

VIA CFTC PORTAL

1 October 2021

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

LCH Limited Self-Certification: Singapore Dollar Initial Margin Collateral

Dear Mr. Kirkpatrick,

Pursuant to Commodity Futures Trading Commission (“CFTC”) Regulation §40.6(a), LCH Limited (“LCH”), a derivatives clearing organization registered with the CFTC, is submitting for self-certification revisions to the LCH rules to accommodate accepting Singapore Dollar (“SGD”) cash and securities as collateral to meet initial margin requirements.

Part I: Explanation and Analysis

On 31 August 2021, LCH opened a SGD account with the Monetary Authority of Singapore (“MAS”), on MAS’s real-time gross settlement system known as the New MAS Electronic Payment and Book-Entry System (“MEPS+”). LCH intends to allow clearing members (except FCM clearing members) to make SGD cash deposits into its account on MEPS+ to meet initial margin requirements. LCH also proposes adding SGD securities as acceptable margin collateral and providing the associated haircuts.

Consequently, LCH is submitting for self-certification revisions to its rules, as described in Part II below. These revisions are in the: (i) LCH Procedures, Section 3: (*Financial Transactions*); (ii) LCH Procedures, Section 4: (*Margin and Collateral*) (jointly the “Procedures”); and (iii) LCH Margin Collateral Haircut Schedule.

Part II: Description of Rule Changes

The following is a summary of the revisions to be made to the Procedures.

LCH Procedures, Section 3: Financial Transactions

Section 1.4 (*New MAS Electronic Payment and Book-Entry System*) is added to provide for the use of the MEPS+ by clearing members to deposit initial margin. The rules provide that if a clearing member instructs a payment to LCH’s account on MEPS+ on a certain business day, the value date for that payment will be that business day. LCH will process only same day value instructions and will not process forward-dated instructions.

The rules provide that any SGD payment by a clearing member to satisfy variation margin requirements will be collected via the protected payments system (“PPS”). Additionally, PPS calls and payments in respect of SGD to satisfy variation margin requirements are for value on the next business day.

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LCH Procedures, Section 4: Margin and Collateral

Section 1.3 (*Instructions via CMS*) is updated. It provides that, to ensure LCH credits the correct amount of funds to the clearing member's account after a transfer of SGD cash to LCH's account on MEPS+, the clearing Member must enter the relevant details into the LCH collateral management system ("**CMS**") and LCH will then send the clearing member a CMS instruction reference number ("**CMS Reference**"). The clearing member then transfers SGD to LCH's account on MEPS+, inputting the CMS Reference into their payment instruction. If the clearing member fails to input the CMS Reference or inputs an incorrect CMS Reference, LCH will return the cash to the clearing member on or before the relevant cash deadline, on the same business day.

LCH Margin Haircut Schedule

The LCH Margin Haircut Schedule will be updated to include: Singapore Treasury Bill (SITB), Singapore Government Bonds (SIGB), Monetary Authority of Singapore Bill (MASPSP), and associated haircuts.

The changes to the rules are included as **Appendices I – III** in black line form. The changes will be effective not earlier than October 18, 2021.

Part III: Core Principle Compliance

LCH reviewed the proposed rule 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 rule changes have potential relevance to Core Principle D (Risk Management).

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 limit the assets it accepts as initial margin to those that have minimal credit, market, and liquidity risks. LCH believes SGD cash and securities have minimal credit, market, and liquidity risks and are therefore appropriate collateral types to accept as margin.

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.

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: <https://www.lch.com/resources/rulebooks/proposed-rule-changes>.

Part V: Opposing Views

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

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Certification

LCH 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 at julian.oliver@lseg.com.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Julian Oliver', is enclosed in a thin blue rectangular border.

Julian Oliver
Chief Compliance Officer
LCH Limited

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Appendix I
LCH Procedures, Section 3: Financial Transactions
Changed Pages

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Please refer to Clearing Member circulars for details of Clearing House opening days and currency holidays at the following link www.lch.com/news-events/members-updates/general-information.

(i) *Contingency Payment Arrangements*

Clearing Members are required to have contingency payment arrangements in place to ensure that they can continue to meet their margin obligations in the event of failure of their nominated PPS bank(s). During the application process, the Clearing House will require the applicant to provide evidence of these arrangements and will test these prior to the applicant becoming a Clearing Member. The Clearing Member will be required to provide evidence of their contingency payment arrangements on an ongoing basis at the Clearing House's request.

(j) *Recovery from Insolvent PPS Banks*

In the event that payment is not completed by the relevant PPS bank, due to insolvency rather than technical failure, and the affected Clearing Member(s) make alternative payments, the Clearing House, should it make a recovery from the estate of the PPS bank, will credit such recovery, net of cost, to the accounts of the affected Clearing Members in proportion to the amount of the original missed payment.

1.4 New MAS Electronic Payment and Book-Entry System

1.4.1 The Monetary Authority of Singapore ("MAS") operates a real-time gross settlement system ("RTGS") known as the New MAS Electronic Payment and Book-Entry System ("MEPS+"). The Clearing House maintains an account on MEPS+, exclusively for the purpose of facilitating the transfer of cash denominated in SGD to and from Clearing Members in respect of initial margin.

1.4.2 The Clearing House will accept delivery of SGD via MEPS+ only to meet initial margin requirements. Cash collateral denominated in SGD cannot be used to meet the requirements of on demand initial margin calls

1.4.3 Any payment by a Clearing Member denominated in SGD to satisfy variation margin requirements will be collected via PPS.

1.4.4 To transfer cash denominated in SGD to the Clearing House's account on MEPS+ on a certain business day, a Clearing Member or its agent must submit a valid and complete payment instruction on that business day. MAS will not action such instructions on a SGD holiday. If a payment instruction, which a Clearing Member or its agent submits to the Clearing House on a business day is not subsequently fulfilled by the Clearing Member, or if the Clearing Member inputs an incorrect CMS Reference (as defined in Section 1.3 of Section 4 of the Procedures (Collateral), meaning that the Clearing House cannot action the payment instruction, the Clearing House will delete the instruction at 09:00 hours London

time on that business day. The Clearing Member or its agent must then submit a valid and complete instruction on the next business day.

1.4.5 The CMS process by which Clearing Members may transfer cash denominated in SGD to the Clearing House is described in Section 1.3 of Section 4 of the Procedures (Collateral). In accordance with, and subject to, that process, the amount of the Clearing Member's payment will appear as Collateral against that Clearing Member's account and may be used to satisfy the Clearing Member's initial margin liabilities.

1.4.6 If a Clearing Member instructs a payment to the Clearing House's account on MEPS+ on a certain business day, the value date for that payment will be that business day. The Clearing House will process only same day value instructions and will not process forward-dated instructions.

1.4.7 PPS calls and payments in respect of SGD to satisfy variation margin requirements are for value on the next business day.

1.4.8 The Auto-Repay Service described in Section 1.3.1(g) of these Procedures is not available in respect of MEPS+.

1.4.9 Clearing Members intending to use this service to transfer cash denominated in SGD to the Clearing House to satisfy initial margin requirements must notify the Clearing House in advance. Further details (including information about deposit and withdrawal deadlines) are available on the Clearing House's website at the following link:

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

1.4.1.5 Acceptable Forms of Collateral

The Clearing House accepts certain types of Collateral as determined by the Clearing House from time to time. Please refer to the following link for further details www.lch.com/risk-collateral-management/collateral-management/acceptable-collateral.

The Clearing House may vary, at its discretion, the standard requirements and valuation procedures set out in this Section 1.54, either generally or in a particular case, without giving prior written notice to Clearing Members. Further, the Clearing House may vary the types of Collateral acceptable to it.

1.4.1.5.1 Cash

In order not to fall within the scope of deposit-taking regulations applying to banks and similar institutions, the Clearing House can accept cash from Clearing Members only in relation to current or anticipated obligations.

Cash used as Collateral need not be provided in the same currency as that of the liability. In such cases, currencies will be notionally converted with reference to quoted exchange rates determined at approximately 16:45 London time the previous business day.

Appendix II
LCH Procedures, Section 4: Margin and Collateral
Changed Pages

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PROCEDURES SECTION 4

MARGIN AND COLLATERAL

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- (i) to the extent that it constitutes excess collateral;
- (ii) if the Clearing Member is not a Defaulter;
- (iii) to the extent the Clearing House is permitted to take such steps and make such transfer under Applicable Law and the contractual provisions of any relevant Depository;
- (iv) if the Clearing House considers it is not necessary or desirable to retain such Collateral in order to effect (or seek to effect) a transfer of Contracts and Collateral from an account of a Clearing Member to another account of a Clearing Member or FCM Clearing Member in accordance with the Rulebook, the FCM Regulations, the FCM Procedures and/or any relevant Collateral Management Agreement;
- (v) if there is no overnight margin and/or cash call (including an EOD Margin Run call) in respect of the relevant Clearing Member which remains outstanding; and
- (vi) to the extent the restriction under Section 1.1.8 does not apply to the excess collateral to be returned to the relevant Clearing Member.

- (b) where the Clearing Member has requested that ~~non-cash~~ Collateral of a particular type in respect of an account be transferred, the Clearing House shall permit the transfer of such ~~non-cash~~ Collateral unless it determines, acting in a commercially reasonable manner, that transferring such ~~non-cash~~ Collateral would result in the Clearing House being unable to satisfy its policies on concentration limits in respect of the various types of ~~non-cash~~ Collateral held by it from time to time ("**Concentration Limits**"), in which case the Clearing House shall notify the Clearing Member thereof and shall not be obliged to permit the transfer of the requested ~~non-cash~~ Collateral; and
- (c) where the Clearing Member has requested that cash Collateral of a particular currency in respect of an account be transferred, the Clearing House shall transfer such cash Collateral unless it determines, acting in a commercially reasonable manner, that transferring such cash Collateral would result in the account not satisfying the Clearing House's requirement for a minimum amount of cash Collateral in a particular currency to be held in, or attributed to, such account ("**Cash Requirement**"), in which case the Clearing House shall notify the Clearing Member thereof and shall not be obliged to transfer the requested cash Collateral.

1.1.3 Substitution of non-cash Collateral

At any time, a Clearing Member may notify the Clearing House in accordance with Sections 1.3 and 1.4 of these Procedures that it wishes to substitute any non-cash Collateral in respect of an account which is subject to a Deed of

The Clearing House gives no undertaking that, on the Default of a Clearing Member, it will not utilise Clearing Clients' Collateral which has been transferred to it by a Clearing Member, before utilising any other form of Collateral the Clearing House may hold.

Clearing Members are warned that the transfer of Collateral and the grant of a security interest are complex legal matters. The Rulebook and any communication with the Clearing House (whether of an oral or written nature) are not to be taken as legal or other advice. A Clearing Member should seek its own independent professional advice.

1.3 INSTRUCTIONS VIA CMS

The Clearing House will action instructions relating to Collateral that have been input and authorised via the CMS in accordance with, and subject to, this Section 4 of the Procedures.

For non-cash instructions to transfer securities and triparty Collateral, the details input on the CMS will form the basis of the matching instruction sent to the relevant Depository. Clearing Members must ensure that the details are input correctly in order to avoid unmatched transactions.

For cash instructions via PPS, the details the Clearing Member inputs into the CMS will form the basis of the call or the SWIFT MT202 payment instruction sent to the relevant PPS Bank.

For cash instructions via any real-time gross settlement system (“RTGS”):

1.3.1 the Clearing Member must input the relevant details into the CMS, to ensure that the Clearing House credits/debits the correct amount of cash to the Clearing Member’s Collateral Account;

1.3.2 if the Clearing House’s policies in respect of concentration limits are satisfied, the Clearing House will then provide the Clearing Member a CMS instruction reference number (the “CMS Reference”); and

1.3.3 The Clearing Member will then transfer the cash to the Clearing House’s account in the relevant RTGS, inputting the CMS Reference in field 21 of the Clearing Member’s SWIFT MT202 payment instruction.

1.3.4 If the Clearing Member fails to input the CMS Reference or inputs an incorrect CMS Reference, the Clearing House will return the cash to the Clearing Member on or before the relevant currency’s cash deadline, on the business day the Clearing Member sent the instruction to the Clearing House via CMS. The deadlines are published at the following link of the Clearing House’s web site, under the heading *Cash Collateral Deposit and Withdrawal Cut-Off Times*:

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

It is the responsibility of the Clearing Member to input a cancellation request of any incorrectly input instruction and to subsequently input the correct details in a new instruction. Please note that it may not be possible to cancel an instruction (please refer to Section 1.4.7 below for further details).

The Clearing House will update the status of an instruction in the CMS to reflect the status of the corresponding instruction at the relevant Depository, [Central Bank](#) or PPS Bank. On settlement of the relevant transaction at the relevant Depository, [Central Bank or PPS Bank](#), the Clearing House will reflect the balance of the securities or cash on the relevant account of the Clearing Member and take them into account for the purposes of calculating the Clearing Member's Current Collateral Value.

The Clearing House will not be liable for any losses to Clearing Members or third parties caused by non-settlement or by a delay in settlement as a result of the actions or omissions of a Depository, [Central Bank or PPS Bank](#) or the Clearing Member (save for any liability which may not be excluded by Applicable Law).

1.4 **SETTLEMENT PROCEDURES – SECURITIES PROVIDED BY A CLEARING MEMBER TO THE CLEARING HOUSE ON A BILATERAL BASIS**

All transactions to transfer non-cash Collateral from a Clearing Member to the Clearing House or from the Clearing House to a Clearing Member will be executed free of payment. Members are encouraged to instruct with provisions to allow settlement in late day windows (e.g. Daylight, Priority 90 and other such local market indicators).

1.4.1 *Instruction Deadlines*

Clearing Members may input security instructions via the CMS at any time. Instructions will only be actioned by the Clearing House during operational hours.

The Collateral Operations' operational hours are Monday to Friday 07:00 – 21:00 (UK time).

For settlement in Austraclear, the Collateral Team in Sydney are available Monday to Friday 09:00 – 16:30 (AEST).

Instruction deadlines are available on the LCH website at the following location:

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

1.4.2 *Deliveries to and from Local Markets*

The Clearing House is bound by the settlement deadlines of the relevant Depository. Clearing Members should refer to the relevant Depository for these deadlines. Note that for transactions from local markets the settlement deadline may be earlier than the Clearing House hours of operation and should therefore be instructed the day before the settlement date (i.e. on S-1).

of such cash Collateral, the settlement instruction will, subject to Sections 1.1.2 and 1.1.8, be sent to the Depository by the Clearing House and the Collateral specified in those instructions will, subject to Sections 1.1.2 and 1.1.8, no longer be included when calculating the Clearing Member's Current Collateral Value.

1.4.5 *Substitutions*

Substitution instructions will, subject to Sections 1.1.3 and 1.1.8, and to confirmation of those instructions by the Clearing House, be actioned on the same day if input prior to the deadlines advised by the Clearing House.

Clearing Members must first input the relevant lodge instruction(s) and then link the associated release instruction(s) to the lodge instruction(s).

Substitution instructions sent via manual form should be instructed by 16:30 (UK time) on the business day before the intended settlement to afford the maximum time for both the lodge and release instructions to settle in sequence. All instructions are subject to Sections 1.1.3 and 1.1.8, and confirmation of those instructions by the Clearing House.

1.4.6 *Transfers*

Transfer instructions may be input via the CMS and will (subject to Sections 1.1.2 and 1.1.8) be actioned on the same day during operational hours.

Note: transfers are only permitted between mnemonics of the same Clearing Member and are subject to client segregation rules.

1.4.7 *Settlement Cancellations*

Clearing Members may request the cancellation of an instruction via the CMS. The Clearing House will cancel any instruction that has not yet been processed. The Clearing House will seek, using its best endeavours, to cancel any settlement instructions already sent to the relevant Depository, but cannot guarantee that the transaction will not settle.

1.4.8 *Instruction Status*

The status of an instruction can be monitored via the CMS. Statuses reflect the status of the instruction at the Clearing House and not at the relevant Depository, [Central Bank](#) or PPS Bank. Please refer to the CMS user guide for status definitions.

1.5 **TAX ARRANGEMENTS**

1.5.1 *US Securities*

For tax reasons, the Clearing House is required to segregate foreign (i.e. non-US) owners' securities from US owners' securities. Clearing Members must deliver securities to the correct account. The Clearing House operates accounts with Citibank N.A., BMO Harris and Bank of New York Mellon.

Manual Affirmation deadline	17:00 (UK time)
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1.10 [RESERVED]

1.11 **SWAPCLEAR INTRA-DAY MARGIN CALL: COLLATERAL MANAGEMENT**

For the avoidance of doubt, this Section 1.11 applies only in respect of the SwapClear Service.

1.11.1 *General – Intra-day Margining*

Following an intra-day margin call and unless notified otherwise by a SwapClear Clearing Member at the time of an intra-day margin call, the Clearing House will deduct cash, in the appropriate currency, directly from the relevant SwapClear Clearing Member's PPS account to cover that intra-day margin call.

Standard Clearing House rules as to the currencies in which cash Collateral may be transferred to the Clearing House to satisfy an intra-day Collateral requirement will apply.

It is the responsibility of the SwapClear Clearing Members to ensure that they have sufficient cash funds in place with their PPS ~~B~~bank(s) in order to enable the Clearing House to deduct cash within 1 hour of the intra-day margin call.

If the Clearing House is unable to contact the SwapClear Clearing Member in order to arrange an alternative payment method for the intra-day margin call, the Clearing House will automatically issue a PPS call to debit the SwapClear Clearing Member's PPS account in the appropriate currency.

Confidential Appendix III
LCH Margin Collateral Haircut Schedule

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