



VIA CFTC Portal

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

02 January 2024

LCH Limited Self-Certification: Revised collateral limits for Italian and Spanish Treasury Bonds

Dear Mr. Kirkpatrick,

LCH Limited (“LCH”), a derivatives clearing organization registered with the Commodity Futures Trading Commission (“CFTC”), is submitting for self-certification, pursuant to CFTC Regulation §40.6(a), changes to its non-cash collateral concentration limits and corresponding changes to the LCH website.

Part I: Explanation and Analysis

LCH accepts a range of non-cash collateral for clearing members’ margin requirements and applies concentration limits on this collateral. LCH is intending to extend the concentration limits applied to Italian and Spanish Treasury bonds at both the member-level and legal entity-level. The concentration limits applied to Italian and Spanish Treasury bonds were last changed during the European Sovereign Debt Crisis in 2012 and these amendments reflect the change in credit and economic outlook since then.

Part II: Description of Rule Changes

LCH is intending to extend the margin collateral limits for Italian and Spanish members from EUR 500 million to EUR 600 million. For any other members, the amendment are as follows:

- From 50% of the value of initial margin requirements to 75%; and
- From EUR 1.25 billion to EUR 1.75 billion, of which the specific limit for Spanish securities has increased from EUR 500 million to EUR 750 million and Italian securities has increased from EUR 750 million to EUR 1 billion.

These changes will be reflected on LCH’s website as per **Appendix I**, which highlights the updated collateral limits in red under ‘Securities collateral - Essential Details’. Where there are two different types of limits, either as a percentage of initial margin or a monetary limit, the more conservative concentration limit will always be applied.

This change will **take effect on or after 16 January 2024**.



These changes will be notified via a circular to clearing members prior to the implementation date. This proposal does not require any changes to the LCH Rulebook.

Part III: Core Principles Compliance

LCH reviewed the proposed changes against the requirements of the Core Principles and finds it will continue to comply with all the requirements and standards set forth therein. Specifically, these changes have potential relevance to Core Principle D (Risk Management) and Core Principle L (Public Information).

The changes described in this filing ensure that LCH meets the objectives of Core Principle D, including that LCH possess the ability to manage the risks associated with discharging its responsibilities through the use of appropriate tools and procedures. Core Principle D also requires LCH to ensure it has sufficient margin from each member and participant to cover potential exposures in normal market conditions and that this is reviewed on a regular basis. LCH believes that following the proposed changes to its collateral limits, it will continue to maintain sufficient margin from each member and participant to cover potential exposures in normal market conditions. LCH considered its risk management requirements, specifically those related to the types of assets that LCH may accept as margin, and determined that the changes outlined in this filing will not impact LCH's compliance with Core Principle D. As a result, LCH believes these changes are consistent with the requirements of Core Principle D on Risk Management under CFTC Regulation §39.13, as it applies appropriate limits on the concentration of assets and reviews these regularly.

The changes described in this filing ensure that LCH meets the objectives of Core Principle L on Public Information, which requires DCOs to make publicly available clearing and other fees charged to Clearing Members. In line with Core Principle L, these changes will be reflected on the LCH public website and made publicly available to market participants: <https://www.lch.com/collateral-management/ltd-collateral-management/ltd-acceptable-collateral/ltd-acceptable-securities>.

Part IV: Public Information

LCH has posted a notice of pending certification and submission with the CFTC on the LCH website at <https://www.lch.com/resources/rulebooks/proposed-rule-changes>.

Part V: Opposing Views

There were no opposing views expressed to LCH by governing board or committee members, members of LCH or market participants.



Certification

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

Should you have any questions please contact me at ebba.andersson1@lseg.com.

Yours sincerely,

Ebba Andersson
Senior Compliance Officer
LCH Limited



Appendix I

LCH Collateral Management website

<https://www.lch.com/collateral-management/ltd-collateral-management/ltd-acceptable-collateral/ltd-acceptable-securities>

LTD Acceptable Securities

Main navigation

- **LTD Collateral Management**
 - **LTD Acceptable Collateral**
 - LTD Acceptable Cash
 - **LTD Acceptable Securities**
 - LTD Fees on Collateral
 - LTD Collateral Management System
 - LTD Collateral Contacts

LCH Ltd accepts a wide range of debt securities issued by high quality sovereign government issuers and certain government agencies to meet initial margin obligations.

All securities posted as collateral are subject to “haircuts”. The size of the haircut is influenced by the tenor of the bond being pledged by the Clearing Member the nature of the security and an FX haircut. Haircuts are typically smaller for bonds with shorter maturities and higher for securities with longer tenors.



LTD - Margin Collateral Haircut Schedule

Details on the various securities that we accept at LCH Ltd as cover for initial margin available from the link below.

Download

The above link refers to securities collateral acceptable to LCH Ltd as initial margin cover for business cleared. Certain European regulators have agreed that OTC instruments registered with LCH Ltd should be exempt (following Directive 2000/12/EC of 20 March 2000) from credit equivalent amount add-on. Any such exemption applies to LCH Ltd Clearing Members only where initial margin requirements are met with cash or Government Securities acceptable by LCH Ltd. Clearing Members are responsible for ensuring that they comply fully with all regulatory requirements.

Securities collateral - Essential Details



Usually, whenever securities are transferred to LCH Ltd, these securities are held by LCH Ltd under the terms of a deed of charge between LCH Ltd and the respective Clearing Member or client.

As such, before any securities are accepted, the Clearing Member (or client) must have executed the deed of charge.

Please note that, under certain circumstances, Sponsored Members may execute a Title Transfer agreement as an alternative to the Deed of Charge. For further details, please contact collateral.product@lch.com

To facilitate margin delivery, Clearing Members may lodge securities either directly with LCH or using a tri-party arrangement. All Clearing Member proposals for the lodgement, release or substitution of securities must be submitted through the Collateral Management System (CMS).

Certain taxation restrictions and requirements may apply to securities including, but not limited to:

- i. Before pledging Spanish Government securities, Clearing Members will be required to provide LCH with details of their tax status, in accordance with Spanish tax law
- ii. Before pledging Italian Government securities, Clearing Members will be required to complete a Tax Exemption Application Form, which can be obtained from LCH
- iii. Before pledging US Government securities, Clearing Members will be required to provide LCH with details of their tax status, in accordance with US tax law

The following concentration limits apply to each Clearing Member, in respect of its securities collateral*:

- **Italian & Spanish Securities**

- For Italian & Spanish members : the lower of (i) 50% of the value of the initial margin requirement (EUR equivalent) and (ii) EUR ~~600500~~ million.
- For other members : the lower of (i) ~~7550~~% of the value of the initial margin requirement (EUR equivalent) and (ii) EUR ~~17504250~~ million, of which, Spanish securities EUR ~~750500~~ million and Italian securities EUR ~~1000750~~ million.

- **Supranational Securities**

- EU – the lower of (i) 50% of the value of the initial margin requirement (EUR equivalent) and (ii) EUR 2000 million.
- EIB – the lower of (i) 50% of the value of the initial margin requirement (EUR equivalent) and (ii) EUR 1250 million.
- EFSF – the lower of (i) 50% of the value of the initial margin requirement (EUR equivalent) and (ii) EUR 750 million.



- IBRD – the lower of (i) 50% of the value of the initial margin requirement (EUR equivalent) and (ii) EUR 750 million.
- ESM – the lower of (i) 50% of the value of the initial margin requirement (EUR equivalent) and (ii) EUR 750 million.
- EBRD – the lower of (i) 50% of the value of the initial margin requirement (EUR equivalent) and (ii) EUR 500 million.
- **US Agency Securities** – the lower of (i) 20% of the value of the initial margin requirement (USD equivalent) and (ii) USD 500 million.
- **US Treasury Inflation Linked Securities** – USD 2000 million.
- **European Agency Securities**
 - KFW – the lower of (i) 50% of the value of initial margin requirement (EUR equivalent) and (ii) EUR 1250 million.
 - FMS – the lower of (i) 50% of the value of initial margin requirement (EUR equivalent) and (ii) EUR 100 million.
 - Rentenbank – the lower of (i) 50% of the value of initial margin requirement (EUR equivalent) and (ii) EUR 500 million.
- **GNMA MBS Securities** – the lower of (i) 20% of the value of the initial margin requirement (USD equivalent) and (ii) USD 500 million.
- **Kommuninvest Securities** – EUR 50 million.
- **Network Rail** – the lower of (i) 50% of the value of the initial margin requirement (GBP equivalent) and (ii) GBP 200million.
- **Singapore Securities** – the lower of (i) 75% of the value of the initial margin requirement and (ii) SGD 500 million.
- **Caisse d'Amortissement de la Dette Sociale (CADES)** – the lower of (i) 50% of the value of the initial margin requirement (EUR equivalent) and (ii) EUR 500 million.

*The following additional concentration limits apply at a group level across all Clearing Members within the same group:

- **Italian & Spanish Securities**
 - For Italian & Spanish members : EUR ~~600500~~ million.
 - For other members : EUR ~~17504250~~ million, of which, Spanish securities EUR ~~750500~~ million and Italian securities EUR ~~1000750~~ Million.
- **Supranational Securities**
 - EU – EUR 2000 million.
 - EIB – EUR 1250 million.
 - EFSF – EUR 750 million.
 - IBRD – EUR 750 million.
 - ESM – EUR 750 million.
 - EBRD – EUR 500 million.
- **US Agency Securities** – USD 500 million.
- **US Treasury Inflation Linked Securities** – USD 2000 million.



- **European Agency Securities**
 - KFW – EUR 1250 million.
 - FMS – EUR 100 million.
 - Rentenbank – EUR 500 million.
- **GNMA MBS Securities** – USD 500 million.
- **Kommuninvest Securities** – EUR 50 million.
- **Network Rail** – GBP 200million.
- **Singapore Securities** – SGD 500 million.
- **Caisse d'Amortissement de la Dette Sociale (CADES)** – EUR 500 million.

LCH Limited acceptable securities are also eligible for FCM collateral purposes and will be subject to all other constraints applicable to margin collateral more generally.

For additional information about posting non-cash collateral at LCH Ltd please see Section 4 of LCH Ltd's Procedures.