

LCH.Clearnet LTD – Collateral Management System (CMS) Changes

Clearing Members are advised that LCH.Clearnet LTD is upgrading its Banking system in May 2014, the confirmed implementation date will be communicated in due course; however Clearing Members should be aware of the following changes which will be introduced in the Collateral Management System (CMS) as a result of the Banking Upgrade.

CMS Changes:

- Enhanced Collateral Withdrawal Functionality
- Enhanced Cash Instruction Turnaround

Please note: These changes only apply to LCH.Clearnet Ltd and not LCH.Clearnet LLC at this time.

Enhanced Collateral Withdrawal Functionality

LCH.Clearnet are enhancing the data provided in CMS to provide Clearing Members with greater visibility of the excess/headroom on an account when requesting a same day reduction in the collateral held.

This will be presented as the Available Amount or Minimum Amount on the following CMS screens:

- Cash Withdrawal/Transfer – Input / Authorisation
- Securities Release/ Transfer – Input / Authorisation
- Triparty Amend/Close – Input/Authorisation

The Available Amount represents the maximum Amount (cash) or Nominal Amount (securities) of the selected asset that can be returned to the Clearing Member for this account for same day value. For Triparty the excess/headroom will be calculated into a Minimum Amount showing the smallest value that the new Triparty amount can be set to.

The Available Amount/Minimum Amount will also be re-calculated at the point of authorising the instruction and displayed to the user authorising the instruction.

The Available Amount/Minimum Amount will not be shown during the processing of the overnight margin calls (typically between midnight and 3am London time) or for SwapClear members until 7:30 am London time. The member can still input instructions at this time, however they can only be authorised after this time.

Cash

For Cash Withdrawals the Available Amount will be calculated against each Sub Acc added to the table (see screen shot below).

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Cash Withdrawal

* Mnemonic: ABC
 * Currency: GBP
 Value Date: 03/04/2014 Total: 0.00

Please return any excess cash balances

No	Client ID	Sub Acc	Name	Amount	Available Amount
1		H	BANK HOUSE ACCOUNT		100.00

Note: Available amount is subject to a change in liabilities

Submit Reset

When requesting the return of excess cash balances the available amount is only shown at the point of authorisation.

Securities

For securities the Available Amount shows the total Nominal Amount (see screen shot below) that could be requested for return. This is not relevant for future dated instructions.

Release Security

Mnemonic: ABC Sub Account: BANK HOUSE ACCOUNT

ISIN: US912828UP37 * Nominal Amount: []

BondT 0 1/4 02/28/15/2Y/28/02/2015/0.25% Available Amount: 947,744.10

Currency: USD Haircut: 4.25 % Current Cover Value

Price: 99.93 Paydown Factor: 1 Convert to: GBP

* Trade Date: 03/04/2014 * Settlement Date: 03/04/2014

Securities Substitutions

When substituting securities for securities, the member should continue to input the lodge instructions first and then during the input of the release instruction link the lodgements. The Available Amount displayed for a release instruction that is linked will take into account the settlement of the linked lodge instruction(s).

Triparty

The Minimum Amount is the smallest value that the new Triparty amount can be set to (see screen shot below). As with securities, the Minimum Amount will not be shown for future dated instructions.

Triparty Amend Print

Balance Reference	TRI104079		
Mnemonic	ABC	Sub Account	BANK HOUSE ACCOUNT
Triparty Agent	EUROCLEAR BANK SA		
Giver Account	94673	Taker Account	94673
Currency	EUR		
Amount	123,456,789.00	Minimum Amount	47,876,464.66
New Amount	<input type="text"/>		
Execution Date	03/04/2014		
Note: Minimum amount is subject to a change in liabilities			
<input type="button" value="Submit"/>		<input type="button" value="Reset"/>	

Impact of CMS validating collateral withdrawals vs. Available Amount

Currently CMS does not validate that the Collateral being withdrawn is available, i.e. that it is not being utilised as cover for liabilities. Collateral Operations at LCH.Clearnet manage the return of collateral to the member on a case by case basis whilst always ensuring the accounts do not go uncovered.

Following the update if the member requests the return of collateral above the Available Amount (or for a Triparty transaction they input a New Amount that is smaller than the Minimum Amount) then CMS will prevent the user from submitting the instruction and present a relevant warning (see example screen shot below).

Release Security Print

Mnemonic	ABC	Sub Account	<div style="border: 1px solid red; padding: 2px; display: inline-block;"> ⊘ Release amount exceeds available amount </div>	
ISIN	US912828UP37	* Nominal Amount	1,000,000.00	
		Available Amount	947,744.10	
	BondT 0 1/4 02/28/15/2Y/28/02/2015/0.25%			
	Currency USD	Haircut 4.25 %	Current Cover Value	956,829.75
	Price 99.93	Paydown Factor 1	Convert to GBP	600,288.43
* Trade Date	03/04/2014		* Settlement Date	03/04/2014

In the event that the Available Amount/Minimum Amount has changed between the instruction being input and being authorised, the user authorising the amount will be presented with the new value.

Members will not be able to authorise any instruction that breaches the Available Amount/Minimum Amount. In such scenarios users will be requested to reject the instruction or try again later. For Cash Withdrawals where multiple accounts have been identified the Authoriser will be allowed to proceed with the components that pass the Available Amount check.

As Available Amount/Minimum Amount cannot be calculated during the processing of the overnight margin calls (typically between midnight and 3am London time) or for SwapClear Members until 7:30am it will not be possible for members to authorise instructions at this time.

Enhanced Cash Instruction Turnaround

Cash Deposits and Withdrawals

The Magma 2.0 upgrade significantly improves the Clearing House's back-office STP capacity when processing Member direct cash instructions (within existing currency cut-off windows). As a result of this release:

- Cash deposits will be processed faster particularly during the critical 9 to 9:30 am (London time) start of day window.
- Cash withdrawals will also be processed faster and Members will be able to see the amount of cash to be returned when requesting the return of excess.

Cash and Security Transfers

Transfers of collateral from one account to another now happen immediately as a result of the improved STP.

Changes to Cash-for-Cash and Securities-for-Cash substitution processes

Due to the increased automation of cash instructions Members who are instructing Cash for Cash (e.g. GBP for USD) or Non-Cash for Cash substitutions, should be aware that the deposit of cash or securities must complete prior to the input of any withdrawals/transfers.

SwapClear Additional Collateral Account (A) impact

The above changes are particularly relevant to SwapClear members who perform client clearing and utilise the SwapClear Additional Collateral (A) account.

Members wishing to input Transfers from the C to A or Withdrawals from the C account will only be able to do so when there is sufficient excess on the C account. This may require that the member input any related Transfers from A to C or Deposits to the C account first.

Additionally Members should be aware that whilst the Transfers will now be processed immediately the Deposits (and Withdrawals) are still dependent on the processing of your PPS Bank. Therefore Members are advised to enter the deposits as early as possible and allow 1 hour for processing at your PPS Bank.