



**FCM PROCEDURES OF THE CLEARING HOUSE**

**LCH LIMITED**

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The Clearing House will calculate all coupon payments for FCM SwapClear Contracts that are non-deliverable interest rate swaps, including the Fixed Amount or Floating Amount payable under any such FCM SwapClear Contract, in USD, and all amounts due or payable under such FCM SwapClear Contracts must be paid in USD.

#### 2.1.9 *Initial Margin*

The Clearing House will require FCM Clearing Members to furnish it with Initial Margin. This amount will be determined by the prevailing market conditions and the expected time to close out the portfolio. The Portfolio Approach to Interest Rate Scenarios (PAIRS) will be used to calculate Initial Margin requirements for FCM SwapClear Contracts.

Separate Initial Margin calculations are performed for an FCM Clearing Member's house "H" and client "C" accounts and, within a "C" account, separately in respect of each FCM Client Sub-Account therein. No offset between the "C" and "H" accounts is permitted.

The Clearing House reserves the right to require additional amounts of Margin from a specific FCM Clearing Member or from all FCM Clearing Members in accordance with FCM Regulation 14 (*Margin and Collateral*).

##### (a) *Liquidity Multiplier*

Risk Management applies a liquidity multiplier based on Worst Case Loss (WCL) exceeding certain thresholds on the FCM Clearing Member's whole portfolio and individual currencies. The threshold amounts and multipliers are reviewed on an on-going basis. FCM Client accounts are treated as independent accounts for purposes of liquidity and will be called only in the event that the individual account exceeds the relevant threshold.

##### (b) *Intra-day Margin Calls*

In accordance with the Clearing House's FCM Regulations, the Clearing House is entitled to make additional margin calls for payment the same day (intra-day margin calls) where it is considered necessary. Intra-day margin calls can be called at any time throughout the Business Day. Intra-day margin calls will usually be made via the Protected Payments System (PPS) (see Section 2.1.10).

In certain circumstances, the Clearing House may wish to make a call for additional funds after the ~~closure of UK PPS facilities cut-off time of 08:00 New York time at 16:00 hours, London time.~~ In this event, the Clearing House will require payment of additional funds through PPS facilities in the USA (see Section 3.2.1). Members must ensure, in these circumstances, that they are in a position to fund such calls through their nominated US PPS account within one hour of the call.

Collateral to replenish the ForexClear Tolerance utilized by an FX FCM at (i) the last ITD/Ad-hoc Day Margin Run and EOD Margin Run of each Business Day and (ii) in the event an FX FCM utilizes at least 75% of its ForexClear Tolerance during a business day, at the next relevant ITD/Ad-hoc Day Margin Run. Any failure of an FX FCM to satisfy a call for Collateral relating to ForexClear Tolerance may give rise to a Default by such FX FCM.

The Clearing House will not apply ForexClear Tolerance for FCM ForexClear Contracts with a Trade Date earlier than the previous Business Day.

(d) *Completion Margin*

The Clearing House shall calculate and call each FX FCM for “**completion margin**.” Completion margin is a component of each FX FCM’s initial margin obligation, and represents potential increases in an FX FCM’s initial margin obligations due to position changes resulting from next-day fixing. Completion margin is calculated as the incremental difference between an FX FCM’s aggregate initial margin obligations on its FCM ForexClear Contracts and its initial margin obligations in relation to FCM ForexClear Contracts due to fix the next Business Day.

(e) *Intra-day Margin Calls*

In accordance with the Clearing House's FCM Regulations, the Clearing House is entitled to make additional margin calls for furnishing of Margin on the same day (intra-day margin calls) where it is considered necessary. Intra-day margin calls may be called at any time throughout the business day (08:30 to 21:00 hours, London time). Intra-day margin calls will usually be made via the Protected Payments System (PPS) (see Section 2.2.25(c)).

In certain circumstances, the Clearing House may wish to make a call for additional Margin after the ~~closure of UK PPS facilities cut-off time of at 16:00~~ 08:00 hours, ~~London-New York~~ time. In this event, the Clearing House will require payment of additional funds through PPS facilities in the USA (see Section 3.2). Members must ensure, in these circumstances, that they are in a position to fund such calls through their nominated US PPS account within one hour of the call.

2.2.13 *Initial Margin Management Events Service (“IMMES”)*

IMMES aims to find risk and IM reducing FCM ForexClear Contracts and ForexClear Contracts among participating FXCCMs. IMMES can be run on all Currency Pairs that are cleared through the FCM ForexClear Service, although the primary focus will be on those Currency Pairs that contribute to the largest IM requirement. IMMES is available in respect of an FX FCM's house account only.

rate agreements, (iii) fees, charges, levies and rebates, and (iv) interest on cash balances and Price Alignment Amount); and

- (b) cover ledger (which is used to record all other items).

Liabilities arising from trading activity are recorded against the relevant Margin account only.

### 3.1.4 **Financial Transaction Reporting**

Banking reports are generated each day and provide members with data relating to but not limited to: liabilities by market, cash balances, non-cash balances, cash posting and interest rates.

All reports are available via the Member Reporting Web Site (Member Live site) and can be downloaded via the user interface or directly to Member back-office systems via an SFTP connection.

Details of valuations, cover instructions and cash and non-cash balances are available through the Clearing Management System.

A “Banking Reports Reference Pack” can be requested from the LCH Client Training Team. This contains definitions and examples of each of the available reports.

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

## 3.2 **Protected Payments System**

The Clearing House operates a direct debit system, known as the protected payments system (“PPS”), for the transfer of funds to and from FCM Clearing Members. The PPS is a recognized interbank payments system overseen by the Bank of England.

PPS is operated in London (“UK PPS”) and the United States (“US PPS”). In this Section, a day on which the PPS is open is referred to as a “**working day**”.

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

Each FCM Clearing Member remains fully responsible for the payment to the Clearing House of all moneys due to the Clearing House as required, *inter alia*, by the FCM Clearing Membership Agreement, clearing extension documentation and the applicable provisions of the FCM Rulebook. Payment is only completed when the funds have been credited for value to the relevant Clearing House bank account, and any time permitted by the relevant payment settlement system for the recall of any such payment has expired.

### 3.2.1 PPS Mandates

#### (a) Introduction

An FCM Clearing Member is required to maintain a:

- (i) US dollar PPS account with any US PPS bank; and
- (ii) PPS bank account with any UK PPS bank in EUR, USD and GBP, and each currency in which it incurs settlement obligations, and provides Securities Collateral, to the Clearing House. An FCM Clearing Member may use different UK PPS banks for different currencies.

Please refer to the following link for details:

[www.lch.com/risk\\_management/ltd/pps/](http://www.lch.com/risk_management/ltd/pps/)

FCM Clearing Members are responsible at all times for ensuring that their PPS bank accounts have sufficient funds or credit lines to be able to meet calls from the Clearing House.

Any bank charges connected with the holding of any PPS bank accounts or related to any activity on that account must be paid by the FCM Clearing Member holding the relevant account PPS mandates.

The GBP non-segregated PPS account will, *inter alia*, be used to process Contributions for all services other than the ForexClear Service. For ForexClear Service, the USD non-segregated PPS account is used.

Where applicable, all PPS accounts that hold FCM Client Funds must be segregated in accordance with the FCM Regulations and the applicable provisions of the CEA and CFTC Regulations, including but not limited to Part 1, Part 22 and Part 190 of such regulations. Furthermore, PPS accounts that contain FCM Client Funds held with respect to Futures/Options Contracts may not contain FCM Client Funds held with respect to Cleared Swaps, unless permitted under the CEA or CFTC Regulations.

Each FCM Clearing Member is required to complete a standard form UK PPS Mandate and US PPS Mandate (copies are available from [treasury.ops.uk@lch.com](mailto:treasury.ops.uk@lch.com)) for each bank branch at which they wish to operate an account before clearing can commence. The original of the mandate must be signed by a person with the appropriate authority within the FCM Clearing Member institution and then forwarded to the relevant bank. A copy must also be forwarded at the same time to the Clearing House Onboarding Department.

(b) *Currency Conversion*

The Clearing House supports cross currency collateral, which allows the FCM Clearing Member to elect to use cash cover denominated in one currency in respect of initial and contingent margin liabilities calculated in another currency. FCM Clearing Members must nominate the currency in which they wish to cover margin liabilities by prior arrangement with ~~LCH Limited~~ the Clearing House's Treasury Operations.

(c) *Morning PPS Calls*

FCM Clearing Members' liabilities are calculated overnight. Should the relevant liability not be covered by acceptable forms of Collateral held by the Clearing House (see section 3.3) any shortfall is called through UK PPS with separate calls made for each currency. ~~It is the responsibility of e~~ Each FCM Clearing Member ~~must~~ ensure that its UK PPS bank(s) meets all payment instructions received from the Clearing House. Confirmation of payments, as notified, must be received by the Clearing House from the relevant PPS bank(s) by 09:00 London time, or within one hour of a subsequent call, on the day on which the PPS call is made. Payments will only be recognized for this purpose if the relevant PPS bank (i) has performed its concentration function (being the transfer of net funds from the PPS bank to a central account in the name of the Clearing House) (ii) has made such payments, and (iii) any time permitted by the relevant payment settlement system for the recall of any such payment has expired.

Where payments are due to an FCM Clearing Member, payments will be recognized as soon as payment instructions in respect of that payment have been given to a PPS bank. For this purpose, a payment instruction will only be recognized to the extent that the Clearing House has taken steps to transfer to the PPS bank any such sums as may be necessary to enable that payment instruction to be performed by the PPS bank.

(d) *Intra-day PPS Calls*

The intra-day margin call by the Clearing House is for intra-day Margin payments. ~~Only USD can be used to cover Margin requirements intra-day. Between 14:30 and 16:00 hours (London time) only USD will be called in London.~~

~~Normally t~~ The Clearing House will call intra-day margin through UK PPS accounts, ~~except .~~ However, where ~~the Clearing House~~ it wishes to make such an ~~intra-day~~ call after ~~the UK PPS closes cut-off time (16:00/08:00 London-New York time)~~, ~~in which case~~ such a call will be made upon the FCM Clearing Member's nominated US PPS account.

Only USD will be called by default during the hours of UK PPS for each mnemonic/sub-account. FCM Clearing Members may request a change to the default currency no later than 09:30 London time in order for the change to be ~~undertaken~~ implemented the following day. FCM Clearing Member's may submit a request to change their currency at the following link:

[www.lch.com/risk\\_management/ltd/preferential\\_currency\\_for\\_intraday\\_margin\\_calls\\_form.asp](http://www.lch.com/risk_management/ltd/preferential_currency_for_intraday_margin_calls_form.asp)

The Clearing House has the ability to call US dollars in respect of an intra-day margin call up until 16:00 New York time (21:00 London time).

The Clearing House must receive confirmation of payment from the FCM Clearing Member's nominated PPS bank(s) within one hour of receipt of the intra-day call by the relevant bank branch.

Failure of a bank to confirm a PPS call within one hour may result in the FCM Clearing Member being declared in default. Late confirmation of PPS calls are reported to the regulators of the LCH Group.

(e) *Auto repay*

FCM Clearing Members may request that they are automatically repaid any excess USD cash balances that remain on their accounts at the end of each day. FCM Clearing Members must contact Treasury Operations in order to have auto-repay applied to their accounts. (LCHOperations-Treasury@lch.com or telephone +44 (0)20 7426 7505). In certain circumstances and following notification to one or more Regulatory Bodies, the Clearing House may disable the auto-repay functionality for all FCM Clearing Members of a clearing service. The Clearing House will notify FCM Clearing Members via Clearing Member Circular in the event that the functionality is disabled. This Section 3.2.1(e) only applies to Proprietary Accounts.

(f) *Value Date*

Although confirmation from the banks that PPS payments will be made must be received within the deadlines set out in Sections 3.2.1(c) and 3.2.1(d), subject to Section 3.2.1(h), all currency transactions are processed by PPS with next business day value with the exception of the following currencies: CAD, EUR, GBP, MXN and USD, which are processed with value for the same business day.

(g) *Foreign Bank Holidays*

The Clearing House has made arrangements with UK PPS banks to operate the PPS on all UK banking days including foreign bank holidays.