

VIA CFTC PORTAL

23 October 2019

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

**LCH Limited Self-Certification: Rule Change related to PPS bank accounts maintained by Clearing Members**

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 a change to its rules regarding the LCH Clearing Members' obligation to maintain PPS bank accounts.

**Part I: Explanation and Analysis**

LCH requires Clearing Members to open PPS bank account(s) for each currency in which they incur settlement obligations. LCH proposes to clarify in various parts of the Rulebook that all Clearing Members are required to maintain:

- USD accounts with any US PPS bank
- EUR, USD and GBP accounts, and any other currencies in which they clear transactions, with any UK PPS bank

In addition, Clearing Members have the option to open an AUD account at an Australia PPS bank.

Further, LCH is amending its rules to note that Clearing Members are required to open a UK PPS Bank account for each currency in which they provide securities collateral to LCH. The change is to enable LCH to pay to a Clearing Member any cash coupon arising on securities collateral that it holds for that Clearing Member.

The rule changes will go live on, or after, November 7, 2019.

**Part II: Description of Rule Changes**

The LCH Procedures Section 3 ("Financial Transactions") have been amended in section 1.3.1 ("PPS Mandates") to clarify the PPS bank accounts that a Clearing Member is required to open, as set out in

Part I above. The amendments include some minor wording corrections and references.

The LCH Procedures Section 1 ("Clearing Member, non-Member Market Participant and Dealer Status") have been updated to refer to the LCH Procedures Section 3, as amended.

Equivalent changes have been made to the corresponding section of the FCM Procedures, as the amended rules are applicable to all LCH Clearing Members.

Finally, the definition of the term "Securities Collateral" has been added to the FCM Regulations to align them to the General Regulations.

The text of the changes are attached hereto as:

- **Appendix I**, Procedures Section 3
- **Appendix II**, Procedures Section 1
- **Appendix III**, FCM Procedures
- **Appendix IV**, FCM Regulations

### **Part III: Core Principle Compliance**

LCH has reviewed the changes against the requirements of the Core Principles and finds that they 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**

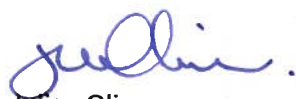
There were no opposing views expressed to LCH by governing board or committee members, members of LCH or market participants that were not incorporated into the rule.

### **Certification**

LCH hereby certifies to the Commodity Futures Trading Commission, pursuant to the procedures set forth in the Commission regulation § 40.6, that 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 [julian.oliver@lch.com](mailto:julian.oliver@lch.com).

Yours sincerely,



Julian Oliver  
Chief Compliance Officer  
LCH Limited

**Appendix I**  
Procedures Section 3



**LCH LIMITED**

**PROCEDURES SECTION 3**

**FINANCIAL TRANSACTIONS**

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## Procedures - Section 3 (Financial Transactions)

### 1.3 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 Clearing Members.

The PPS is operated in London ("**UK PPS**"), the United States ("**US PPS**") and Australia ("**Australian PPS**").

Clearing Members should note that the PPS (in each location mentioned above) is a system for facilitating payment to the Clearing House of moneys due from 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 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 Clearing Membership Agreement, clearing extension documentation and the Regulations, Default Rules and Procedures. Payment will only be recognised 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), and (ii) any time permitted by the relevant payment system for the recall of any such payment has expired or funds received have been paid out to another Clearing Member using the same PPS bank.

Where payments are due to a Clearing Member, payments will be recognised by the Clearing House as having been made 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 recognised 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.

#### 1.3.1 *PPS Mandates*

(a) *Introduction*

A Clearing Member is required to maintain a:

(i)US dollar PPS account with any US PPS bank; and

(ii)a PPS bank account(s) with any UK PPS bank in EUR, USD and GBP, and in the currency or currencies in which it makes Contributions, and for each other currency in which it incurs settlements, settlement obligations, and provides Securities Collateral, to the Clearing House (except that it may maintain a PPS bank account at one or more of the bank branches participating in

~~the PPS system in London. As an exception, an Australian PPS bank may be used for all of its AUD settlement and margin payment obligations to the Clearing House)s. All PPS calls and payments in AUD will be settled using Australian PPS where the A Clearing Member has opted to use Australian PPS.~~

~~Clearing Members~~ may use different UK PPS banks for different currencies.

~~Each Clearing Member is also required to maintain at least one US dollar PPS account with at least one of the US PPS banks.~~

Please refer to the following link for details: <http://www.lch.com/risk-collateral-management/collateral-management/protected-payments-system>.

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 ~~margin~~ 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 Clearing Member holding the relevant account PPS mandates.

Each Clearing Member is required to complete a standard form UK PPS Mandate ~~and~~, US PPS Mandate and, where applicable, Australian PPS Mandate (copies are available from collateral.clientservices@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 Clearing Member institution and then forwarded to the relevant bank. A copy must also be forwarded at the same time to the Clearing House Membership Onboarding Department.

**Appendix II**  
Procedures Section 1



**LCH LIMITED**

**PROCEDURES SECTION 1**

**CLEARING MEMBER, NON-MEMBER MARKET  
PARTICIPANT AND DEALER STATUS**

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## Procedures - Section 1 (Clearing Member, Non-Member Market Participant and Dealer Status)

### 1.3 Criteria for Clearing Member Status

#### 1.3.1 General

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The applicant must open a ~~P~~rotected ~~P~~ayments ~~S~~ystem (“PPS”) bank account at one or more of the ~~PPS~~ banks, in accordance with the requirements of a Clearing Member under branches participating in PPS:

~~in the UK in GBP;~~

~~in the UK in each currency in which it incurs settlements;~~

~~in the USA in US dollars;~~

~~in Hong Kong in US dollars if clearing in certain Asian markets—please see Section 3 (Financial Transactions) of the Procedures~~ for further information,

and must execute all necessary documentation in relation to this. Please ~~(see the PPS section of the Clearing House website Protected Payments System Section of the - LCH.Clearnet website for further information.)~~ in order to manage and open its House and Client accounts.

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.

**Appendix III**  
FCM Procedures



**FCM PROCEDURES OF THE CLEARING HOUSE**

**LCH LIMITED**

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## FCM Procedures

### 1.1 Criteria for FCM Clearing Member Status

#### 1.1.1 *General*

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The applicant must open a ~~P~~protected ~~P~~payments ~~S~~system (“~~PPS~~”) bank account at one or more of the ~~PPS~~ banks, in accordance with the requirements of an FCM Clearing Member under Section 3 of these FCM Procedures ~~branches participating in the PPS system:~~

~~in London in each currency including in US dollars and GBP; and~~

~~in the USA in US dollars, and~~

must execute all necessary documentation in relation to this. Please ~~(see the PPS Protected Payments System~~ section of the Clearing House LCH website for further information.) ~~in order to manage and open its House and Client accounts.~~

FCM Clearing Members are required to have contingency payment arrangements in place to ensure that they can continue to meet their ~~margin and Settlement Payment~~ 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 an FCM Clearing Member. The FCM Clearing Member will be required to provide evidence of their contingency payment arrangements on an ongoing basis at the Clearing House’s request.

### 3.2 Protected Payments System (~~PPS~~)

The Clearing House operates a direct debit system, known as the ~~P~~protected ~~P~~payments ~~S~~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 ~~both~~ London (“**UK PPS**”) and ~~in~~ the United States (~~where it is known as~~ “**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 ~~B~~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 PPS bank account(s) in the currency or currencies in which it makes Contributions, and for each currency in which it incurs settlements, at one or more of the bank branches participating in the PPS system in London. Different banks may be used for different currencies.~~

~~Each FCM Clearing Member is required to maintain at least one US dollar PPS account with at least one of the US PPS banks 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 in each other 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.

(~~P~~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 ~~margin~~ calls from the Clearing House ~~and other obligations due to 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/or~~ US PPS Mandate (copies are available from [treasury.ops.uk@lchclearnet.com](mailto:treasury.ops.uk@lchclearnet.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 ~~Membership Onboarding~~ Department.

**Appendix IV**  
FCM Regulations



**FCM REGULATIONS OF THE CLEARING HOUSE**

**LCH LIMITED**

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## FCM Regulations

Insert the following new definition in the correct alphabetical order in Regulation 1:

**"Securities Collateral"**

means Collateral that is in the form of securities.