



**LCH LIMITED**

**PROCEDURES SECTION 4**

**MARGIN AND COLLATERAL**

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- (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;
- (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; and
- (vi) to the extent the restriction under Section 1.1.8 does not apply to the excess collateral to be returned to the relevant Clearing Member.

- (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 permit the transfer of 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 permit the transfer of 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

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.

**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 House will then provide the Clearing Member a CMS instruction reference number (the “CMS Reference”); and

1.3.3 The Clearing Member will then transfer the cash to the Clearing House’s account in the relevant RTGS, inputting the CMS Reference in field 21 of the Clearing Member’s SWIFT MT202 payment instruction.

1.3.4 If the Clearing Member fails to input the CMS Reference or inputs an incorrect CMS Reference, the Clearing House will return the cash to the Clearing Member on or before the relevant currency’s cash deadline, on the business day the Clearing Member sent the instruction to the Clearing House via CMS. The deadlines are published at the following link of the Clearing House’s web site, under the heading *Cash Collateral Deposit and Withdrawal Cut-Off Times*:

<https://www.lch.com/collateral-management/ltd-collateral-management/ltd-acceptable-collateral/ltd-acceptable-cash>

It is the responsibility of the Clearing Member to input a cancellation request of any incorrectly input instruction and to subsequently input the correct details in a new instruction. Please note that it may not be possible to cancel an instruction (please refer to Section 1.4.7 below for further details).

The Clearing House will update the status of an instruction in the CMS to reflect the status of the corresponding instruction at the relevant Depository, [Central Bank](#) or PPS Bank. On settlement of the relevant transaction at the relevant Depository, [Central Bank or PPS Bank](#), the Clearing House will reflect the balance of the securities or cash on the relevant account of the Clearing Member and take them into account for the purposes of calculating the Clearing Member's Current Collateral Value.

The Clearing House will not be liable for any losses to Clearing Members or third parties caused by non-settlement or by a delay in settlement as a result of the actions or omissions of a Depository, [Central Bank or PPS Bank](#) or the Clearing Member (save for any liability which may not be excluded by Applicable Law).

#### 1.4 **SETTLEMENT PROCEDURES – SECURITIES PROVIDED BY A CLEARING MEMBER TO THE CLEARING HOUSE ON A BILATERAL BASIS**

All transactions to transfer non-cash Collateral from a Clearing Member to the Clearing House or from the Clearing House to a Clearing Member will be executed free of payment. Members are encouraged to instruct with provisions to allow settlement in late day windows (e.g. Daylight, Priority 90 and other such local market indicators).

##### 1.4.1 *Instruction Deadlines*

Clearing Members may input security instructions via the CMS at any time. Instructions will only be actioned by the Clearing House during operational hours.

The Collateral Operations' operational hours are Monday to Friday 07:00 – 21:00 (UK time).

For settlement in Austraclear, the Collateral Team in Sydney are available Monday to Friday 09:00 – 16:30 (AEST).

Instruction deadlines are available on the LCH website at the following location:

<https://www.lch.com/collateral-management/ltd-collateral-management/ltd-acceptable-collateral/ltd-acceptable-securities>

##### 1.4.2 *Deliveries to and from Local Markets*

The Clearing House is bound by the settlement deadlines of the relevant Depository. Clearing Members should refer to the relevant Depository for these deadlines. Note that for transactions from local markets the settlement deadline may be earlier than the Clearing House hours of operation and should therefore be instructed the day before the settlement date (i.e. on S-1).

of such cash Collateral, the settlement instruction will, subject to Sections 1.1.2 and 1.1.8, be sent to the Depository by the Clearing House and the Collateral specified in those instructions will, subject to Sections 1.1.2 and 1.1.8, no longer be included when calculating the Clearing Member's Current Collateral Value.

#### 1.4.5 *Substitutions*

Substitution instructions will, subject to Sections 1.1.3 and 1.1.8, and to confirmation of those instructions by the Clearing House, be actioned on the same day if input prior to the deadlines advised by the Clearing House.

Clearing Members must first input the relevant lodge instruction(s) and then link the associated release instruction(s) to the lodge instruction(s).

Substitution instructions sent via manual form should be instructed by 16:30 (UK time) on the business day before the intended settlement to afford the maximum time for both the lodge and release instructions to settle in sequence. All instructions are subject to Sections 1.1.3 and 1.1.8, and confirmation of those instructions by the Clearing House.

#### 1.4.6 *Transfers*

Transfer instructions may be input via the CMS and will (subject to Sections 1.1.2 and 1.1.8) be actioned on the same day during operational hours.

Note: transfers are only permitted between mnemonics of the same Clearing Member and are subject to client segregation rules.

#### 1.4.7 *Settlement Cancellations*

Clearing Members may request the cancellation of an instruction via the CMS. The Clearing House will cancel any instruction that has not yet been processed. The Clearing House will seek, using its best endeavours, to cancel any settlement instructions already sent to the relevant Depository, but cannot guarantee that the transaction will not settle.

#### 1.4.8 *Instruction Status*

The status of an instruction can be monitored via the CMS. Statuses reflect the status of the instruction at the Clearing House and not at the relevant Depository, [Central Bank](#) or PPS Bank. Please refer to the CMS user guide for status definitions.

### 1.5 **TAX ARRANGEMENTS**

#### 1.5.1 *US Securities*

For tax reasons, the Clearing House is required to segregate foreign (i.e. non-US) owners' securities from US owners' securities. Clearing Members must deliver securities to the correct account. The Clearing House operates accounts with Citibank N.A., BMO Harris and Bank of New York Mellon.

Manual Affirmation deadline	17:00 (UK time)
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#### 1.10 [RESERVED]

#### 1.11 **SWAPCLEAR INTRA-DAY MARGIN CALL: COLLATERAL MANAGEMENT**

For the avoidance of doubt, this Section 1.11 applies only in respect of the SwapClear Service.

##### 1.11.1 *General – Intra-day Margining*

Following an intra-day margin call and unless notified otherwise by a SwapClear Clearing Member at the time of an intra-day margin call, the Clearing House will deduct cash, in the appropriate currency, directly from the relevant SwapClear Clearing Member's PPS account to cover that intra-day margin call.

Standard Clearing House rules as to the currencies in which cash Collateral may be transferred to the Clearing House to satisfy an intra-day Collateral requirement will apply.

It is the responsibility of the SwapClear Clearing Members to ensure that they have sufficient cash funds in place with their PPS ~~B~~bank(s) in order to enable the Clearing House to deduct cash within 1 hour of the intra-day margin call.

If the Clearing House is unable to contact the SwapClear Clearing Member in order to arrange an alternative payment method for the intra-day margin call, the Clearing House will automatically issue a PPS call to debit the SwapClear Clearing Member's PPS account in the appropriate currency.