragraph providing the ability for an FCM to request and open an excess account, and expressly provides that any collateral delivered to such excess account is the property of the given FCM.

The texts of the rule changes are attached hereto as:

- i. **Appendix I, FCM Procedures**

### **Part III: Core Principle Compliance**

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



Julian Oliver  
Chief Compliance Officer  
LCH Limited

**Appendix I**  
FCM Procedures



**FCM PROCEDURES OF THE CLEARING HOUSE**

**LCH LIMITED**

---

SwapClear accounts (identified as such by a unique three letter mnemonic). Each FCM SwapClear Contract will also be assigned a unique trade identifier by the Clearing House. The SwapClear FCM Clearing Member Reporting functionality also allows each FCM Clearing Member and FCM Client to identify all FCM SwapClear Contracts registered in its name.

At the request of an FCM Clearing Member or FCM Client, as applicable, the Clearing House may permit the FCM Clearing Member or FCM Client, as applicable and/or its respective agent or designee (that has previously been approved by the Clearing House for such purpose) to assign or amend a trade identifier to an FCM SwapClear Contract in its accounts, provided that no such assignment or amendment shall in any way affect the Clearing House trade identifiers in respect of each such FCM SwapClear Contract. By making such request, such FCM Clearing Member, either on its own behalf or on behalf of an FCM Client acknowledges that the Clearing House shall have no liability for any direct or indirect consequence of the use or assignment of such additional trade identifiers.

Any request for the Clearing House to approve an agent or designee for the purposes of this Section 2.1.5 must be made in writing and using the Clearing House's standard documentation. Through making a request, an FCM Clearing Member, either on its own behalf or on behalf of an FCM Client, is deemed to represent and warrant that the individual making the request is appropriately authorized to do so.

Notwithstanding anything in this Section 2.1.5 of the FCM Procedures, the Clearing House trade identifiers and records in relation to FCM SwapClear Contracts shall be the definitive version for all purposes involving the Clearing House or any service or product offered by it, and shall prevail over any versions otherwise maintained by or on behalf of any FCM Clearing Member.

#### 2.1.6 *Financial Accounts*

FCM Clearing Member accounts have financial accounts associated with them. These are, *inter alia*, used to record cash balances and securities/documentary credits. Information contained within position-keeping accounts is consolidated into financial accounts, as follows:

(a) *Relationship with Position-Keeping Accounts*

<b>Position- keeping Account</b>	<b>Financial Account</b>		
H	House	H	Proprietary Account
C	Client	C	LCH SwapClear Client Segregated Depository Account used for Initial

<b>Position- keeping Account</b>			<b>Financial Account</b>		
					Margin Flows
	Client	L	LCH	SwapClear	Client Segregated Account used for Settlement Flows
					Depository Account used for Variation Settlement Flows

The C account is a Cleared Swaps Customer Account as defined in Part 22 of the CFTC Regulations.

(b) *Other Financial Accounts*

The Clearing House may, at its discretion, open further financial accounts.

(c) *Default Fund (DF) Account*

Each FCM Clearing Member's Contribution is held in a separate financial account. The DF account code is "F".

(d) Excess Account

Upon request from an FCM Clearing Member, the Clearing House may open an Excess account in the FCM Clearing Member's name. The Excess account is a sub-account of the C account and is therefore a Cleared Swaps Customer Account as defined in Part 22 of the CFTC Regulations. An FCM Clearing Member may only deliver FCM Buffer to the Excess Account. The Excess account code is "E".

2.1.7 *FCM SwapClear Contract Valuation*

(a) *Net Present Value*

The Clearing House will calculate the Net Present Value (NPV) of each eligible FCM SwapClear Contract using the Clearing House's zero coupon yield curves.

It is a condition of registration that sufficient Margin and other Required Registration Amounts, as determined by the Clearing House, are furnished to the Clearing House to cover the Clearing House's Margin requirement for each FCM SwapClear Transaction (taking into account, for these purposes, SwapClear Tolerance, if any) and other amounts required by the Clearing House to register the FCM SwapClear Contract, except that such Required Registration Amounts shall not be required to be furnished prior to registration as a condition thereto if such FCM SwapClear Transaction is a Sub-Block Trading Venue Transaction.