

VIA CFTC Portal

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

11 August 2023

LCH Limited Self-Certification: London Deposit Rate and Client Deposit Rate rulebook changes

Dear Mr Kirkpatrick,

Pursuant to Commodity Futures Trading Commission (“CFTC”) regulation §40.6(a), LCH Limited (“LCH”), a derivatives clearing organization (“DCO”) registered with the CFTC is submitting for self-certification the proposed rule changes to which LCH can change the London Deposit Rate and Client Deposit Rate for clearing members and clients collateral cash balances.

This filing relates to a rule change LCH submitted for self-certification on 17 November 2022, which was paused to assess additional feedback received post the original member consultation. LCH is now filing the same rule changes for self-certification, together with some additional amendments.

Part I: Explanation and Analysis

LCH accepts a wide range of currencies as cash collateral to cover initial margin requirements both intraday and at end of day. The following are four different types of rates applied to cash collateral balances placed by clearing members and clients:

- **Client Deposit Rate (“CDR”)**: The rate at which LCH will pay or charge interest on a cash collateral balance for SwapClear and ForexClear client accounts in EUR, GBP and USD.
- **FCM London Deposit Rate (“FCM LDR”)**: The rate at which LCH will pay or charge interest on a cash collateral balance for SwapClear FCM accounts in EUR, GBP and USD.
- **RepoClear Deposit Rate (“RDR”)**: The rate at which LCH will pay or charge interest on a cash collateral balance for RepoClear accounts in EUR, GBP and USD.
- **London Deposit Rate (“LDR”)**: The rate at which LCH will pay or charge interest on a cash collateral balance for all other accounts, excluding the ones noted above and default fund cash balances.

These rates are all listed on LCH’s website: [LCH Ltd Fees on Collateral | LCH Group](#)

LCH intends to make the following rule amendments in relation to the above rate:

- I. The frequency, notification period and increment of change for revisions to these fees are set out in LCH’s Rulebook (the “Rulebook”). Currently, LCH can only change LDR up to 10 bps in a single instance with a three-day notice period. The intention is to

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

revise the Rulebook to provide for LCH changing LDR by any increment while remaining subject to the three-day notice period. LCH will also align the notification period of for the CDR to three days, which is currently subject to a two-week notice period.

- II. Remove the option for LCH to make changes to the LDR and CDR without any notification period under extreme market conditions. This is to ensure that clearing members will always have notice of any changes to these two rates.

There are no changes to the Rulebook related to any of the other fees applied to cash collateral balances.

Part II: Description of Rule Changes

Provisions in Procedures, Section 3 Financial Transactions, section 1.7.3 (Cash Balance Interest Rate) and FCM Procedures, section 3.5 (Interest, Price Alignment Amount and Accommodation Charge Structure) have been revised as described above.

The changes to the rules are included in **Appendices I-II** in black line form. The changes will be effective no earlier than **25 August 2023**.

Part III: Core Principle Compliance

LCH has reviewed the Proposed Rule Changes against the requirements of the DCO Core Principles, specifically Core Principle L on Public Information, and finds that it will continue to comply with the requirements and standards therein. The changes related to the increments with which LCH can change the LDR will remain in LCH's publicly available Procedures Section 3 and FCM Procedures. This will enable market participants to evaluate accurately the risks and costs associated with using LCH, in compliance with Core Principle L.

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: <https://www.lch.com/resources/rulebooks/proposed-rule-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.

Certification

LCH hereby certifies to the Commodity Futures Trading Commission, pursuant to the procedures set forth in CFTC Regulation §40.6, that the attached 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
FCM Procedures
Changed Pages



FCM PROCEDURES OF THE CLEARING HOUSE

LCH LIMITED

3.4.4 *Use of a Defaulter's cover*

Post-default the Clearing House is entitled to realize and/or apply a Defaulter's cover in whatever order it deems appropriate.

3.4.5 *Overnight FCM Funding Account*

Upon request from an FCM Clearing Member, the Clearing House may open an Overnight FCM Funding Account. The Clearing House will, in general, apply available Standard FCM Buffer to satisfy liabilities in accordance with FCM Regulation 15 before it applies available Overnight FCM Funding Collateral, but may, at its sole discretion, determine to apply some or all available Overnight FCM Funding Collateral before it applies Standard FCM Buffer.

3.5 **Interest, Price Alignment Amount and Accommodation Charge Structure**

3.5.1 *Cash Balance Interest Rate*

The Clearing House applies interest to FCM Clearing Members' cleared cash balances. The following rates are applied:

- (a) LDR – London Deposit Rate – the rate at which the Clearing House will pay or charge interest on credit cash balances (excluding Contributions). The LDR calculation methodology utilizes published market rates minus a spread. The current spread rates are published on the LCH website at the following link: http://www.lch.com/fees/ltd/custody_services.asp;
- (b) CDR – Client Deposit Rate – the rate at which the Clearing House will pay or charge interest on credit cash balances on Client financial accounts. The CDR calculation methodology utilizes published market rates minus a spread. The current spread rates are published on the LCH website at the following link: http://www.lch.com/fees/ltd/custody_services.asp; and

For the avoidance of doubt, the Clearing House may apply a different or separate LDR or CDR on FCM Clearing Member's cleared cash balances with respect to each Service.

- (c) Default Fund Rate.

Rates are available from the Member Reporting Website.

The Clearing House reserves the right to alter the basis of calculating each above listed interest rates. Any alteration will be effective on the date notified.

~~Where the Clearing House may increase or decrease the LDR and/or the CDR by providing provides FCM Clearing Members with at least three days written notice (which may be by way of member circular), the Clearing House may increase or decrease the LDR by up to 10bps. The foregoing shall not~~

~~apply in the event of extreme market conditions, during which the Clearing House may freely and without notice increase or decrease the LDR for up to five consecutive Business Days.~~

~~Where the Clearing House provides FCM Clearing Members with two weeks' written notice (which may be way of member circular), the Clearing House may increase or decrease the CDR. In the event of extreme market conditions, the Clearing House may freely and without notice increase or decrease the CDR for up to five consecutive Business Days.~~

3.5.2 *Price Alignment Amount Rate*

The calculation of the Price Alignment Amount shall use the applicable interest rate specified and published on the Clearing House's website. The Clearing House shall not change the interest rates used for the calculation of Price Alignment Amount in respect of USD, EUR, GBP, JPY and CHF without the consent of all FCM Clearing Members holding open FCM SwapClear Contracts in such currencies.

Notwithstanding the foregoing, in the event the interest rate source used for the calculation of Price Alignment Amount (a) is unavailable (including where such rate ceases, or will cease, to be provided by its administrator), (b) is not sufficiently robust, (c) is not fit for purpose, or (d) has materially changed, in each case as determined in the Clearing House's sole discretion, the Clearing House may use an alternative interest rate without the consent of such FCM Clearing Members.

If the Clearing House chooses an alternative interest rate for the purpose of calculating the Price Alignment Amount pursuant to this Section 3.5.2, it shall notify all FCM Clearing Members within the FCM SwapClear service in writing by delivering a Rate Change Notice.

3.5.3 *Interest Structure*

Application of Collateral	Type of Collateral			
	Securities	Cash	Foreign Cash	Forward Cash
Initial margin after offset	Accommodation Charge Payable	Pay relevant rate	pay relevant rate of Collateral currency	No charge or payment
Excess or Surplus	No charge or payment	Pay relevant rate	Pay relevant rate	No charge or payment

Note:

- 1 "Foreign Cash" means cash in a currency other than that of the liability.
- 2 "Forward Cash" means cash which has been credited to an account for later value (e.g., an amount called via PPS for next-day value).
- 3 Applicable Accommodation Charges are available on the Clearing House's website.

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PROCEDURES SECTION 3

FINANCIAL TRANSACTIONS

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- (b) accommodation charges.

VAT on accommodation charges is subject to the standard rate; some markets may be excluded.

1.7.3 Cash Balance Interest Rate

The Clearing House applies interest to a Clearing Member's cleared cash balances. The following rates are applied:

- (a) LDR – London Deposit Rate – the rate at which the Clearing House may pay or charge interest on credit cash balances (excluding Contributions). The LDR calculation methodology utilises published market rates minus a spread. The current spread rates are published on the Clearing House's website at the following link:

[LCH Ltd Fees on Collateral | LCH Group](#)

and

- (b) CDR – Client Deposit Rate – the rate at which the Clearing House may pay or charge interest on credit cash balances on Client Accounts. The CDR calculation methodology utilises published market rates minus a spread. The current spread rates are published on the Clearing House's website at the following link:

[LCH Ltd Fees on Collateral | LCH Group.](#)

~~Where the Clearing House may increase or decrease the LDR and/or the CDR by providing provides Clearing Members with at least three days' written notice (which may be by way of member circular), the Clearing House may increase or decrease the LDR by up to 10bps. The foregoing shall not apply in the event of extreme market conditions, during which the Clearing House may freely and without notice increase or decrease the LDR for up to five consecutive Business Days.~~

~~Where the Clearing House provides Clearing Members with two weeks' written notice (which may be way of member circular), the Clearing House may increase or decrease the CDR. In the event of extreme market conditions, the Clearing House may freely and without notice increase or decrease the CDR for up to five consecutive Business Days.~~

1.8 Fees

Details of fees and refunds pending are collated during the month.

An invoice or credit note is produced detailing the fees to be posted to collateral accounts.