

**VIA CFTC Portal**

27 June 2016

Mr. Christopher Kirkpatrick  
Commodity Futures Trading Commission  
1155 21<sup>st</sup> Street NW  
Three Lafayette Centre  
Washington DC 20581

Dear Mr Kirkpatrick:

LCH.Clearnet Ltd ("LCH"), a derivatives clearing organisation registered with the Commodity Futures Trading Commission (the "CFTC"), is submitting for self-certification, pursuant to CFTC regulation §40.6(a), changes to the LCH Rulebook Procedures Section 3 and FCM Procedures. These changes will become effective on or after 14 July 2016.

**Part I: Explanation and Analysis**

LCH is making changes to its Rulebook to include language setting out (i) the methodology used to calculate LCH's London Deposit Rate ("LDR") and Client Deposit Rate ("CDR") which are paid by LCH on credit cash balances, and the notice period to Clearing Members prior to making a change to either of these rates; and (ii) the publication on LCH's website of the 'accommodation charges' applicable to non-cash collateral, and the current LDR and CDR spread rates paid on Clearing member accounts and Client accounts respectively. In addition, Performance Bonds are no longer eligible collateral, so they are removed from the Type of Collateral table found in the Interest Structure paragraph within the FCM Procedures.

Finally, language is also inserted that provides for LCH in the event of extreme market conditions, to be able to change the LDR and CDR without notice by not more than ten basis points up or down, for up to five consecutive Business Days<sup>1</sup>.

**Part II: Description of Rule Changes**

The changes to the Rulebook are as follows:

- I. Procedures Section 3 paragraphs 1.6.2 and 1.6.3; and
- II. FCM Procedures paragraphs 3.5.1(c) and 3.5.3

Black-lined versions of Procedures Section 3 and the FCM Procedures are included as appendices.

**Part III: Core Principle Compliance**

LCH has concluded that compliance with the Core Principles will not be adversely impacted by this change, and in particular complies with Core Principle L.

**Part IV: Public Information**

LCH has posted a notice of pending certification with the CFTC and a copy of this submission on the LCH website at <http://www.lchclearnet.com/rules-regulations/proposed-rules-changes>

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<sup>1</sup> As defined in the LCH Rulebook.

**Part V: Opposing Views**

There were no opposing views expressed to LCH by governing board or committee members, members of LCH or market participants that were not incorporated into this change.

**Certification**

LCH hereby certifies to the Commodity Futures Trading Commission, pursuant to the procedures set forth in Commission regulation §40.6, that attached rule submission complies with the Commodity Exchange Act, as amended, and the regulations promulgated there under.

Should you have any questions regarding this submission please contact me at [julian.oliver@lchclearnet.com](mailto:julian.oliver@lchclearnet.com)

Yours sincerely,



Julian Oliver  
Chief Compliance Officer  
LCH

**LCH.Clearnet Limited Rule Submission**

**Appendix A**

**Procedures Section 3 (Financial Transactions)**



**LCH.CLEARNET LIMITED**

**PROCEDURES SECTION 3**

**FINANCIAL TRANSACTIONS**

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any eligible currency to cover its liability (for example, a GBP liability can be covered in EUR cash).

Any changes to a Clearing Member's nominated currency sequence, or a request relating to excess cash currency balances in a particular currency, should be notified to the Clearing House by providing a minimum of two business days' notice.

#### 1.5.3 ***Record of Collateral Provided***

Charges and interest shall be calculated in accordance with the information published on the website of the Clearing House.

#### 1.5.4 ***Use of a Defaulter's Collateral***

The order of priority (in which cash and non-cash Collateral are applied to cover Clearing Members' liabilities), set out elsewhere in this Section 1.5, does not necessarily reflect the order of priority of realisation or application of Collateral which the Clearing House may follow in the case of default by a Clearing Member. Post-default the Clearing House is entitled to realise and/or apply Collateral in whatever order it deems appropriate.

### 1.6 **Interest**

#### 1.6.1 ***Interest Rates***

The Clearing House applies interest to Clearing Member's cleared cash balances as published on the Clearing House's website. This provision 1.6.1 does not deal with Price Alignment Interest, which is covered by the applicable provisions of Procedures Section 2C (SwapClear Clearing Service).

#### 1.6.2 ***Payment of Interest and Charges***

Interest and accommodation charges are charged monthly, from the last day of the previous month to the penultimate day of the current month. Interest and accommodation charges are calculated on a daily basis and the resultant monthly total is posted to the relevant collateral account(s) of the Clearing Member for value on the third business day following the penultimate day of the month. A VAT invoice is also issued on the third business day of each month detailing the interest and accommodation charges applicable for the previous month. Separate invoices are issued for each currency which can be found on the Member Reporting Website. [Accommodation charges are published on the Clearing House's website.](#)

VAT is charged, dependent on contract and accommodation charges, at current rates. On foreign currency amounts VAT is charged in sterling on the converted value of any relevant charges. The sterling collateral account shows separate postings for sterling VAT amounts arising from foreign currency charges.

The net invoice value for each currency is posted to the relevant collateral account for value on the second working day of the month succeeding the month in which the charges arose.

The invoice provides detail in respect of:

- (a) interest due to be credited or debited; and
- (b) accommodation charges.

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

### 1.6.3 *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 will 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: [http://www.lch.com/fees/ltd/custody\\_services.asp](http://www.lch.com/fees/ltd/custody_services.asp); and
- (b) CDR – Client Deposit Rate – the rate at which the Clearing House may pay or charge interest on credit cash balances on Client financial 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: [http://www.lch.com/fees/ltd/custody\\_services.asp](http://www.lch.com/fees/ltd/custody_services.asp).

Where the Clearing House provides Clearing Members with at least three days' written notice (which may be 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 at 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 LDR for up to five consecutive Business Days.

## 1.7 Fees

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

**LCH.Clearnet Limited Rule Submission**

**Appendix B**

**FCM Procedures**





**FCM PROCEDURES OF  
THE CLEARING HOUSE**

**LCH.CLEARNET LIMITED**

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### 3.4.2 *Cash currency preference*

FCM Clearing Members may nominate the sequence of cash Collateral distribution.

In the absence of a nominated sequence of currency preferences, an FCM Clearing Member's liabilities will be covered by cash in the same currency as the liability. This means that a GBP liability will be covered in GBP cash, a EUR liability will be covered in EUR cash and so forth. Any further liabilities in the relevant currency will be covered by cash called via PPS.

FCM Clearing Members may define their own sequence of cash currency utilization for each mnemonic and each account type (i.e. House or Client). The sequence does not have to be on a like for like basis and an FCM Clearing Member may choose any eligible currency to cover its liability (for example, a GBP liability can be covered in EUR cash).

Any changes to an FCM Clearing Member's nominated currency sequence, or a request to excess cash currency balances in a particular currency, should be notified to the Clearing House by providing a minimum of two business days' notice.

### 3.4.3 *Record of cover provided*

Charges and interest shall be calculated in accordance with the information published on the website of the Clearing House.

### 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.

## 3.5 **Interest and Accommodation Charge Structure**

### 3.5.1 *Cash Balance Interest Rate*

The Clearing House applies interest to FCM Clearing Member's 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.Clearent website at the following link: [http://www.lchclearent.com/fees/ltd/custody\\_services.asp](http://www.lchclearent.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.Clearent website at the following link: [http://www.lchclearent.com/fees/ltd/custody\\_services.asp](http://www.lchclearent.com/fees/ltd/custody_services.asp); and

(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 provides FCM Clearing Members with at least three days written notice (which may be 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 at 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 Interest (PAI) Rate**

To minimize the impact of daily cash Variation Margin payments on the pricing of interest rate swaps and inflation swaps, the Clearing House will charge interest on cumulative Variation Margin received by the FCM Clearing Member and pay interest on cumulative Variation Margin paid in by the FCM Clearing Member in respect of these instruments. In a negative interest rate environment where PAI rates are negative the Clearing House will pay interest on cumulative amounts received by an FCM Clearing Member in respect of variation margin obligations and charge interest on cumulative amounts paid to an FCM Clearing Member. This interest element is known as price alignment interest.

The calculation of PAI shall use the interest rates specified as below. The amount of PAI for each currency shall be calculated as:

The amount of NPV in such currency from the previous Business Day's close of business multiplied by:

- (a) The relevant interest rate in effect for that day; divided by
- (b) 360; or in the case of AUD, CAD, GBP, HKD, JPY, NZD, PLN, SGD and ZAR, 365.

In the case of the currencies marked below with an asterisk, the Clearing House, as provided in FCM Regulation 36(b) (*Alteration of FCM Regulations and the FCM Procedures*), specifies that it will not change the PAI rate without the consent of all SwapClear Clearing Members and applicable FCM Clearing Members holding open contracts in such currencies.

<b>Currency</b>	<b>PAI Rate</b>
USD*	The rate used shall be the Effective Federal Funds rate, the rate published by the Board of Governors of the Federal Reserve System as such rate appears on Reuters page “FEDFUNDS1” or Telerate 120 or on any successor page(s) thereto.
EUR*	The rate used shall be the EONIA rate, the rate published by the European Banking Federation and ACI – The Financial Market Association as such rate appears on Reuters page “EONIA” or Telerate 247 or on any successor page(s) thereto.
GBP*	The rate used shall be the SONIA rate, the rate published by the Wholesale Markets Broker Association as such rate appears on Reuters page “SONIA” or on any successor page(s) thereto.
JPY*	The rate used shall be the Mutan call rate, the rate published by the Bank of Japan as such rate appears on Reuters page “TONAR” or on any successor page(s) thereto.
CHF*	The rate used shall be the TOIS rate, the T/N interbank fixing as such rate appears on Reuters page “CHFTOIS” or Telerate 3450 or any successor page(s) thereto.
AUD	The rate used shall be the “AONIA” rate, the rate published by the Reserve Bank of Australia – as such rate appears on Reuters page “RBA30” or any successor page(s) thereto.
CAD	The rate used shall be the “CORRA” rate, the rate published by the Bank of Canada website – as such rate appears on Reuters page “CORRA” or any successor page(s) thereto.
DKK	The rate used shall be the “DKKOIS” rate, the rate published by the Danish Central Bank – as such rate appears on Reuters page “DKNA14” or any successor page(s) thereto.
HKD	The rate used shall be the “HONIX” rate, the rate published by the Hong Kong Brokers Association – as such rate appears on Reuters page “HONIX” or any successor page(s) thereto.
NZD	The rate used shall be the “NZIONA” rate, the rate published by the Reserve bank of New Zealand – as such rate appears on Reuters page “RBNZ02” or any successor page(s) thereto.
PLN	The rate used shall be the “POLONIA” rate, the rate published by the National Bank of Poland – as such rate appears on Reuters page “NBPS” or any successor page(s) thereto.
SEK	The rate used shall be the “SIOR” rate, the rate published by the OMX Exchange – as such rate appears on Reuters page

Currency	PAI Rate
	“SIOR” or any successor page(s) thereto.
ZAR	The rate used shall be the SFX ZAR OND rate, the rate published by SAFEX JIBAR – as such rate appears on Reuters page “SFXROD” or any successor page(s) thereto.
CZK	The rate used shall be the “CZEONIA” rate, the rate published by the Czech National Bank – as such rate appears on Reuters page “CZEONIA” or any successor page(s) thereto.
HUF	The rate used shall be the “HUFONIA” rate, the rate published by the National Bank of Hungary – as such rate appears on Reuters page “HUFONIA” or any successor page(s) thereto.
SGD	The rate used shall be the “SONAR” rate, the rate published by the Association of Banks in Singapore – as such rate appears on Reuters page “ABSIRFIX01” or any successor page(s) thereto.
NOK	The rate used shall be the NOK sight deposit rate, the rate published by Norges Bank – as such rate appears on Reuters page “NOINTR=ECI” or any successor page(s) thereto

For currency NOK, PAI is calculated using an appropriate overnight deposit rate for the currency.

### 3.5.3 ~~Interest~~ **Accommodation Structure**

Application of Collateral	Type of Collateral					
	Credit Variation Margin	Performance Bonds	Securities	Cash	Foreign Cash	Forward Cash
Initial & Variation margin after offset	No charge or payment	Charge 0.10%	Charge 0.10% Accommodation Charge Payable	Pay relevant rate	pay relevant rate of Collateral currency	No charge or payment
Excess or Surplus	No charge or payment	No charge or payment	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 This Section 3.5.3 only applies to Proprietary Accounts of FCM Clearing Members.
- 4 Applicable Accommodation Charges are available on the Clearing House’s website.