

VIA CFTC PORTAL

4 September 2020

Mr Christopher Kirkpatrick  
Commodity Futures Trading Commission  
115 21<sup>st</sup> Street NW  
Three Lafayette Centre  
Washington DC 20581

## **LCH Limited Self-Certification: FCM EUR Cash Collateral Investment**

Dear Mr Kirkpatrick

Pursuant to CFTC regulation §40.6(a), LCH Limited (“LCH”), a derivatives clearing organization registered with the Commodity Futures Trading Commission (the “CFTC”), is submitting for self-certification changes to its rulebook which will take effect on, or after, September 21, 2020.

### **Part I: Explanation and Analysis**

The Proposal is for LCH to invest Euro-denominated cash collateral, which FCMs provide to LCH, in Euro denominated sovereign debt issued by the French Republic and the Federal Republic of Germany, in accordance with the relief provided under the CFTC Order Granting Exemption from Certain Provisions of the Commodity Exchange Act Regarding Investment of Customer Funds and from Certain Related Commission Regulations (83 FR35241) dated 25 July 2018.

As part of this, FCM Regulation 7(n)(ii)(A) and FCM Procedure 3.3.4 are to be amended, as currently they only permit investment of such collateral, in respect of clearing swaps and futures, in U.S. Treasuries.

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

FCM Regulations: Regulation 7(n)(ii)(A) has been amended to state that the investment of FCM client funds has been expanded to both U.S. Treasury securities and Euro-denominated sovereign debt issued by the French Republic or the Federal Republic of Germany (see **Appendix I** attached).

FCM Procedures: Section 3.3.4 has also been amended to provide for the investment of FCM client funds in both U.S. Treasury securities and Euro-denominated sovereign debt issued by the French Republic or the Federal Republic of Germany.

In addition, the FCM Procedures now include a requirement for FCMs to instruct LCH whether or not to invest the FCM client funds that FCMs provide to LCH. This is an existing requirement which is now being codified in the rulebook (see **Appendix II** attached).

### Part III: Core Principle Compliance

LCH has reviewed the changes against the requirements of the Core Principles and finds it will continue to comply with all the requirements and standards therein.

### Part IV: Public Information

LCH has posted a notice of pending certification with the CFTC and a copy of the submission on LCH's website at:

<http://www.lch.com/rules-regulations/proposed-rules-changes>

### Part V: Opposing Views

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

### Certification

LCH hereby certifies to the Commodity Futures Trading Commission, pursuant to the procedures set forth in the 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 please contact me.

Yours sincerely



Julian Oliver  
Chief Compliance Officer  
LCH Limited

**Appendix I**  
FCM Regulations



**FCM REGULATIONS OF THE CLEARING HOUSE**

**LCH LIMITED**

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## FCM Rulebook

### FCM Regulation 7

#### (n) Investments of FCM Client Funds.

- (i) An FCM Clearing Member may invest FCM Client Funds as permitted by and in accordance with the terms and conditions set forth in CFTC Regulations 1.25 and/or 30.7, as applicable.
- (ii) The Clearing House may invest Collateral held on behalf of FCM Clients:
  - (A) in respect of clearing Swaps and Futures Products, in U.S. Treasury Securities ~~and Euro-denominated sovereign debt issued by the French Republic and the Federal Republic of Germany (in each case in accordance with the FCM Procedures)~~ as permitted by and in accordance with the terms and conditions set forth in CFTC Regulation 1.25 and the CFTC Order Granting Exemption from Certain Provisions of the Commodity Exchange Act Regarding Investment of Customer Funds and from Certain Related Commission Regulations (83 FR 35241) dated July 25, 2018; and subject to all other Applicable Law, including Articles 43, 45 and Annex II of Commission Delegated Regulation (EU) No 153/2013 of 19 December 2012. Any investment of such Collateral by the Clearing House shall also comply with any other applicable requirements under Applicable Law, including the applicable requirements set out in Regulation (EU) No 648/2012 of European Parliament and the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (including, in particular, Article 47 of such Regulation) and in the relevant provisions of Commission Delegated Regulation (EU) No. 153/2013 of 19 December 2012; and
  - (B) in respect of clearing Foreign Futures Products, as permitted by and in accordance with Articles 43, 45 and Annex II of Commission Delegated Regulation (EU) No 153/2013 of 19 December 2012. Any investment of such Collateral by the Clearing House shall also comply with any other applicable requirements under Applicable Law, including the applicable requirements set out in Regulation (EU) No 648/2012 of European Parliament and the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (including, in particular, Article 47 of such Regulation) and in the relevant provisions of Commission Delegated Regulation (EU) No. 153/2013 of 19 December 2012.

**Appendix II**  
FCM Procedures



**FCM PROCEDURES OF THE CLEARING HOUSE**

**LCH LIMITED**

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## FCM Procedures

### 3.3.4 Investment of FCM Client Funds

Pursuant to the application of FCM Regulation 7(n)(ii)(A), the investment of cash Collateral held on behalf of FCM Clients by the Clearing House in respect of clearing Swaps Products and Futures Products ("Swaps and Futures Cash Collateral") is limited to investments in U.S. Treasury securities (through outright purchases, repurchase or reverse repurchase transactions) and in Euro-denominated sovereign debt issued by the French Republic or the Federal Republic of Germany (through repurchase or reverse repurchase transactions), in each case, as permitted by and in accordance with Applicable Law.

(a) Each FCM Clearing Member shall instruct the Clearing House as to, in the form and manner specified by the Clearing House, whether or not to invest such cash Swaps and Futures Cash Collateral delivered by that is held on behalf of FCM Clients of such FCM Clearing Member to the Clearing House and is denominated in:

(i) USD, in U.S. Treasury securities; and

(ii) EUR, in Euro-denominated sovereign debt issued by the French Republic or the Federal Republic of Germany, by submitting to the Clearing House such documents as the Clearing House shall provide to FCM Clearing Members for such purpose.

If an FCM Clearing Member fails to issue ~~any~~ such instruction to the Clearing House in ~~accordance with such documents,~~ the form and manner specified by the Clearing House shall, then the FCM Clearing Member will be deemed to have instructed the Clearing House to invest all such cash Swaps and Futures Cash Collateral from of such FCM Clearing Member in accordance with FCM Regulation 7(n):

and this provision.

The Clearing House shall be entitled to charge a cash management fee to an FCM Clearing Members that elect to instructs the Clearing House not to invest such cash Swaps and Futures Cash Collateral, in accordance with FCM Regulation 7(n) and this provision, which cash management fee shall apply to the FCM Clearing Member's USD-denominated and Euro-denominated Swaps and Futures Cash Collateral. The Clearing House shall notify FCM Clearing Members of the details of such cash management fee via member circular.



~~(a)~~(b) The Clearing House shall not invest Swaps and Futures Cash Collateral that is denominated in currencies other than USD and EUR and will hold such Swaps and Futures Cash Collateral in bank accounts maintained by the Clearing House. The Clearing House shall not charge a cash management fee to FCM Clearing Members, in respect of such Swaps and Futures Cash Collateral.