



**VIA CFTC PORTAL**

29 August 2023

Mr Christopher J. Kirkpatrick  
Office of the Secretariat  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21<sup>st</sup> Street NW  
Washington, DC 20581

**RE: Proposed amendments to LCH SA CDS Clearing Rules – U.S. Expansion and FCMs**

Dear Mr. Kirkpatrick,

Pursuant to CFTC regulation §40.6(a), LCH SA (“**LCH SA**”), a derivatives clearing organization (“**DCO**”) registered with the Commodity Futures Trading Commission (the “**CFTC**”), is submitting for self-certification the proposed amendments to its CDS Clearing Rules and Liquidity Risk Modelling Framework (collectively, the “**Proposed Rule Change**”)<sup>1</sup> as part of the CDSClear U.S. expansion initiative.

The implementation of the Proposed Rule Change will be contingent on LCH SA’s receipt of all necessary regulatory approvals. The Proposed Rule Change is expected to be effective from 14 September 2023 however, in no event, will either be implemented earlier than 10 business days after the proposed changes are filed with the CFTC.

The text of the Proposed Rule Change is attached hereto as Appendices 1-8.

**Part I: Explanation and Analysis**

LCH SA is proposing to amend its FCM/BD CDS Clearing Regulations (“**Regulations**”) and certain provisions of its CDS Clearing Rule Book (“**Rule Book**”) to implement a portfolio margining program (“**Program**”), pursuant to which FCM/BD Clearing Members may offer FCM/BD Clients the opportunity to portfolio margin FCM/BD Cleared Transactions that are security-based swaps (“**SBS**”) with FCM/BD Cleared Transactions that are Cleared Swaps in the participating FCM/BD Clearing Member’s FCM/BD Swaps Client Account Structure.

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<sup>1</sup> Capitalized terms used but not defined herein shall have the meaning specified in LCH SA’s existing CDS Clearing Rule Book or Clearing Supplement.

LCH SA is also proposing to amend certain provisions of its Rule Book and its CDS Clearing Procedures (“**Procedures**”)<sup>2</sup> regarding permitted Collateral (including Eligible Collateral and Eligible Currency), the Client Collateral Buffer, and the release of Collateral to a Clearing Member.

In addition, LCH SA is making other miscellaneous amendments to its Rule Book, Procedures and CDS Clearing Supplement and will adopt a new Clearing Notice.

Further, LCH SA is also making a number of amendments to its Liquidity Risk Modelling Framework (“**Framework**”)<sup>3</sup> to take into account the segregation requirements and investment restrictions applicable to FCMs’ customers funds.

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

### **1. Purpose**

In separate orders issued in November, 2021, the Securities and Exchange Commission (“**SEC**”) and the CFTC (collectively, the “**Agencies**”) set out the terms and conditions pursuant to which LCH SA’s FCM/BD Clearing Members may elect to offer their FCM/BD Clients the opportunity to portfolio margin FCM/BD Cleared Transactions that are SBS with FCM/BD Cleared Transactions that are Cleared Swaps in the participating FCM/BD Clearing Member’s FCM/BD Swaps Client Account Structure. The Proposed Rule Change is being adopted, in part, to implement this Program. In addition, the Proposed Rule Change will amend certain provisions of its Rule Book and its Procedures regarding permitted Collateral, the Client Collateral Buffer, and the release of Collateral to a Clearing Member. The Proposed Rule Change will also make other miscellaneous amendments to LCH SA’s Rule Book and Procedures. Finally, the Proposed Rule Change will also update the Liquidity Risk Modelling Framework with respect to the liquidity resources and requirements applicable to FCM/BD Clearing Members.

#### **a. Portfolio Margining Program**

The rules establishing the Program will be set out primarily in a new Regulation 7 in LCH SA’s Regulations, which are designed to ensure that the Program complies with the terms and conditions set out in the SEC Portfolio Margining Order and the CFTC Portfolio Margining Order.

- Section 7(a) of the Regulations (“In General”) will define the “Portfolio Margining Program” as the program by which LCH SA is authorized, pursuant to the SEC Portfolio Margining Order and the CFTC Portfolio Margining Order, to offer FCM/BD Clearing Members, on

<sup>2</sup> The version of the Rule Book and Section 3 of the Procedures which includes the Proposed Rule Change reflects a separate proposed rule change previously submitted to the Securities and Exchange Commission (SEC) under the Filing No. SR-LCH SA-2023-004 which is still subject to the SEC’s approval process. [Federal Register :: Self-Regulatory Organizations; LCH SA; Notice of Filing of Proposed Rule Change Relating to Triparty Collateral Mechanism.](#)

<sup>3</sup> The amendments are to the version of the Framework that has been submitted for CFTC review under the Rule certification made on May 26, 2023, which conforms the Framework to the common template adopted by the London Stock Exchange Group (“LSEG”) for use by each of its affiliates. [LCHSA LRMF migration to LSEG CFTC SelfCert Formal\\_26 May 23.pdf.](#)

behalf of their FCM/BD Clients, the ability to elect to portfolio margin FCM/BD Cleared Transactions that are SBS with FCM/BD Cleared Transactions that are Cleared Swaps.

- Section 7(b) of the Regulations (“Participation”) will provide that FCM/BD Clearing Members may participate in the Program by providing LCH SA such materials that LCH SA may require from time to time, including in respect of its FCM/BD Clients. This section also provides that, in providing these materials to LCH SA, the FCM/BD Clearing Member shall be deemed to represent that: (a) it is both an FCM and a BD and neither such status has been revoked; (b) it is in compliance with the applicable requirements of the SEC Portfolio Margining Order and the CFTC Portfolio Margining Order; and (c) each relevant FCM/BD Client is an “eligible contract participant” as defined in Section 1a(18) of the Commodity Exchange Act.
- Section 7(c) of the Regulations (“Operation”) will provide that, following the Portfolio Margining Start Date, all FCM/BD Cleared Transactions that are SBS for the relevant FCM/BD Client will be treated as FCM/BD Portfolio Margining Transactions and will be held (along with any associated Collateral) in the FCM/BD Swaps Client Account Structure on a commingled basis with FCM/BD Cleared Transactions that are Cleared Swaps for such FCM/BD Client. Further, all such FCM/BD Portfolio Margining Transactions will constitute Cleared Swaps for purposes of the CDS Clearing Rules and the resulting combined positions will be margined on a portfolio basis in respect of the relevant FCM/BD Client. Finally, this section will provide that the relevant FCM/BD Client will be deemed to acknowledge and agree that any property used to margin, guarantee or secure the FCM/BD Portfolio Margining Transactions will not receive customer protection treatment under the Securities Exchange Act (“**Act**”) or Securities Investor Protection Act of 1970 (“**SIPA**”) and will instead receive customer protection treatment under the commodity broker liquidation provisions of the Code and the rules and regulations promulgated thereunder.

In addition to new Regulation 7, certain conforming changes will also be made to other sections of the Regulations. In particular, in the “Definitions” section of the Regulations, the definition of the LCH Cleared Swaps Client Segregated Depository Account will be amended to make clear that the account includes, where relevant, FCM/BD Portfolio Margining Transactions. Similarly, the definition of the LCH SBS Client Segregated Depository Account will be amended to make clear that the account excludes any FCM/BD Portfolio Margining Transactions. Equivalent changes will be made to the relevant provisions of the Rule Book and Section 3 of the Procedures by adding a reference to the new defined term of “FCM/BD Portfolio Margining Transaction”, where needed.

Further, Article 6.2.1.1(iii) of the Rule Book will be deleted. Article 6.2.1.1(iii) establishes the terms and conditions pursuant to which, prior to the compliance date for the final capital, margin, and segregation requirements for security-based swap dealers and the adoption of the SEC Portfolio Margining Order, an FCM/BD Clearing Member that is both an FCM and a BD was authorized to clear and hold FCM/BD Cleared Transactions that are SBS for FCM/BD Clients in the FCM/BD Swaps Client Account Structure on a commingled basis with Cleared Swaps. With the implementation of the more comprehensive Portfolio Margining Program set out in Section 7 of the Regulations, Article 6.2.1.1 is unnecessary.

In addition, because LCH SA expects that all FCM/BD Clients will elect to portfolio margin all of their SBS transactions rather than maintain a separate FCM/BD SBS Client Segregated Depository Account, Regulation 2(a) will be amended to provide that an FCM/BD Clearing Member will maintain an FCM/BD

SBS Client Segregated Depository Account only if required, and Regulation 2(b) will be amended to provide that LCH SA will establish an LCH SBS Client Segregated Depository Account for an FCM/BD Clearing Member only upon request. Finally, Regulation 2(c) will be amended to confirm that all Collateral deposited with LCH SA by FCM/BD Clearing Members in connection with Cleared Swaps will include Collateral deposited in connection with FCM/BD Portfolio Margining Transactions and will be held in an LCH Cleared Swaps Segregated Depository Account.

Section 3 of the Procedures will also be revised in the expectation that all FCM/BD Clients will elect to portfolio margin their SBS transactions. Specifically:

- Section 3.3(b) will be revised to provide that LCH SA will maintain an FCM/BD SBS Client Collateral Account to record the Collateral held by LCH SA for the benefit of such FCM/BD Clearing Member's SBS Customers with respect to SBS only where required. Any reference to the FCM/BD SBS Client Collateral Account in Section 3 of the Procedures will be preceded by the condition that such account is established.
- Section 3.7(a)(ii)(z) will be revised to provide that LCH SA will maintain a TARGET2 Account to be used to make Collateral Calls in relation to the Client Margin Requirement(s) with respect to SBS only where required.
- Section 3.7(b) will be revised to provide that an FCM/BD Clearing Member has an obligation to maintain a TARGET2 Account for the purposes of the Collateral Calls in respect of its Client Margin Requirement(s) with respect to SBS only where required. Any reference to such TARGET2 Account in Section 3 of the Procedures will be preceded by the condition that such account is established.
- Section 3.8(b) will be revised to provide that LCH SA will be required to maintain a USD account to credit USD Cash Collateral which is transferred by FCM/BD Clearing Members to be recorded in their FCM/BD SBS Client Collateral Account (the "**LCH FCM/BD SBS Client USD Account**") only where required. Any reference to the LCH FCM/BD SBS Client USD Account in Section 3 of the Procedures will be preceded by the condition that such account is established.
- Section 3.14(a) will be revised to provide that LCH SA will be required, upon request, to maintain a segregated depository account in Bank of New York Mellon US' ("**BNYM US**") books to register BNYM US Eligible Collateral which is transferred by FCM/BD Clearing Members in connection with SBS other than SBS that constitute FCM/BD Portfolio Margining Transactions (the "**LCH SBS Client Depository Account**"). Any reference to the LCH SBS Client Depository Account in Section 3 of the Procedures will be preceded by the condition that such account is established.
- A new Section 3.18(b)(y) will be added to provide that the FCM/BD Clearing Member will establish a TARGET2 Account for the purposes of the Collateral Calls in respect of its Client Margin Requirement(s) with respect to SBS only where required. As noted earlier, LCH SA expects that all FCM/BD Clients will elect to portfolio margin all of their SBS transactions rather than maintain a separate FCM/BD SBS Client Segregated Depository Account. New Section 3.18(b)(y) confirms that LCH SA will not establish a TARGET2 Account with respect to SBS unless an FCM/BD Client does not elect to portfolio margin its SBS transactions.

- Section 3.18(c) will be revised to provide that an FCM/BD Clearing Member has an obligation to hold a BNYM US cash account for the purposes of satisfying its Cash Payments obligations in respect of its Client Cleared Transactions that are SBS only where required.

Certain definitions set out in the Rule Book will also be revised, in each case, to recognize that FCM/BD Portfolio Margining Transactions, i.e., FCM/BD Cleared Transactions that are SBS and that are held in the FCM/BD Swaps Client Account Structure pursuant to the Portfolio Margining Program established in new FCM/BD Regulation 7, will be treated as Cleared Swaps for all purposes and, as such, governed by new FCM/BD Regulation 7. As with Article 6.2.1.1(iii), discussed earlier, the current definitions were adopted to implement the structure in place prior to the compliance date for the final capital, margin, and segregation requirements for security-based swap dealers and the adoption of the SEC Portfolio Margining Order, pursuant to which an FCM/BD Clearing Member that is both an FCM and a BD is authorized to clear and hold FCM/BD Cleared Transactions that are SBS for FCM/BD Clients in the FCM/BD Swaps Client Account Structure on a commingled basis with Cleared Swaps. With the adoption of new FCM/BD Regulation 7, references to current definitions or Articles in the Rule Book are revised to reflect the Portfolio Margining Program.

In particular:

- Cleared Swap. This definition currently provides that a Cleared Swap is an FCM/BD Cleared Transaction (i) constituting a Cleared Swap as defined in CFTC Regulation 22.1 or (ii) constituting an SBS that is held in the FCM/BD Swaps Client Account Structure set out in Article 6.2.1.1(i) in pursuant to Article 6.2.1.1(iii). As revised, subparagraph (ii) of the definition will provide that a Cleared Swap is an FCM/BD Cleared Transaction “constituting an FCM/BD Portfolio Margining Transaction.”
- Cleared Swaps Customer. This definition currently provides that a Cleared Swaps Customer is (i) a Cleared Swaps Customer, as defined in CFTC Regulation 22.1, of an FCM/BD Clearing Member with respect to Cleared Swaps, that is an eligible contract participant as defined in Section 1a(18) of the CEA, other than subparagraph (C) thereof, or as may be further defined by CFTC Regulations, and (ii) a person that would be a Cleared Swaps Customer, as defined in CFTC Regulation 22.1, of an FCM/BD Clearing Member with respect to any transaction constituting an SBS that is a Cleared Swap under the definition in this Section 1.1.1, as if such transaction is a Cleared Swap for purposes of the definition of Cleared Swaps Customer in CFTC Regulation 22.1. As revised, subparagraph (ii) of the definition will provide that a Cleared Swaps Customer is “a person that is treated as a Cleared Swaps Customer in connection with maintaining FCM/BD Portfolio Margining Transactions in the FCM/BD Swaps Client Account Structure of an FCM/BD Clearing Member pursuant to the Portfolio Margining Program.
- Cleared Swaps Customer Collateral. This definition currently provides that Cleared Swaps Customer Collateral is Cleared Swaps Customer Collateral, as defined in CFTC Regulation 22.1, with respect to Cleared Swaps, including with respect to any transaction constituting an SBS that is a Cleared Swap under the definition in Section 1.1.1, as if such transaction is a Cleared Swap for purposes of the definition of Cleared Swaps Customer Collateral in CFTC Regulation 22.1. As revised, this definition will provide that Cleared Swaps Customer Collateral is Cleared Swaps Customer Collateral, as defined in CFTC Regulation 22.1, with respect to Cleared Swaps, including with respect to any transaction constituting an SBS that is an FCM/BD Portfolio Margining Transaction.

- FCM/BD Swaps Client Trade Account. This definition currently provides that an FCM/BD Swaps Client Trade Account is an account opened by LCH SA in the name of an FCM/BD Clearing Member for the benefit of the Customer of such FCM/BD Clearing Member in order to register all Cleared Swaps (including any SBS that are held in the FCM/BD Swaps Client Account Structure as Cleared Swaps pursuant to Article 6.2.1.1(iii) in relation to such FCM/BD Client). As revised, this definition will provide that an FCM/BD Swaps Client Trade Account is an account opened by LCH SA in the name of an FCM/BD Clearing Member for the benefit of the Customer of such FCM/BD Clearing Member in order to register all Cleared Swaps (including any SBS that constitute FCM/BD Portfolio Margining Transactions in relation to such FCM/BD Client).
- FCM/BD SBS Client Collateral Account. This definition currently provides, in relevant part, that an FCM/BD SBS Client Collateral Account is an account opened in the books of LCH SA to record the Collateral held by LCH SA for the benefit of an FCM/BD Clearing Member's SBS Customers with respect to FCM/BD Cleared Transactions that are SBS (excluding any SBS transactions held in the FCM/BD Swaps Client Account Structure as Cleared Swaps pursuant to Article 6.2.1.1(iii)). As revised, this definition will provide, in relevant part, that an FCM/BD SBS Client Collateral Account is an account opened in the books of LCH SA to record the Collateral held by LCH SA for the benefit of an FCM/BD Clearing Member's SBS Customers with respect to FCM/BD Cleared Transactions that are SBS (excluding any SBS that constitute FCM/BD Portfolio Margining Transactions).
- FCM/BD SBS Client Financial Account. This definition currently provides that an FCM/BD SBS Client Financial Account is a segregated account opened in the books of LCH SA for an SBS Customer of an FCM/BD Clearing Member with a view to record the Legally Segregated Value related to SBS (excluding SBS that are held in the FCM/BD Swaps Client Account Structure as Cleared Swaps pursuant to Article 6.2.1.1(iii)) of such FCM/BD Clearing Member's SBS Customer as determined by LCH SA in accordance with the CDS Clearing Rules. As revised, this definition will provide that an FCM/BD SBS Client Financial Account is a segregated account opened in the books of LCH SA for an SBS Customer of an FCM/BD Clearing Member with a view to record the Legally Segregated Value related to SBS (excluding SBS that constitute FCM/BD Portfolio Margining Transactions) of such FCM/BD Clearing Member's SBS Customer as determined by LCH SA in accordance with the CDS Clearing Rules.
- FCM/BD SBS Client Margin Account. This definition currently provides that an FCM/BD SBS Client Margin Account is an account opened by LCH SA in the name of an FCM/BD Clearing Member for the benefit of each SBS Customer of such FCM/BD Clearing Member in the CDS Clearing System for risk management purposes, in which the SBS of the SBS Customers (excluding SBS that are held in the FCM/BD Swaps Client Account Structure as Cleared Swaps pursuant to Article 6.2.1.1(iii)) are netted and corresponding Open Positions are registered, and each FCM/BD Client related SBS positions (excluding SBS transactions that are held in the FCM/BD Swaps Client Account Structure as Cleared Swaps pursuant to Article 6.2.1.1(iii)) corresponding to Eligible Intraday Transactions and Irrevocable Backloading STM Transactions pre-registered in the Account Structure of such FCM/BD Clearing Member (if so applicable pursuant to Article 6.2.3.1) are recorded, in order to calculate the FCM/BD Client Margin Requirement and Client NPV Payment Requirement of such FCM/BD Clearing Member in respect of such SBS Customer. As revised, this definition



will provide that an FCM/BD SBS Client Margin Account is an account opened by LCH SA in the name of an FCM/BD Clearing Member for the benefit of each SBS Customer of such FCM/BD Clearing Member in the CDS Clearing System for risk management purposes, in which the SBS of the SBS Customers (excluding SBS that constitute FCM/BD Portfolio Margining Transactions) are netted and corresponding Open Positions are registered, and each FCM/BD Client related SBS positions (excluding SBS transactions that constitute FCM/BD Portfolio Margining Transactions) corresponding to Eligible Intraday Transactions and Irrevocable Backloading STM Transactions pre-registered in the Account Structure of such FCM/BD Clearing Member (if so applicable pursuant to Article 6.2.3.1) are recorded, in order to calculate the FCM/BD Client Margin Requirement and Client NPV Payment Requirement of such FCM/BD Clearing Member in respect of such SBS Customer.

- FCM/BD SBS Client Trade Account. This definition provides that an FCM/BD SBS Client Trade Account is an account opened by LCH SA in the name of an FCM/BD Clearing Member for the benefit of an SBS Customer of such FCM/BD Clearing Member in order to register all SBS cleared by such FCM/BD Clearing Member (excluding SBS that are held in the FCM/BD Swaps Client Account Structure as Cleared Swaps pursuant to Article 6.2.1.1(iii)) in relation to such SBS Customer. As revised, this definition will provide that an FCM/BD SBS Client Trade Account is an account opened by LCH SA in the name of an FCM/BD Clearing Member for the benefit of an SBS Customer of such FCM/BD Clearing Member in order to register all SBS cleared by such FCM/BD Clearing Member (excluding SBS that constitute FCM/BD Portfolio Margining Transactions) in relation to such SBS Customer.

**b. Collateral/Accounts**

As noted above, in addition to the proposed changes linked to the implementation of the Program described in paragraph a. above, the Proposed Rule Change will also amend certain provisions of the Rule Book and the Procedures regarding permitted Collateral (including Eligible Collateral and Eligible Currency), the Client Collateral Buffer, and the release of Collateral to a Clearing Member.

With regard to Eligible Collateral, Section 3 of the Procedures will be amended to replace any references to US Treasury Bills (“**US T-Bills**”) by Eligible Collateral that may be held at BNYM US since there are also other securities, in addition to US T-Bills, that could be held with BNYM US. Section 3 will refer instead to “BNYM US Eligible Collateral” or “Eligible Collateral held at BNYM US”, where appropriate. With regard to Eligible Currency, Section 3.5 of the Procedures will be amended to provide that the Pound Sterling will no longer be an Eligible Currency for purposes of the FCM/BD Client Account Structure of an FCM/BD Clearing Member since LCH SA will not open an account for the purpose of depositing Cash Collateral under the form of Pound Sterling on behalf of FCM/BD Clients with a Permitted Depository as such term is defined in CFTC Regulations 22.1 and 22.4. As a result, Eligible Currencies for FCM/BD Client Account Structure will be limited to the Euro which is held in an LCH SA’s TARGET 2 Account opened with Banque de France and USD which is held in an LCH SA’s account opened with BNYM US and Section 3.4(b) will also be amended for this purpose by permitting the transfer of non-Euro denominated Cash Collateral to be credited to LCH SA’s accounts opened with Euroclear Bank in respect of the House Collateral Account and any Collateral Accounts of a CCM only (i.e., a clearing member that is not an FCM/BD Clearing Member). Indeed, LCH SA will not allow the transfer of Pound Sterling (included in the reference to “non-Euro denominated Cash Collateral”) on behalf of FCM/BD Clients to be credited to an LCH SA’s account opened with Euroclear Bank as it is not an eligible Permitted Depository within the

meaning of CFTC Regulations 22.1 and 22.4. Consequently, the provisions of Section 3.8(a) relating to the FCM/BD Swaps Client Non Euro Account and FCM/BD SBS Client Non Euro Account that should be opened in the name of LCH SA with Euroclear Bank will be removed as unnecessary.

The Proposed Rule Change will also make a number of changes with regard to rules governing the Client Collateral Buffer, including the FCM/BD Client Collateral Buffer. The Client Collateral Buffer is the value of Collateral recorded as Client Collateral Buffer, which allows a Clearing Member to satisfy its margin requirements in respect of a Client Account Structure of that Clearing Member if there is no or insufficient Collateral held in the relevant Client Account Structure for the purpose of clearing a client trade leg. These changes regarding the Client Collateral Buffer first consist in revising Section 3.1 of Section 3 of the Procedures to expand the types of Collateral permitted to be held in the FCM/BD Client Collateral Buffer. Currently, an FCM/BD Clearing Member and a CCM may deposit only Euro to be maintained as Client Collateral Buffer. As amended, Section 3.1 will permit:

- an FCM/BD Clearing Member to maintain as FCM Client Collateral Buffer Cash Collateral, meaning Eligible Currencies which will be limited to the Euro and USD and Eligible Collateral, which is securities that can be held at BNYM US, as set out in a list published by LCH SA on its website, that are acceptable by LCH SA to be registered in the FCM/BD Client Collateral Account; and
- a CCM to maintain as CCM Client Collateral Buffer Cash Collateral, meaning Eligible Currencies which will be limited to the Euro, USD and GBP and Eligible Collateral in the form of securities that are acceptable by LCH SA, as set out in a list published by LCH SA on its website, that may be transferred by way of full title transfer on a bilateral basis or pursuant to a triparty arrangement, or by way of security interest under a Belgian law pledge.

Sections 3.7(f), 3.8(f), 3.8(g), 3.10, 3.15(a) and 3.17(a) of the Procedures, which describe how a Clearing Member may transfer each type of Collateral to LCH SA, will also be revised to refer specifically to the transfer of Euro-denominated cash, non-Euro denominated Cash Collateral, USD denominated Cash Collateral, Eligible Collateral provided with full title transfer, Pledged Eligible Collateral and BNYM US Eligible Collateral, respectively, to be maintained as Client Collateral Buffer, provided that such Clearing Member is permitted to maintain that type of Collateral as Client Collateral Buffer.

As a consequence of the possibility to maintain Client Collateral Buffer with other type of Collateral than Euro Cash Collateral, the relevant provisions of the Rule Book pursuant to which the Allocated Client Collateral Buffer shall be transferred to the relevant CCM Client Collateral Account or, as the case may be, the relevant FCM/BD Client Financial Account in certain circumstances will need to be amended. Indeed, where LCH SA determines that there is insufficient Client Excess Collateral allocated to: (i) in the case of a CCM: the relevant CCM Client Account Structure; or (ii) in the case of an FCM/BD Clearing Member: the relevant FCM/BD Client Margin Account, to enable the novation of a client trade leg, an amount of the Available Client Collateral Buffer shall be "allocated" to: (a) in the case of a CCM: the relevant CCM Client Account Structure; or (b) in the case of an FCM/BD Clearing Member: the relevant FCM/BD Client Margin Account. Pursuant to the current provisions of the Rule Book, in the event of an Event of Default occurring in respect of a Clearing Member, LCH SA will: (i) if the Defaulting Clearing Member is a CCM, transfer an amount of Cash Collateral denominated in Euro which is equal to the CCM Allocated Client Collateral Buffer for the relevant CCM Client Account Structure from the CCM House



Collateral Account to the relevant CCM Client Collateral Account; or (ii) if the Defaulting Clearing Member is an FCM/BD Clearing Member, transfer an amount of Collateral which is equal to the FCM/BD Allocated Client Collateral Buffer for the relevant FCM/BD Client Margin Requirement from the FCM/BD Buffer Financial Account to the relevant FCM/BD Client Financial Account. Since an amount of Collateral equal to the value of the CCM Allocated Client Collateral Buffer needs to be transferred from the House Collateral Account of a Defaulting Clearing Member that is a CCM to the relevant CCM Client Collateral Account, if the Client Collateral Buffer is to be maintained with Collateral other than Euro Cash Collateral, LCH SA will need first to liquidate into Euro Collateral other than Euro Cash Collateral to be able to transfer the relevant amount denominated in Euro from the House Collateral Account to the relevant CCM Client Collateral Account in accordance with the proposed amended Clause 4.2.2(i) of Appendix 1 (CDS Default Management Process) of the Rule Book. Equivalent changes need to be made to the provisions dealing with the transfer of an amount in Euro equivalent to the CCM Allocated Client Collateral Buffer of a CCM in the event of: (a) an Early Termination Trigger Date, in accordance with the proposed amended Clauses 8.5.2(a)(i) and (b)(i) of Appendix 1 (CDS Default Management Process) of the Rule Book; and (b) an LCH Default in accordance with the proposed amended Article 1.3.1.3(iv) of the Rule Book, save that under these circumstances, LCH SA will not be permitted to liquidate any Pledged Eligible Collateral taken into account in that CCM Client Collateral Buffer.

Finally, Section 2.3(d) of the Procedures will be revised to provide that a Clearing Member may set or update its House Excess Collateral Threshold and/or Client Collateral Buffer Threshold on the Business Day such request will be made, instead of the next Business Day to meet Clearing Members' expectations to be able to update their House Excess Collateral Threshold more quickly than is currently possible.

Further, the Proposed Rule Change will amend the Rule Book and the provisions of the Procedures by which an FCM/BD Clearing Member may increase the amount of Collateral held as FCM/BD Client Collateral Buffer above the Collateral Buffer Threshold, i.e., the minimum value of Collateral that an FCM/BD Clearing Member wishes to maintain as FCM/BD Client Collateral Buffer in the FCM/BD Buffer Financial Account that is part of the relevant FCM/BD Client Account Structure opened by LCH SA. In accordance with Chapter 2 of Title VI of the Rule Book, an FCM/BD Clearing Member may request LCH SA to open an FCM/BD Swaps Client Account Structure in which Cleared Swaps (including SBS that will constitute FCM/BD Portfolio Margining Transactions in accordance with the proposed amendments described in paragraph a. Portfolio Margining Program above) will be registered or an FCM/BD SBS Client Account Structure in which SBS (excluding SBS that will constitute FCM/BD Portfolio Margining Transactions in accordance with the proposed amendments described in paragraph a. Portfolio Margining Program above) will be registered. Each of these FCM/BD Client Account Structures currently includes, in particular:

- an FCM/BD Client Collateral Account in which all the Collateral held on behalf of the relevant FCM/BD Clients is registered; a set of "financial accounts" in which the value of all the Collateral registered in the FCM/BD Client Collateral Account of that FCM/BD Client Account Structure is registered. Such set of financial accounts currently comprises:
  - an FCM/BD Swaps Client Financial Account for each Cleared Swaps Customer, in respect of an FCM/BD Swaps Client Account Structure, in which the Legally Segregated Value related to Cleared Swaps of such Cleared Swaps Customer, or an FCM/BD SBS Client Financial Account for each SBS Customer in respect of an FCM/BD SBS Client Account Structure, in which the Legally Segregated Value

- related to SBS (including SBS that will constitute FCM/BD Portfolio Margining Transactions in accordance with the proposed amendments described in paragraph a. Portfolio Margining Program above) of such SBS Customer;
- an FCM/BD Swaps Client Financial Account, in respect of an FCM/BD Swaps Client Account Structure, or an FCM/BD SBS Buffer Financial Account, in respect of an FCM/BD SBS Client Account Structure, in which the value of the Collateral recorded as FCM/BD Client Collateral Buffer is registered; and
- an FCM/BD Swaps Unallocated Client Collateral Financial Account, in respect of an FCM/BD Swaps Client Account Structure in which the value of FCM/BD Swaps Unallocated Client Excess Collateral is registered, or an FCM/BD SBS Client Excess Collateral Financial Account, in respect of an FCM/BD SBS Client Account Structure, in which the value of FCM/BD SBS Client Excess Collateral is registered.

The proposed revisions regarding the possibility for an FCM/BD Clearing Member to increase the amount of FCM/BD Client Collateral Buffer above the FCM/BD Client Collateral Buffer Threshold are being made to provide for the more efficient handling of Collateral held on behalf of FCM/BD Clients. Specifically:

- Article 4.2.2.3 of the Rule Book currently provides that only a CCM Clearing Member, and not an FCM/BD Clearing Member, may increase the amount of the Client Collateral Buffer. This Article will be amended to confirm that an FCM/BD Clearing Member may also increase the amount of Client Collateral Buffer above the Client Collateral Buffer Threshold.
- Article 4.2.2.5 of the Rule Book currently provides that in the event the FCM/BD Margin Balance of an FCM/BD Client Financial Account exceeds the relevant FCM/BD Client Margin Requirement prior to the Morning Call or the value of the Collateral attributed to the FCM/BD Buffer Financial Account exceeds the FCM/BD Client Collateral Buffer Threshold, such amount of the excess, if related to Cleared Swaps, is reclassified as FCM/BD Swaps Unallocated Client Excess Collateral, as defined in Article 6.2.5.1 of the Rule Book, or, if related to SBS is reclassified as FCM/BD SBS Client Excess Collateral, and thereafter may be returned to the FCM/BD Clearing Member, or (y) recorded in the relevant FCM/BD Buffer Financial Account and further reclassified as FCM/BD Client Collateral Buffer, in each case in accordance with Section 3 of the Procedures and Section 6.2.5 of the Rule Book. The proposed amendments to Article 4.2.2.5 will consist in: (i) removing the reclassification of any value of the Collateral above the FCM/BD Client Collateral Buffer Threshold as FCM/BD Swaps Unallocated Client Excess Collateral, or FCM/BD SBS Client Excess Collateral, where appropriate, and (ii) providing the FCM/BD Clearing Member with the alternative of requesting the transfer of any FCM/BD Swaps Unallocated Client Excess Collateral, or FCM/BD SBS Client Excess Collateral, where appropriate, to the FCM/BD Buffer Financial Account and its reclassification as FCM/BD Client Collateral Buffer.
- Article 6.2.5.1(iv)(d) of the Rule Book currently provides that if a FCM/BD Clearing Member delivers Collateral to LCH SA on behalf of one or more FCM/BD Clients in an amount that would cause an FCM/BD Swaps Client Financial Account to contain FCM/BD Swaps Client Excess Collateral, then LCH SA may (i) reject the deposit, (ii) transfer the excess back to the Clearing Member, or (iii) accept the deposit and transfer the excess to the FCM/BD Swaps Unallocated Client Collateral Financial Account. In order to provide for more efficient handling of FCM/BD Swaps Client Excess Collateral and to place responsibility for the

handling of such Collateral with the FCM/BD Clearing Member, Article 6.2.5.1(iv)(d) will be revised to provide that, upon the request of an FCM/BD Clearing Member, LCH SA will either (x) return FCM/BD Swaps Unallocated Client Excess Collateral to such FCM/BD Clearing Member, in accordance with the conditions set out in Section 3 of the Procedures; or (y) reclassify such FCM/BD Swaps Unallocated Client Excess Collateral as FCM/BD Swaps Client Collateral Buffer and record the value of such Collateral to the relevant FCM/BD Swaps Buffer Financial Account. If the FCM/BD Clearing Member requests LCH SA to reclassify such FCM/BD Swaps Unallocated Client Excess Collateral as FCM/BD Swaps Client Collateral Buffer and record the value of such Collateral to the relevant FCM/BD Swaps Buffer Financial Account, the FCM/BD Clearing Member will be deemed to represent to LCH SA that such request reflects the true characterization of the Collateral held by LCH SA, including in particular that the Collateral is the property of the FCM/BD Clearing Member. A reference to this request for reclassification will be added to Article 6.2.5.1(iv)(c) for consistency purposes. Article 6.2.5.1(iii)(c) will provide that any excess FCM/BD Swaps Client Collateral Buffer will be returned to the relevant FCM/BD Clearing Member upon request.

- Article 6.2.5.1(ii) of the Rule Book will be revised to provide that FCM/BD Swaps Unallocated Client Excess Collateral also includes any amounts transferred to the FCM/BD Swaps Unallocated Client Collateral Financial Account in accordance with Article 6.2.4.4(i). Further, in the event an FCM/BD Clearing Member delivers Collateral to LCH SA on behalf of one or more FCM/BD Clients in an amount that would cause an FCM/BD Swaps Client Financial Account to contain FCM/BD Swaps Client Excess Collateral, LCH SA will accept the deposit and immediately transfer the amount of such excess to the FCM/BD Clearing Member's FCM/BD Swaps Buffer Financial Account, whereupon it shall also become FCM/BD Swaps Client Collateral Buffer. The Article currently provides that LCH SA may also (a) reject the deposit or (b) immediately transfer the entire deposit or the amount of such excess back to the FCM/BD Clearing Member.
- Article 6.2.5.2 of the Rule Book establishes a procedure with regard to FCM/BD SBS Excess Collateral or FCM/BD SBS Client Collateral Buffer that parallels the procedures in Article 6.2.5.1 above with regard to FCM/BD Swaps Client Collateral. That is, if a FCM/BD Clearing Member delivers Collateral to LCH SA on behalf of one or more SBS Customers in an amount that would cause an FCM/BD SBS Client Financial Account to contain FCM/BD SBS Client Excess Collateral, the current rule provides that LCH SA may (i) reject the deposit, (ii) transfer the excess back to the Clearing Member, or (iii) accept the deposit and transfer the excess to the FCM/BD SBS Unallocated Client Collateral Financial Account. In order to provide for more efficient handling of FCM/BD SBS Client Excess Collateral and to place responsibility for the handling of such Collateral with the FCM/BD Clearing Member, Article 6.2.5.2(ii) will be revised to provide that LCH SA will accept the deposit and immediately transfer the amount of such excess to the FCM/BD Clearing Member's FCM/BD SBS Buffer Financial Account, whereupon it shall also become FCM/BD SBS Client Collateral Buffer.

The Proposed Rule Change will also amend various provisions of Section 3 of the Procedures to clarify the process by which a Clearing Member may request the return of Collateral. In particular:

- Section 3.7(g) of the Procedures currently describes the manner in which an FCM/BD Clearing Member may request the return of FCM/BD Swaps Unallocated Client Excess

Collateral in the form of Euro-denominated Cash Collateral to the FCM/BD Clearing Member's Client Collateral Financial Account. This Article will be revised to establish the process by which an FCM/BD Clearing Member may request the release of Euro denominated Cash Collateral recorded in the FCM/BD Client Collateral Account and will provide that such Collateral may be released only if LCH SA determines that it will continue to hold Collateral sufficient to cover the FCM/BD Client Requirement for each FCM/BD Client Margin Account and to satisfy the FCM/BD Clearing Member's Client Collateral Buffer Threshold.

- Section 3.8(h) and Section 3.15(b) of the Procedures extends the process by which a CCM may request the return of non-Euro denominated Cash Collateral to the return of non-Euro denominated Cash Collateral and Pledged Eligible Collateral, respectively, recorded as CCM Client Collateral Buffer in its CCM House Collateral Account.
- Section 3.10.1(c) of the Procedures and Section 3.10.2(d) set out a similar process by which a CCM may request the return of Eligible Collateral transferred with full title, on a bilateral basis and pursuant to a triparty arrangement, respectively, recorded as CCM Client Collateral Buffer in its CCM House Collateral Account.

The Proposed Rule Change will also revise Section 3.18(b) and (c) of the Procedures to clarify the use of TARGET2 Accounts by LCH SA and its Clearing Members for satisfying Cash Payment obligations and/or Variation Margin Collateral Transfer obligations in Euro, and the use of BNYM Accounts by LCH SA and its Clearing Members with regard to Cash Payments and/or the transfer of Variation Margin Collateral in USD. With regard to TARGET2 Accounts, Section 3.18(b) will be revised to provide that, for the purpose of making or receiving Cash Payments in Euro, LCH SA will use: (a) the LCH House TARGET2 Account to satisfy Cash Payments and/or Variation Margin Collateral Transfer obligations in Euro with respect to all relevant House Cleared Transactions of each Clearing Member; and (b) the LCH CCM Client TARGET2 Account for satisfying Cash Payments and/or Variation Margin Collateral Transfer obligations in Euro with respect to all relevant Client Cleared Transactions of each Clearing Member.

Section 3.18(b) will be further revised to provide that, with regard to an FCM/BD's Clearing Member's Client Cleared Transactions, LCH SA will use: (a) the FCM/BD Clearing Member's TARGET 2 Account established for the purposes of the Collateral Calls in respect of its Client Margin Requirement(s) with respect to Cleared Swaps and FCM/BD Client Collateral Buffer Threshold will be used for the debits and credits made out the LCH CCM Client TARGET2 Account for the purposes of satisfying Cash Payments obligations regarding all relevant Client Cleared Transactions of that FCM/BD Clearing Member that are Cleared Swaps; and (b) the FCM/BD Clearing Member's TARGET 2 Account established for the purposes of the Collateral Calls in respect of, where required, its Client Margin Requirement(s) with respect to SBS (excluding SBS that constitute FCM/BD Portfolio Margining Transactions) and FCM/BD Client Collateral Buffer Threshold will be used for the debits and credits made out the LCH CCM Client TARGET2 Account for the purposes of satisfying Cash Payments obligations regarding all relevant Client Cleared Transactions of that FCM/BD Clearing Member that are SBS (excluding SBS that constitute FCM/BD Portfolio Margining Transactions).

Section 3.7(d)(iii) will be amended to provide that, in respect of the FCM/BD Client Account Structure of an FCM/BD Clearing Member, there will be no aggregation of payments between Euro denominated Cash Payments and Euro denominated Cash Collateral transfers through TARGET2 since Euro denominated Cash Payments will be made by using the LCH CCM Client TARGET 2 Account whereas the

transfer of Euro denominated Cash Collateral will be made by using the LCH FCM/BD Swaps Client TARGET2 Account or, as the case may be, the LCH FCM/BD SBS Client TARGET2 Account. Further, and for the avoidance of doubt, with regard to the FCM/BD Clearing Members' Client Cleared Transactions: (x) the FCM/BD Clearing Member's TARGET2 Account established for the purposes of the Collateral Calls in respect of its Client Margin Requirement(s) with respect to Cleared Swaps and FCM/BD Client Collateral Buffer Threshold will be used for the debits and credits made out the LCH CCM Client TARGET2 Account for the purposes of satisfying Cash Payments obligations regarding all relevant Client Cleared Transactions of that FCM/BD Clearing Member that are Cleared Swaps; and (y) the FCM/BD Clearing Member's TARGET2 Account established for the purposes of the Collateral Calls in respect of, where required, its Client Margin Requirement(s) with respect to SBS (excluding SBS that constitute FCM/BD Portfolio Margining Transactions) and FCM/BD Client Collateral Buffer Threshold will be used for the debits and credits made out the LCH CCM Client TARGET2 Account for the purposes of satisfying Cash Payments obligations regarding all relevant Client Cleared Transactions of that FCM/BD Clearing Member that are SBS (excluding SBS that constitute FCM/BD Portfolio Margining Transactions).

With regard to BNYM Accounts, Section 3.18(c) will be revised to provide that, for the purpose of making or receiving Cash Payments and/or the transfer of Variation Margin Collateral in USD, LCH SA will maintain only two BNYM Accounts. One account will be used to debit or credit USD to satisfy Cash Payments and/or Variation Margin Collateral Transfer obligations in USD with respect to all relevant House Cleared Transactions of each Clearing Member (the "LCH House BNYM Account"); the second account will be used to debit or credit USD to satisfy Cash Payments and/or Variation Margin Collateral Transfer obligations in USD with respect to all relevant Client Cleared Transactions of each Clearing Member (the "LCH Client BNYM Account"). The provisions of Section 3.18(c) that currently require LCH SA to maintain (x) a cash account used to debit or credit USD to satisfy Cash Payments and/or Variation Margin Collateral Transfer obligations in USD with respect to all relevant Client Cleared Transactions of each CCM (the "LCH CCM Client BNYM Account"); (y) a cash account used to debit or credit USD to satisfy Cash Payments obligations in USD with respect to all relevant Client Cleared Transactions of each FCM/BD Clearing Member that are Cleared Swaps (the "LCH FCM/BD Swaps Client BNYM Account"); and (z) a cash account used to debit or credit USD to satisfy Cash Payments and/or Variation Margin Collateral Transfer obligations in USD with respect to all relevant Client Cleared Transactions of each FCM/BD Clearing Member that are SBS (excluding SBS that are held in the FCM/BD Swaps Client Account Structure) (the "LCH FCM/BD SBS Client BNYM Account") will be removed.

The references to the former time slot for the Cash Payments in respect of Client Variation Margin Requirements of an FCM/BD Clearing Member that is no longer exists will be deleted from Section 3.18 (d) and Section 5.5 (step no.10) of the Procedures.

**c. *Miscellaneous Amendments***

**i. Time Reference**

Article 1.2.8.1 of the Rule Book currently provides that where reference is made in the CDS Clearing Documentation to a time or deadline, it shall be understood to mean Central European Time (CET), unless otherwise stipulated in the CDS Clearing Documentation. For the sake of clarity and avoid any confusion on the time zone that LCH SA will follow, especially when Central European Summer Time (CEST) applies, this Section will be revised to provide that where reference is made in the CDS Clearing Documentation to a time or deadline, it shall be understood to mean Paris Time, unless otherwise

stipulated in the CDS Clearing Documentation. As a result, all references to CET in the Procedures will be removed and Section 1.4 (Timing) of Parts A, B and C of the CDS Clearing Supplement to remove the reference to Central European Time and provide that any reference to a time of day herein shall be deemed to be a reference to the time zone as set out in Section 1.2.8 (Time reference) of the Rule Book unless otherwise provided herein.

Section 5.18 of the Procedures will be also amended to remove the provisions pursuant to which references to times and deadlines in this paragraph 5.18 are to London local time (being Greenwich Mean Time (GMT) or British Summer Time (BST) as applicable) unless otherwise specified because these provisions are not used in the absence of any reference to times or deadlines in this paragraph.

ii. Real Time Session

The Rule Book defines “Real Time Session” to mean the period commencing at the Start of Real Time and ending at the End of Real Time in respect of each Clearing Day. Start of Real Time (SoRT), in turn, is defined as the time as specified in a Clearing Notice. LCH SA will adopt a new Clearing Notice, which will provide that, unless notified otherwise:

- “Start of Real Time (SoRT)” means on each Clearing Day, the earlier of: (i) the time when all relevant Clearing Members have satisfied the Morning Call; and (ii) 09.05 (Paris time); and
- “End of Real Time” means 16.30 (New York time) on each Clearing Day.

Further, LCH SA may decide to change the Start of Real Time and/or the End of Real Time to a different time for operational or other reasons (including, but not limited to, on a Clearing Day that is a holiday in the United States). In such circumstances, the Clearing Members will be informed of the amended Start of Real Time and/or amended End of Real Time through service notification. LCH SA will publish any amendments or modifications to the content of the Clearing Notice in an updated Clearing Notice.

iii. Opening hours

Article 2.3.3.5 of the Rule Book will be revised to provide that each Clearing Member shall ensure that appropriate personnel are available for communications with LCH SA during the Real Time Session, instead of Opening Hours. An equivalent change will be made to Section 5.1(c) of the Procedures pursuant to which LCH SA is open during the Real Time Session and the operations team of LCH SA will be available during the Real Time Session. The opening hours applicable to the customer technical helpdesk will be also removed from this Section. Consequently, the defined term “Opening Hours” will be removed from the definitions section of the Rule Book since it will be no longer used.

Finally, other minor amendments made for consistency purposes, or the sake of clarity, will be made to the Rule Book, the Procedures and the Regulations. For instance, the definition of CCM in the Rule Book will be updated to replace the incorrect reference to FCM/BD Clearing Member by FCM/BD since a Clearing Member cannot be admitted as a CCM and an FCM/BD Clearing Member at the same time and the purpose of the reference to an FCM/BD in the definition of a CCM is to explain how an entity registered as an FCM and as a BD may be admitted as a CCM under the CDS Clearing Rules.

d. ***Amendments to Liquidity Risk Modelling Framework***



LCH SA is required to maintain certain levels of liquidity but given the CFTC segregation requirements applicable to derivative clearing organizations (DCOs), FCM/BD Clients' funds should be considered segregated as they are not available resources to LCH SA in a default management context unless the liquidity requirement is driven by the FCM/BD Clearing Member of such FCM/BD Clients. As part of the effective coming onboarding process of FCM/BD Clearing Members, LCH SA will reflect these requirements by making a number of updates and adjustments to its Liquidity Risk Modelling Framework mainly specifying that resources received from FCM/BD Clearing Members on behalf on their FCM/BD Clients or securities resulting from investment of FCM/BD Clients' funds are excluded from liquidity resources available unless the liquidity requirement is driven by the FCM/BD Clearing Member of such FCM/BD clients. Moreover, LCH SA is also updating its Liquidity Risk Modelling for the sake of clarity; such amendments are not strictly related to the FCM/BD related initiative.

In this regard:

- Section 1.1.1 (Reminder of SA's activities) will be updated in respect of the description of product scope of CDS Clear to provide that clearing activities relate to the clearing of US, Australia, Asia and sovereign index and single names CDS negotiated on OTC markets as well. This amendment has been made for the sake of clarity and it is not linked to the FCM/BD related initiative itself.
- Section 1.6.1 (Liquidity Sources) will provide that cash collateral posted by FCM/BD Clearing Members on behalf of their FCM/BD Clients or excess cash for FCM/BD Clients of FCM/BD Clearing Member(s) that can be generated on an intraday basis, as well as securities resulting from the investment of that cash are excluded from the available liquidity resources unless the liquidity need is generated by the FCM/BD Clearing Member of such FCM/BD Clients. Moreover, it will be clarified that LCH SA has the right to consider available for liquidity purposes all the resources collected if deposited under the full title transfer regime. Since Collateral deposited by FCM/BD Clearing Members on behalf of their FCM/BD Clients is subject to a security interest, a footnote, which currently provides for the list of Collateral which is not transferred by way of full title transfer, will be amended to add a reference to Collateral received from FCM/BD Clients.
- Section 1.6.1.1 (Collateral transfer to the 3G pool) will be updated to reflect the fact that non-cash collateral deposited via a Single Pledged Account is a way to post Collateral for activities not limited to CDS related activities only and to provide that USD securities received from FCM/BD Clients would not be deposited via Full Title Transfer Accounts.
- Section 1.6.1.2 (Assessment of assets' liquidity) will provide that LCH SA cannot rehypothecate non cash collateral collected from FCM/BD Clients to raise liquidity unless the FCM/BD Clearing Member of such FCM/BD clients is in default. The same treatment will also apply to securities resulting from FCM/BD Clients' cash which has been invested.
- Section 1.6.1.3 (Synthesis) which consists in a table summarizing the liquidity sources, will be amended as follows:
  - Cash and US non cash collateral received from FCM/BD Clearing Members on behalf of their FCM/BD Clients and excess cash for FCM/BD clients of FCM / BD clearing member(s) that can be generated on an intraday basis are excluded unless the liquidity requirement is driven by the FCM/BD Clearing Member of such FCM/BD Clients

- Securities resulting from investment of FCM/BD Clients' money cannot be used for liquidity purposes unless the liquidity requirement is driven by the FCM/BD Clearing Member of such FCM/BD Clients
- The description of the liquidity need "Repayment of excess cash by members" in Section 4.1.2 (Model inputs and Variable selection) will be amended by adding a footnote specifying that Non Euro non cash securities in DKK, NOK, SEK, JPY, CHF, CAD, AUD are excluded from the liquidity resources to be consistent with the description in section 4.1.5. These amendments are made for consistency purposes and are not linked to the FCM/BD related initiative.
- Sections 4.1.2 (Model inputs and Variable selection) and 4.1.5 (Model assumptions) will be amended to provide that, when calculating the liquid resources available to be compared against the Operational Target the cash received from the FCM/BD Clearing Members on behalf of their FCM/BD Clients is excluded. An equivalent change to the footnotes is made when computing the liquidity requirement relating to margin reduction and repayment of excess collateral for which the FCM/BD Clients' resources are excluded. Moreover, in Section 4.1.5, paragraph c., a typographical error in the penultimate sentence will be amended.
- Sections 4.2.2 (Model inputs and Variable selection) and 4.2.4 (Mathematical formula, derivation and algorithm, and numerical approximation) will be amended to provide that in the calculation of the Liquidity Coverage Ratio (LCR) of the CCP the resources of FCM/BD Clients must be considered segregated and therefore unavailable for liquidity purposes unless the relevant FCM/BD Clearing Member is among the Cover 2 members assumed to be in default in the LCR. Also, in the case where an FCM/BD Clearing Member is among the Cover 2 the possibility to use the resource held on behalf of FCM/BD Clients for liquidity purposes is capped to the obligations of the FCM/BD Client.
- Sections 4.2.5.3 (Stress scenario selection) will be amended to refer to CDSClear rather than CDS when describing the market stress scenario considered in the LCR. The amendment is made for consistency purposes and is not linked to the FCM/BD related initiative.
- Sections 4.3.2 (Model inputs and Variable selection) and 4.3.4 (Mathematical formula, derivation and algorithm, and numerical approximation) will specify that, in the calculation of the Liquidity Coverage Ratio (LCR) for the interoperable CCP, the resources held on behalf of FCM/BD Clients must be considered segregated and therefore unavailable for liquidity purposes.

In Appendix 6.3 (Reminder of SA's sources of liquidity and related risk drivers), two footnotes have been added to specify that cash held on behalf of FCM/BD Clients (allocated and in excess) is excluded unless the liquidity requirement is driven by the relevant FCM/BD Clearing Member. With respect to the source of liquidity coming from Non-Euro non-cash collateral posted in full title transfer, a footnote have been added to specify that securities collateral collected from FCM/BD Clients is excluded unless the liquidity requirement is driven by an the relevant FCM/BD Clearing Member; the footnote has also been expanded by specifying that securities in DKK, NOK, SEK, CAD, AUD, CHF and JPY are excluded from the liquidity resources, which is an amendment not linked to the FCM/BD related initiative but made for consistency purposes. In the end, with respect to the liquidity source coming from the collateral of

investment activity, a footnote will be added to specify that securities coming from FCM/BD Clients investment shall be excluded unless the relevant FCM/BD Clearing Member is in default.

### **Part III: Core Principles Compliance**

LCH SA has reviewed the Proposed Rule Change against the requirements of Commission' regulations and DCO Core Principles and finds that these changes will continue to comply with all the requirements and standards therein and in particular, with the following principles and Commission's regulations including, but not limited to § 39.13, § 39.15 and § 39.27.

**DCO Core Principle D – Risk management.** CFTC Regulation 39.13 requires a DCO to ensure that it possesses the ability to manage the risks associated with discharging the responsibilities of the derivatives clearing organization through the use of appropriate tools and procedures. As discussed above, LCH SA is proposing to amend its Liquidity Risk Modelling Framework to address the CFTC segregation requirements applicable to FCMs and customers. Specifically, the amended Liquidity Risk Modelling Framework will anticipate the effective onboarding process of FCMs and will permit LCH SA to take into account, in its liquidity monitoring process, the specific segregation requirements to ensure the customers funds protection of this category of clearing members which is consistent with the requirements of Core Principle D and CFTC Regulation 39.13.

**DCO Core Principle F – Treatment of funds.** CFTC Regulation 39.15 requires a DCO to establish standards and procedures that are designed to protect and ensure the safety of funds and assets belonging to clearing members and their customers. The provisions of the Proposed Rule Change implementing the Program are designed to ensure that the Program complies with the terms and conditions set out in the SEC Portfolio Margining Order and the CFTC Portfolio Margining Order. Among other requirements, these Orders ensure that all funds deposited with an FCM/BD Clearing Member to margin Portfolio Margin Transactions will be segregated in accordance with the requirements of Section 4d(f) of the Commodity Exchange Act and the rules of the CFTC thereunder, which is compliant with Core Principle F and the requirements of CFTC Regulation 39.15(d). The Proposed Rule Change will also assure the safeguarding of securities and funds which are in the custody or control of the DCO or for which it is responsible by allowing LCH SA to margin an FCM/BD Client's positions collectively rather than separately.

**DCO Core Principle R – Legal risk considerations.** LCH SA has determined that the Proposed Rule Change is consistent with the requirements of CFTC Regulation 39.27 to remain in good standing at all times in the relevant jurisdictions and to operate pursuant to a well-founded, transparent, and enforceable legal framework that addresses each aspect of its activities. As described above, the Proposed Rule Change will (i) ensure that the Program complies with the terms and conditions set out by the CFTC and SEC in the US jurisdiction and (ii) take into account the CFTC segregation requirements and investment restrictions applicable to FCMs' customer funds which constitutes a relevant and appropriate legal framework consistent with the requirements of Core Principle R and CFTC Regulation 39.27.

**Part IV: Public Information**

LCH SA has posted a notice of pending certifications 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**

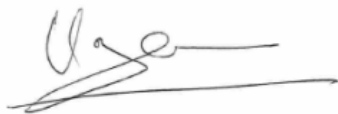
There were no opposing views expressed to LCH SA by governing board or committee members, members of LCH SA or market participants that were not incorporated into the Proposed Rule Change.

**Certification**

LCH SA hereby certifies to the CFTC, 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.

Best regards,



**Carole Uzan**

Chief Compliance Officer

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**APPENDIX**LCH SA's Proposed Rule Change**Appendix 1** – CDS Clearing Rule Book**Appendix 2** – CDS Clearing Supplement**Appendix 3** – FCM/BD CDS Clearing Regulations**Appendix 4** – CDS Clearing Procedures – Section 2**Appendix 5** – CDS Clearing Procedures – Section 3**Appendix 6** – CDS Clearing Procedures – Section 5**Appendix 7** – Clearing Notice**Appendix 8** – LCH SA's Liquidity Risk Modelling Framework **(to be filed separately with the CFTC under Confidential Treatment request)**