



# **Collateral Services**

Holding and processing collateral with  
LCH.Clearnet Ltd and SA under EMIR

## Table of Contents

Table of Contents .....	2
Introduction .....	5
Who we are .....	5
About this document .....	6
Enquiries .....	6
Collateral eligibility and custody .....	7
Use of Performance Bonds as eligible collateral in LCH.Clearnet Ltd .....	7
Custody accounts for Clearing Member securities .....	7
Changes for LCH.Clearnet Ltd .....	8
Current account structure .....	8
Clearing Mnemonic .....	8
Member Mnemonics .....	8
Sub Accounts .....	8
House accounts – “H” .....	9
Client Accounts – “C” .....	9
Default accounts – “F” .....	9
Additional Sub Account Types .....	9
Buffer accounts “B” and “E” .....	9
Net Cash Settlement Accounts – “I” and “L” .....	9
SwapClear Additional Collateral account “A” .....	9
New account structure .....	10
Clearing Mnemonic & Member Mnemonic .....	10
Sub Accounts .....	10
House accounts – “H” .....	10
Client Accounts – “C” .....	10
Omnibus Segregated Accounts (OSA) – “O” .....	11
Individual Segregated Accounts (ISA) – “S” .....	11
Indirect Client Accounts (ICA) – “V” .....	11
Default accounts – “F” .....	11
Additional Sub Account Types .....	12
Buffer accounts “B” and “E” .....	12
Net Cash Settlement Accounts – “I” and “L” .....	12
SwapClear Additional Collateral account “A” .....	12
Mapping Margin Account identifiers to Collateral Account codes .....	12
Margin Account ID formats .....	13
Banking Report Changes .....	14
CMS Changes .....	15
Margin calls .....	16
Process per Account Type .....	16
House accounts .....	16
OSA Sub Accounts – Non SwapClear .....	16
OSA Sub Accounts – SwapClear .....	16
ISA and ICA Sub Accounts – Non SwapClear .....	16
ISA and ICA Sub Accounts – SwapClear .....	17
Illustration by Business Line .....	17
SwapClear .....	18
Reporting .....	19
Account preferences for Collateral Accounts .....	19
Auto-repay functionality .....	20
PPS accounts for additional Collateral Accounts .....	20

Provision of collateral - Cash .....	20
Identifying the account for deposits and withdrawals .....	20
Depositing cash collateral .....	20
Withdrawing cash collateral .....	21
Timing of deposits and withdrawals .....	21
Provision of collateral – Bilateral Non cash .....	21
Identifying the account for lodging and releasing securities .....	21
Lodging securities .....	21
Releasing securities .....	22
Provision of collateral – Triparty .....	22
Triparty Agents .....	22
Account structure .....	22
Opening a triparty transaction .....	22
Collateral transfers .....	22
Interest and accommodation .....	23
Interest .....	23
Accommodation charges .....	23
CMS enhancements .....	23
Time-line .....	23
SWIFT MX Messaging .....	23
Cover Summary, Headroom and Liabilities .....	24
Additional functionality for splitting cash instructions .....	24
Improved reporting of securities balances .....	25
Aggregate PPS Calls .....	25
Changes for LCH.Clearnet SA .....	26
Current account structure .....	26
Clearing Member code .....	26
Collateral Accounts / segregation type .....	26
House segregated liabilities .....	26
Client segregated liabilities .....	27
Market Maker segregated liabilities .....	27
Gross Client segregated liabilities .....	27
New account structure .....	27
Clearing Member codes .....	27
Collateral Account .....	27
For all markets (except CDS) .....	28
For CDS market .....	28
House accounts .....	28
Market Maker accounts .....	28
Client Accounts .....	28
Omnibus Segregated Accounts (OSA) .....	29
Individual Segregated Accounts (ISA) .....	29
Indirect Client Accounts (ICA) .....	29
Collateral account identifier mapping with clearing member code .....	30
Treasury reports .....	30
Treasury files .....	32
Margin calls .....	32
Process per Collateral Account Type .....	32
House Collateral Accounts .....	32
OSA Collateral Accounts .....	32
ISA Collateral Accounts .....	33
Illustration by Business Line .....	33
Target2 and Custody accounts for additional OSAs and ISAs .....	34

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Account configuration for OSAs and ISAs .....	34
“Cushion” mode and Auto-repay functionality .....	34
Provision of collateral - Cash .....	35
Identifying the account for deposits and withdrawals .....	35
Depositing and withdrawing euro Cash .....	35
Depositing cash collateral .....	35
Withdrawing cash collateral .....	36
Timing of deposits and withdrawals .....	36
Provision of collateral – Securities .....	36
Identifying the account for lodging and releasing securities .....	36
Lodging securities .....	36
Releasing securities .....	36
Interest and accommodation .....	36
Interest .....	36
Accommodation charges .....	36
CMS enhancements .....	37
Appendices .....	37
LCH.Clearnet SA Fax templates .....	37

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## Introduction

### Who we are

The LCH.Clearnet Group is a leading multi-asset class and multi-national clearing house, serving major exchanges and platforms as well as a range of OTC markets.

LCH.Clearnet's world-class risk management framework provides exceptional levels of protection to international markets, as has been proven through the management of recent defaults. As demand for robust clearing services continues to grow, LCH.Clearnet is committed to achieving the highest standards of risk management across all asset classes cleared.

LCH.Clearnet is majority owned by London Stock Exchange Group (LSE.L), a diversified international exchange group that sits at the heart of the world's financial community.

## About this document

This Service Description offers an overview of the Collateral Services provided to Clearing Members of LCH.Clearnet Ltd and LCH.Clearnet SA. Its aim is to ensure that members have a good understanding of the changes to collateral processing as a result of requirements of the European Market Infrastructure Regulations (EMIR).

**This document does not detail any changes resulting from Dodd Frank regulations for Clearing Members designated as Futures Commission Merchants (FCMs).**

The following changes are outlined:

- New account structure options for handling a greater degree of segregation for client assets;
- Improved processes for providing cash and non-cash collateral to cover liabilities and margin calls;
- New methods of instructing and viewing balances and movements of collateral within the Collateral Management System (CMS) for LCH.Clearnet Ltd business; and
- Changes to the way collateral balances are reported to Clearing Members.

The document is split into two sections, the first describes changes that are relevant to LCH.Clearnet Ltd business and the second those changes that impact Clearing Members of LCH.Clearnet SA.

LCH.Clearnet is committed to providing clear information on the above in order to ensure that members have a good understanding of the services provided. LCH.Clearnet therefore welcomes questions and comments on this document.

## Enquiries

Questions about LCH.Clearnet Ltd/SA Collateral Services should be emailed to:

[collateral.services@lchclearnet.com](mailto:collateral.services@lchclearnet.com)

## **Collateral eligibility and custody**

### **Use of Performance Bonds as eligible collateral in LCH.Clearnet Ltd**

Due to new restrictions within EMIR the use of Performance Bonds (bank guarantees) as collateral in LCH.Clearnet Ltd has been withdrawn as of 1<sup>st</sup> October 2013.

### **Use of Central Bank guarantees in LCH.Clearnet SA**

Central Bank guarantees can be used today and will be adapted for EMIR.

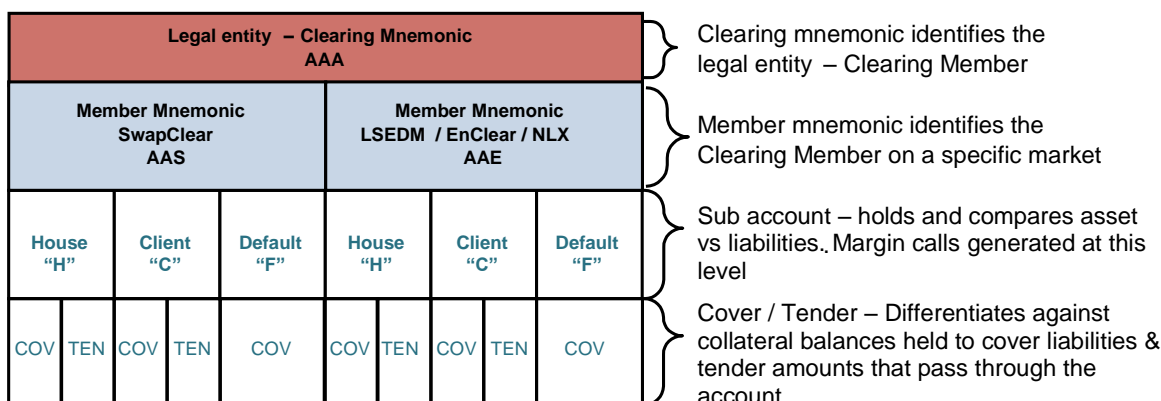
### **Custody accounts for Clearing Member securities**

In accordance with EMIR article 47(3) LCH.Clearnet is required to hold securities at a Securities Settlement System where it is able to do so. LCH.Clearnet Ltd and SA are already in compliance with this requirement and as a result there will be no changes to the current custody arrangements for holding Member's securities collateral.

## Changes for LCH.Clearnet Ltd

### Current account structure

The illustration below provides an example of the current account structure:



### Clearing Mnemonic

LCH.Clearnet maintains an identifier of the Clearing Member which identifies the Clearing Member legal entity i.e. the legal counterparty to LCH.Clearnet, this is known as the clearing mnemonic.

### Member Mnemonics

The identifier for a Clearing Member on a given market is known as the member mnemonic. Member mnemonics are used to map liabilities to the correct account. It is possible for a member to use the same member mnemonic for more than one market. However for both SwapClear and ForexClear, members must maintain separate mnemonics that are not shared with any other market.

Liabilities are provided at the member mnemonic level for either the Clearing Member's house or client sub-accounts.

When a Clearing Member lodges collateral with LCH.Clearnet they do so at the level of the member mnemonic and sub account i.e. to cover liabilities for that market for their house or client business. When a member uses a single mnemonic for more than one market the member is able to lodge collateral to cover liabilities across these markets.

### Sub Accounts

At the member sub account level LCH.Clearnet holds Sub Accounts for:

- Cover in the form of cash collateral balances in different currencies;
- Cover in the form of balances of non-cash collateral e.g. securities, triparty collateral; and
- Tender amounts for physical deliveries and coupon payments that cannot be used as collateral to cover liabilities.

Sub Accounts that have a cover component for holding collateral balances are collectively referred to as 'Collateral Accounts'. Asset vs liability offsetting happens on the Collateral Account, with any collateral shortfall at this level generating a margin call.



### House accounts – “H”

Market liabilities for the Clearing Member’s proprietary business are provided against the House (H) account and offset against the Clearing Member’s proprietary assets held within the cover component at this level.

It is also possible for there to be a House (H) tender component which would be used for any cash required to settle physical deliveries that are not settled through a delivery versus payment (DvP) mechanism. These cash movements are debited /credited directly to the members PPS account and are not available to offset liabilities.

### Client Accounts – “C”

A Client (C) account provides liabilities for a group of clients on a market (or group of markets) to be offset against an omnibus pool of assets held within the cover component at this level.

It is also possible for there to be a Client (C) tender component which would be used for any cash required to settle physical deliveries that are not settled through a delivery versus payment (DvP) mechanism. These cash movements are debited /credited directly to the members PPS account and are not available to offset liabilities.

### Default accounts – “F”

A default fund (F) account allows LCH.Clearnet to specify the default contributions to be collected from each Clearing Member. A liability is associated to the default fund from each market (or group of markets) cleared by the Member. Only a cash account is associated to the account since default liabilities cannot be covered in non-cash according to current rules.

The default fund account only consists of a cover component to hold the cash collateral.

### Additional Sub Account Types

Although not shown in the above illustration the following sub accounts also operate in the same structure.

#### Buffer accounts “B” and “E”

A buffer account on both the House (B) and Client side (E) can be used in order to call additional margin during the day for a market (or group of markets). These accounts only have a cover component.

#### Net Cash Settlement Accounts – “I” and “L”

These accounts are used to facilitate the payment of coupons to members holding securities as collateral and only consist of a tender component. Coupons are paid directly to the member’s PPS account on payment date, coupon outturns are not credited to the members collateral (cover) accounts to be used to offset liabilities. “I” accounts are for coupons related to House business, “L” accounts are for coupons related to Client business.

#### SwapClear Additional Collateral account “A”

SwapClear Members may also operate an additional collateral (A) account, which consists of only a cover component and is used to manage client excess. For more details please refer to the LCH.Clearnet Ltd Rulebook – Section 2C.

## New account structure

In order to comply with EMIR requirements LCH.Clearnet must be able to offer a greater degree of segregation for Client accounts as follows:

Legal entity – Clearing Mnemonic AAA																					
Member Mnemonic SwapClear AAS										Member Mnemonic LSEDM / EnClear / NLX AAE											
House “H”		OSA “C”		OSA “Oxxx”		ISA “Sxxx”		Default “F”		House “H”		OSA “C”		ISA “Sxxx”		ISA “Sxxx”		ICA “Vxxx”		Default “F”	
COV	TEN	COV	TEN	COV	TEN	COV	TEN	COV	TEN	COV	TEN	COV	TEN	COV	TEN	COV	TEN	COV	TEN	COV	TEN

*For simplicity the diagram above only shows the Collateral Account at the Sub Account level. Relationships to trade Positions and IM Liability are not represented.*

### Clearing Mnemonic & Member Mnemonic

There are no changes at the Clearing Mnemonic or Member Mnemonic level.

### Sub Accounts

The [EMIR Account Structures for LCH.Clearnet Ltd & SA](#) document published previously describes the relationship of trade Positions, IM Liability and Collateral Accounts as they relate to the following new client Sub Account types: Individually Segregated Accounts (ISA), Omnibus Segregated Accounts (OSA) – Gross Margin and Omnibus Segregated Accounts (OSA) – Net Margin; it also describes the Indirect Clearing Model as it applies across all markets.

In support of these models LCH.Clearnet Ltd will provide the following Collateral Account classifications:

- Individually Segregated Accounts (ISA);
- Omnibus Segregated Accounts (OSA) – covering both Net and Gross OSAs; and
- Indirect Client Accounts (ICA) – covering OSA Net accounts under the indirect clearing model.

For book keeping purposes the sub-account’s IM Liability<sup>1</sup> will be defined by a specific reference on each market. For the purposes of this document this will be referred to as the ‘Margin Account ID’, although individual business lines may refer to this by a different name. For existing House (H) and Client (C) accounts a specific reference is not required. Further details on this are described below on page 12.

### House accounts – “H”

There are no changes to House accounts as part of the EMIR.

### Client Accounts – “C”

Clearing Members will continue to be able to operate their current “C” account where no further client segregation is required. Currently the “C” account provides an omnibus

<sup>1</sup> This represents the Initial Margin amount including any add-ons, such as contingent variation margin and net liquidity value.

account used to offset aggregated or net client liabilities (depending upon the clearing service). Under EMIR this is classified as an Omnibus Segregated Account “OSA”.

#### Omnibus Segregated Accounts (OSA) – “O”

A Clearing Member may define additional OSA collateral accounts in order to provide collateral for a specific group of clients.

Liabilities for the additional OSAs will be defined against a specific Margin Account ID on each market and offset against an omnibus pool of assets held in the collateral account. The Margin Account ID may represent a single Net liability in an OSA Net scenario or the sum of multiple liabilities for an OSA Gross.

In the event of a Clearing Member operating a single shared mnemonic across markets the assets in one Collateral Account can be used to offset multiple market level liabilities, where each of the Margin Account IDs represent the same client or same pool of clients.

These additional OSA Collateral Accounts will be designated a new four digit code starting with the letter “O”.

#### Individual Segregated Accounts (ISA) – “S”

A Clearing Member may request an ISA for a specific client in order to provide a segregated Collateral Account for their assets.

Individual client level liabilities are defined against a specific Margin Account ID on each market, but the same Collateral Account can be used to offset liabilities across multiple markets for the same client when the Clearing Member operates a single shared mnemonic across markets.

A Clearing Member may define more than one ISA account in order to segregate individual clients.

The ISA Collateral Accounts will be designated a new four digit code starting with the letter “S”.

#### Indirect Client Accounts (ICA) – “V”

EMIR requires LCH.Clearnet to support the Indirect Client Model where a Direct Client, can have its own Indirect Clients.

A Direct Client (operating an ISA account) can opt, with the agreement of the Clearing Member, to open one or more OSA Net account(s) in order to segregate underlying client assets.

These accounts will operate in the same way as a regular OSA Net account with their own Margin Account ID for liabilities, but will also be labelled in the collateral system to show who the relevant Direct Client is and LCH.Clearnet will apply the same porting and liquidation rules to these accounts as that of the Direct Client’s ISA account (in the event of Member default).

The Collateral Account will be classified as an ICA account and will be designated a new four digit code starting with the letter “V”.

#### Default accounts – “F”

There are no changes to the Default accounts.

## Additional Sub Account Types

### Buffer accounts “B” and “E”

There will be no changes to any existing “B” accounts.

The current “E” accounts will be phased out and instead any additional margin will be associated to the Margin Account ID for which the additional liability has arisen. Collateral will therefore need to be provided into the specific “C”, “O”, “I” or “V” ‘Collateral Account’ that is used for cover. This is to ensure that all Collateral is held in compliance with EMIR segregation rules.

LCH.Clearnet will make arrangements with each Clearing Member operating a Buffer (E) account to have collateral in these accounts transferred to the relevant client Collateral Account.

### Net Cash Settlement Accounts – “I” and “L”

There are no changes to the “I” account which will continue to be used as a tender account for coupons related to House business.

The “L” account will also still be used in a tender capacity, for coupons related to Client business. However it will now also be used in a cover account capacity, under certain circumstances, for other non-IM cash flows such as realised variation margin (VM) and NPV where applicable. See Margin calls section below for further details on this change.

### SwapClear Additional Collateral account “A”

Clearing Members can continue to operate the SwapClear Additional Collateral (A) accounts in relation to client excess for the “C” account, however it is planned that this account will be phased out later in 2014. The “A” account cannot be used in combination with new ISA accounts or additional OSA accounts.

## Mapping Margin Account identifiers to Collateral Account codes

As per the [EMIR Account Structures for LCH.Clearnet Ltd & SA](#) there are three separate book keeping accounts used by LCH.Clearnet Ltd:

- Position Accounts – holds trades, and for some business lines, derived positions for the House or Client ISA/OSA;
- Margin Account – represents the House or Client liability in each case derived from the relevant Position Account; and
- Collateral Account – records the assets which cover the liability.

The Collateral Account codes used to identify an OSA, ISA or ICA will consist of four characters within LCH.Clearnet’s collateral systems e.g. “O123”, “S123” and “V123” as described above.

The Margin Account Identifier which is used across Member Reporting will consist of up to thirty two characters and will vary in format for each market. The table on the next page outlines the specific format used by each market.

The Margin Account ID will be mapped to the correct Collateral Account for that client in the collateral system. In order for Clearing Members to have traceability of client liabilities to assets, LCH.Clearnet will adapt both the Banking reports and the Collateral Management System (CMS) to provided both references. Further details on these changes are described below on pages 14 and 15.

## Margin Account ID formats

Market Name	Market Code	Additional OSA Format	ISA Format	ICA Format
London Metal Exchange	LME	10c	10c	10c
NLX	NLX	<2!a ("CN" OR "CG")>+<8c>	<2!a ("CI")>+<8c>	<2!a ("CN")>+<8c>
LSE Derivatives Market <sup>2</sup>	ED2	3!c (NCP Mnemonic)	3!c (NCP Mnemonic)	3!c (NCP Mnemonic)
EnClear	EDX	<2!a ("CN" OR "CG")>+<3!a (Mnemonic)>+<27c>	<2!a ("CI")>+<3!a (Mnemonic)>+<27c>	<2!a ("CN" OR "CG")>+<3!a (Mnemonic)>+<27c>
Nodal <sup>3</sup>	NEX	(Not Applicable)	(Blank)	(Not Applicable)
FEX	FEX	<2!a ("CN" OR "CG")>+<3!a (Mnemonic)>+<27c>	<2!a ("CI")>+<3!a (Mnemonic)>+<27c>	<2!a ("CN" OR "CG")>+<3!a (Mnemonic)>+<27c>
SwapClear	SWP	<29c>+<3!a ("OSA")>	<29c>+<3!a ("ISA")>	<29c>+<3!a ("ISA")>
ForexClear	FXC	<3!a (Mnemonic)>+<1!a ("O")>+<3c>	<3!a (Mnemonic)>+<1!a ("S")>+<3c>	<3!a (Mnemonic)>+<1!a ("V")>+<3c>
RepoClear <sup>4</sup>	RCL	(Not Applicable)	(Blank)	(Not Applicable)
EquityClear <sup>5</sup>	ECL	(Not Applicable)	<3!a (Mnemonic)>+<1!a ("C")>+28c (Settlement Firm ID)	<3!a (Mnemonic)>+<1!a ("C")>+28c (Settlement Firm ID)

<u>Notation</u>	Length restrictions	nn	maximum length
		nn!	fixed length
	Types of character	a	alphabetic, capital letters (A through Z), upper case only
		c	alpha-numeric capital letters (upper case), and digits only
	Reference structure	<...>	one element where ... represents any allowed combinations of length or character
		+	a reference structure made up of multiple elements combined together before and after the +
	Nature	(...)	the nature of the reference where ... represents a value specific to the market
		"..."	a fixed code where ... represents the value of the code
	Example	<2!a ("CN" OR "CG")>+<8c>	fixed 2 uppercase letters, either CN or CG followed by up to 8 uppercase letters or digits

<sup>2</sup> Previously known as Turquoise Derivatives.

<sup>3</sup> Nodal only support one OSA,ISA or ICA account per Mnemonic which will always be the "C" account. More Mnemonics can be opened if more are required.

<sup>4</sup> RepoClear only support one OSA, ISA or ICA account per Mnemonic which will always be the "C" account. More Mnemonics can be opened if more are required.

<sup>5</sup> EquityClear only support one OSA per Mnemonic which will always be the "C" account.

## Banking Report Changes

The banking reports will be updated to include both the Collateral Account code and Margin Account ID (for each market) in the Account field. Multiple references are separated by forward slashes (/) and market codes are separated by hyphens (-).

Please see examples below and refer to the sample reports on the LCH.Clearnet website at the following location:

<http://www.lchclearnet.com/Images/EMIR%20Collateral%20Report%20Samples.zip>

Account H

Account C

*“H” House and “C” Client OSA Collateral Accounts continue to be reported in the same way with the standard “H” and “C” references*

Account S123/SWP-GIG004DISA

*ISA Collateral Account “S123” is associated to SwapClear (SWP) Margin Ac ID “GIG004DISA”*

Account S45T/LME-CLIENTID456/ECL-CLIENTIDDEF/NLX-CI1234ABCD

*ISA Collateral Account “S45T” is associated to LME (LME) Margin Ac ID “CLIENTID456”, EquityClear (ECL) Margin Ac ID “CLIENTIDDEF” and NLX (NLX) Margin Ac ID “CI1234ABCD” i.e. these are for the same client but identified differently on each market*

Account OG12/FXC-ABCOG12

*OSA Collateral Account “OG12” is associated to ForexClear (FXC) Margin Ac ID “ABCOG12”*

Account O789/EDX- CNABCACCTID789/ED2-ABC

*OSA Collateral Account “O789” is associated to EnClear (EDX) Margin Ac ID “CNABCACCTID789” and London Stock Exchange Derivative Market (ED2) Margin Ac ID “ABC”*

Account V963/SWP-NETGIG004NOSA

*ICA sub account “V963” is associated to SwapClear (SWP) Margin Ac ID “NETGIG004NOSA”*

CMS Changes

The Collateral Management System has also been updated so that Member Users can search for the Sub Account based on either the Collateral Account code or the Margin Account ID with both values displayed in the results.

To reflect this CMS displays the Collateral Account code in the Sub Account field (with the 30 most recently used values available from a selection drop down list.

The screenshot shows the 'Cash Deposit' form with the following fields: Mnemonic (DUM), Currency, Value Date, and Amount. The 'Sub Account' field is set to 'Search', which has opened a dropdown menu. The menu items are: Please Select, H, C, B, A, E, Search (highlighted), S123, and 0789. There are 'Submit' and 'Reset' buttons at the bottom left.

If using the Margin Account ID, or a Collateral Account code that is not in the drop down list, the user can select the search option. When searching with a Margin Account ID, the Collateral Account is displayed in brackets at the end.

The screenshot shows the 'Cash Deposit' form with the 'Sub Account' field set to 'Please Select'. A 'Sub Account Finder' dialog box is open in the center. The dialog has a title bar 'Sub Account Finder' and a close button. The text inside says 'Please Enter/Select your Sub Account/Client ID'. Below this is an input field containing 'CLIENTID4' and a list of search results: 'CLIENTID456 (S123)'. There is an 'OK' button at the bottom right of the dialog. The background form is dimmed.

Once selected the Collateral Account code will be displayed in the Sub Account field and the Margin Account ID will be visible in the Client IDs field along with the Primary Client ID (an internal LCH.Clearnet Ltd reference for the client) and any other Margin Account IDs that are utilised by different markets.

The screenshot shows the 'Cash Deposit' form with the following fields: Mnemonic (DUM), Currency (GBP), Value Date (08/11/2013), and Amount (10,000,000.00). The 'Sub Account' field is now 'S123'. To the right of the Sub Account field, the text 'BANK ABC CLIENT 123' is displayed. Below this, the 'Client IDs' section lists: LCH0000123, CLIENTID456, and CLIENTID567. There are 'Submit' and 'Reset' buttons at the bottom left.

## Margin calls

LCH.Clearnet Ltd provides a number of different scenarios in respect to the settlement of margin calls. It is therefore necessary to consider margin calls as a result of :

- 'IM Liabilities' – The Initial Margin amount including any add-ons, such as contingent variation margin and net liquidity value; and
- 'Non-IM Postings' – Cash flows such as realised variation margin (VM), Price Alignment Interest (PAI) and Coupons.

### Process per Account Type

The following section outlines the Margin Call process per account type:

#### House accounts

There will be no change to the processing of margin calls for House accounts.

Margin calls will be generated for collateral deficits in respect to cover for IM Liabilities net of any Non-IM Postings in the same currency, and for Non-IM Postings in other currencies.

Excess cash balances will be repaid to the Clearing Member at the start of the following day if the Clearing member has opted into the "auto-repay" facility.

#### OSA Sub Accounts – Non SwapClear

There will be no change to the processing of margin calls for the main "C" omnibus account or other OSA accounts for Non SwapClear business.

Margin calls will be generated for collateral deficits in respect to cover for IM Liabilities net of any Non-IM Postings in the same currency, and for Non-IM Postings in other currencies.

Excess cash balances will be repaid to the Clearing Member at the start of the following day if the Clearing member has opted into the "auto-repay" facility.

#### OSA Sub Accounts – SwapClear

For all SwapClear OSA accounts (including the "C" account) only IM Liabilities are posted to the OSA to be offset against assets on the account.

Non-IM Postings will be settled through the net cash settlement account "L" and will be netted together with the postings for all other client accounts within the mnemonic. As a result there will be no offsetting of Non-IM debits against excess cash held on the OSA account and the OSA account will only be subject to margin calls resulting from insufficient cover of IM Liabilities.

Excess cash balances will be repaid to the Clearing Member at the start of the following day if the Clearing member has opted into the "auto-repay" facility.

#### ISA and ICA Sub Accounts – Non SwapClear

For Non SwapClear ISAs and ICAs IM Liabilities are always posted to the ISA or ICA to be offset against assets on the account.



Non-IM Postings will as standard <sup>6</sup> be settled through the net cash settlement account “L” and will be netted together with the postings for all other ISA and ICA accounts within the mnemonic. As a result there will be no offsetting of Non-IM debits against excess cash held on the ISA/ICA account and the ISA/ICA account will only be subject to margin calls resulting from insufficient cover of IM Liabilities.

This standard process will significantly reduce the volume of PPS calls and pays such that there is only a single net call or pay per currency for Non-IM Postings.

As standard excess cash collateral on an ISA/ICA will not be repaid automatically to the Clearing Member. Members wishing to withdraw excess cash from an ISA/ICA will need to request the cash be returned by inputting a Cash Withdrawal instruction in CMS.

### ISA and ICA Sub Accounts – SwapClear

SwapClear ISAs and ICAs IM Liabilities are always posted to the ISA or ICA to be offset against assets on the account.

Non-IM Postings will always be settled through the net cash settlement account “L” and will be netted together with the postings for all other client accounts (OSAs, ISAs and ICAs) within the mnemonic. As a result there will be no offsetting of Non-IM debits against excess cash held on the ISA/ICA account and the ISA/ICA account will only be subject to margin calls resulting from insufficient cover of IM Liabilities.

This standard process will significantly reduce the volume of PPS calls and pays such that there is only a single net call or pay per currency for Non-IM Postings.

As standard excess cash collateral on an ISA/ICA will not be repaid automatically to the Clearing Member. Members wishing to withdraw excess cash from an ISA/ICA will need to request the cash be returned by inputting a Cash Withdrawal instruction in CMS.

### Illustration by Business Line

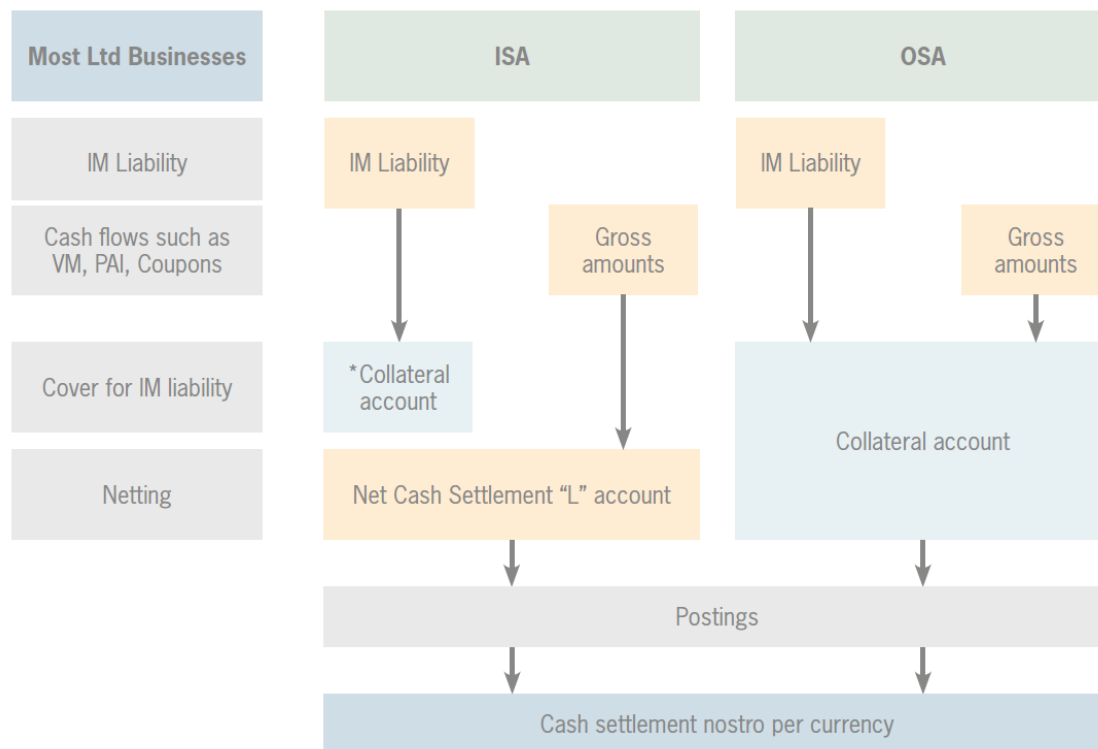
The diagrams below illustrate the differences in the Margin Call process outlined above. Note: For ease of explanation ICA accounts are not shown but will follow the same process as ISA accounts.

The diagram below illustrates that that for all Ltd business except SwapClear:

- IM Liabilities for ISA accounts are offset by assets held for the ISA only and will generate a margin call (via PPS) should a deficit arise;
- IM Liabilities for OSAs will be posted to the relevant account and offset against assets and Non-IM Postings (where applicable) held on the OSA, if a deficit arises then a cash margin call will be generated;
- ISA Non-IM Postings (gross amounts) will, as standard, be mapped to the “L” net cash settlement account and not to the ISA itself. The gross amounts will be netted to a single call/pay per currency across all ISAs.

<sup>6</sup> Clearing Member’s may request that Gross Amounts are instead applied directly to the ISA or ICA, however it is recommended that these are netted per currency through the “L” account (see example below). Posting directly to the ISA or ICA will increase PPS traffic and it is therefore necessary to discuss the impact with LCH.Clearnet and the relevant PPS Bank.

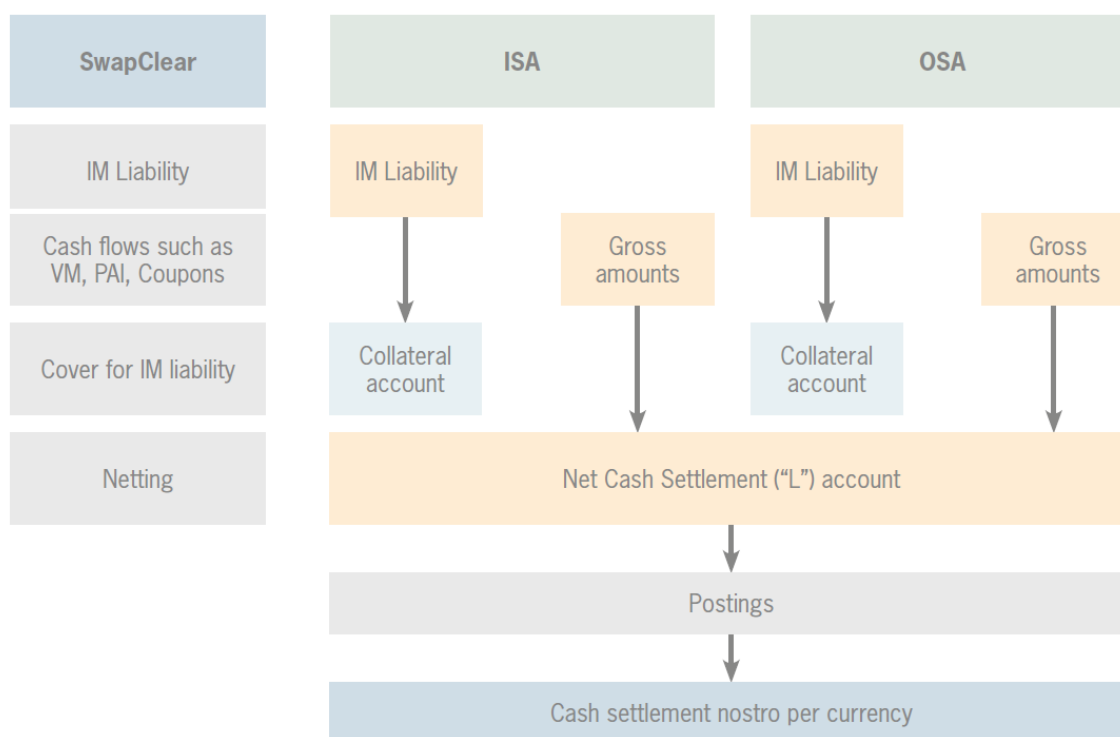
- OSA Non-IM Postings (gross amounts) will be mapped to the OSA and will be offset (where applicable) with any excess cash balance on the account. A single net Margin calls for IM Liabilities and Non-IM Postings will be generated per OSA per currency.



### SwapClear

The diagram below illustrates that for all SwapClear business:

- IM Liabilities for ISA accounts are offset by assets held for the ISA only and will generate a margin call (via PPS) should a deficit arise;
- IM Liabilities for OSAs will be posted to the relevant account and offset against assets held on the OSA, if a deficit arises then a cash margin call will be generated;
- ISA and OSA Non-IM Postings (gross amounts) will be mapped to the "L" net cash settlement account and not to the ISA/OSA itself. Margin calls arising from Non-IM Postings will be netted to a single call/pay per currency across all ISAs and OSAs.



## Reporting

Banking Report: Yesterday's Cover Account Postings (REP00022) will continue to reflect both the postings that relate to IM Liability and the Non-IM Postings.

IM Liabilities will always be reflected on gross basis against the specific client account (ISA, OSA or ICA).

Where the Non-IM Postings are settled via the "L" net cash settlement account these will be shown on a gross basis against the "L" account but settled net via a single PPS call or pay per currency. Where the "L" account is not used (i.e. OSAs for Non SwapClear members) the Non-IM Postings will be shown on a net basis against the specific client account.

Clearing Members should continue to use the relevant Clearing Service reports to identify which client the posting relates to. For specific details of which report to use, please contact the appropriate business line representative.

## Account preferences for Collateral Accounts

It will be possible for each ISA, OSA and ICA to have different configuration with respect to the way that margin calls are processed on the account. The main items of configuration are:

- Whether the account should utilise cash or non-cash collateral first in order to cover liabilities;
- What currency should be used to meet margins calls generated at the end of day;
- What currency should be used to meet margin calls generated intraday; and
- What email addresses should be used to notify margin calls.

When creating a new Collateral Account, Clearing Members will be given the option to copy these account preferences from an existing Collateral Account. However they may also specify these details to be unique if required by also supplying an Collateral Account Setup Preferences form.

### **Auto-repay functionality**

LCH.Clearnet provides a facility whereby cash balances that are identified as excess during end of day processing are automatically repaid to the Clearing Member's PPS account the following morning.

For ISAs and ICAs the auto-repay functionality will be switched off. This will ensure that cash collateral that is deposited to the account will remain on the ISA/ICA. In order to request these cash balances be returned, a cash withdrawal instruction must be entered into CMS prior to the deadline specified for cash withdrawals.

For OSAs the auto-repay functionality will remain optional. Clearing Members may select to have excess balances returned or to leave the balances at LCH.Clearnet.

## **PPS accounts for additional Collateral Accounts**

Clearing Members can currently designate a single PPS account per currency to be debited (called) per sub account. It is possible to designate different PPS banks for different currencies.

There is no requirement for Clearing Members to open different PPS accounts for additional OSA, ISAs or ICAs. Existing PPS accounts may be used.

When creating a new Collateral Account, Clearing Members will be given the option to use the same PPS accounts and preferences as used for an existing Collateral Account (for example the "C" account). However they may also provide a new PPS Mandate that specifies different accounts if required.

Please note that as standard, LCH.Clearnet will configure the net cash settlement account "L" to have the same PPS accounts and preferences as the main client omnibus "C" account, unless the Clearing Member specifies different PPS accounts specifically for the "L" account.

## **Provision of collateral - Cash**

### **Identifying the account for deposits and withdrawals**

When depositing or withdrawing cash the Clearing Member must specify the OSA, ISA or ICA where the cash is to be credited or debited. In order to do this CMS has been enhanced to allow users to specify either the Collateral Account code or the Margin Account Identifier used by the relevant clearing system, as described on page 15.

This allows the Clearing Members the ability to select the correct sub account using the identifier that they are used to rather than only the Collateral Account code. Please note: There is no provision for unallocated collateral.

### **Depositing cash collateral**

Members will be provided with the ability to deposit cash collateral onto OSAs, ISAs and ICAs. As is currently the case it will only be possible to deposit currencies that are

accepted as cover for initial margin. Note: cash deposits can be made in addition to cash that has been called by the margin call process.

Cash deposits must be input via CMS. The deposit instruction will be processed by Collateral Operations and a PPS call will be generated to debit the linked PPS bank account.

#### Withdrawing cash collateral

Members will be able to withdraw cash collateral from their cover account. Members will only be able to withdraw cash that is not currently being used as cover i.e. excess cash only.

Note: Members that have auto repay enabled (for House and OSAs only) do not need to request the return of excess cash as this will automatically be returned the following business day when identified as excess during overnight processing.

Excess cash balances on ISAs and ICAs will not be auto-repaid. Clearing Member can request the repayment of excess cash balances by inputting a Cash Withdrawal instruction in CMS.

#### Timing of deposits and withdrawals

Deadlines for cash deposits and withdrawals are not changing in response to EMIR and Clearing Members must deposit and withdraw client excess in-line with the existing processes. However LCH.Clearnet recognises the challenges members face in respect to cash deadlines and are currently reviewing the procedures, as such any changes to the process will be communicated separately.

## Provision of collateral – Bilateral Non cash

### Identifying the account for lodging and releasing securities

When inputting instructions in CMS, Clearing Members must specify the sub account at LCH.Clearnet to which the instruction pertains.

In order to do this CMS has been enhanced to allow users to specify either the Collateral Account code or the Margin Account Identifier used by the relevant clearing system, as described on page 15.

This allows the Clearing Members the ability to select the correct sub account using the identifier that they are used to rather than only the Collateral Account code. Please note: There is no provision for unallocated collateral.

### Lodging securities

Clearing Members should lodge collateral to OSAs, ISAs and ICAs in the same way that collateral is lodged currently. Member must inform LCH.Clearnet of their intention to lodge eligible securities via an instruction in CMS, which has been enhanced to allow input of instructions for OSAs, ISAs and ICAs sub accounts.

Instructions that have been input and authorised by the member are then processed by the Collateral Operations team. A matching instruction will be input with the relevant CSD/Custodian and settlement of the instruction will be monitored. Once the settlement of securities transactions has been confirmed by the CSD/custodian, LCH.Clearnet will

update the balance of collateral on the relevant member’s Collateral Account and allow the collateral to be used as cover for liabilities for the specified account.

### Releasing securities

Clearing Members can release collateral from OSAs, ISAs and ICAs in the same way that collateral is released currently, with the member informing LCH.Clearnet of their intention to release securities via an instruction in CMS.

The Collateral Operations team will ensure that the release of the securities would not cause there to be insufficient cover on the account and will only input a matching instruction upon confirmation of this. Note: Additional collateral in the form of cash or securities may be required before the securities can be released.

## Provision of collateral – Triparty

In order to lodge securities at LCH.Clearnet using a Triparty arrangement, the relevant tripartite documentation between the Clearing Member, the Triparty Agent and LCH.Clearnet must be in place.

### Triparty Agents

Triparty Collateral Management is provided to LCH.Clearnet by Euroclear Bank and Clearstream.

### Account structure

The Triparty provider will set up unique collateral ‘giver’ (member) and collateral ‘taker’ (LCH.C) accounts. The ‘giver’ account is nominated by the member at the time of set-up and is segregated per Clearing Member. Clearing Members may set up more than one giver account if required.

### Opening a triparty transaction

Clearing Members can instruct a triparty trade denominated in EUR, GBP or USD value to cover initial margin requirements via CMS.

As for all instructions the Clearing Member must designate the sub account that the triparty transaction is to be opened for by either specifying the Collateral Account code or the Margin Account Identifier.

## Collateral transfers

Clearing Members may input instructions to move collateral between accounts at LCH.Clearnet (excluding triparty collateral). The following rules apply to transfers of collateral:

Transfer from	To House	To Client OSA	To Client ISA	To Client ICA
<b>House</b>	Yes	Yes	Yes	Yes
<b>Client OSA</b>	No	No	No	No
<b>Client ISA</b>	No	No	Yes *	Yes**
<b>Client ICA</b>	No	No	No	No

\* Only where client is identified as the same (i.e. the same client with two ISAs operating under different member mnemonics)

\*\* Only where the ICA is directly associated with the delivering ISA.

Validation in CMS will ensure that the above transfer rules are applied both to cash and securities. Note: transfers of triparty collateral between accounts are not possible

## Interest and accommodation

### Interest

Interest on cash balances will be calculated on ISAs, OSAs and ICAs at the prevailing rate and will be credited (or debited) to/from cash balances on the account. Debit interest postings may result in a PPS call should the account contain insufficient cash to cover the debit.

### Accommodation charges

Accommodation charges (where applicable) will be calculated on OSAs, ISAs and ICAs at the prevailing rate and will be debited from cash balances on the account.

Debit interest postings may result in a PPS call should the account contain insufficient cash to cover the debit.

## CMS enhancements

Currently all Members have access to the CMS web based application which allows Users to:

- View collateral balances;
- Input collateral instructions; and
- Monitor the status of instructions.

In addition to the enhancements already covered that allow LCH.Clearnet to become EMIR compliant, CMS is also being developed with the following benefits.

### Time-line

All of the below CMS changes are being delivered using iterative development principles, with releases throughout 2014. Many of the enhancements listed here will be available by the time LCH.Clearnet is re-authorised for EMIR and Clearing Members will be advised of individual enhancements in advance of each release.

### SWIFT MX Messaging

With the expected increase in the number of accounts for clients that wish to have additional OSAs, ISAs and ICAs, LCH.Clearnet is expecting an increased volume of collateral movements to and from LCH.Clearnet.

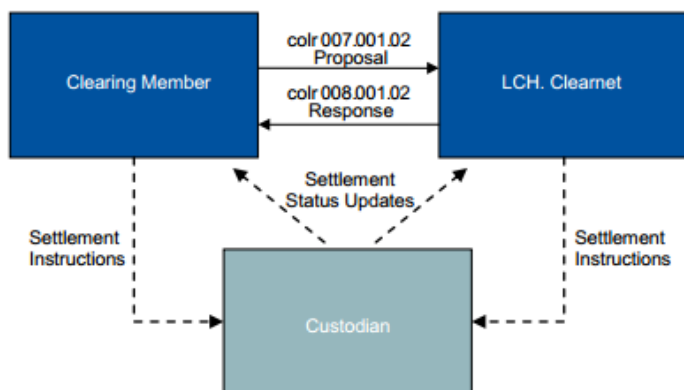
CMS currently only allows for manual entry of instructions. Prior to the introduction of EMIR the CMS application will be enhanced to allow for the use of SWIFT MX messaging. This replaces the need for manual instruction into the CMS GUI by providing a Collateral Proposal and Collateral Response message, though this does not prevent the member from continuing to submit manual instructions should they wish.

The following instruction types: Cash Deposit, Cash Withdrawal, Cash Transfer, Security Lodge, Security Release and Security Transfer can be submitted via the message format and once successfully received by LCH.Clearnet will be recorded with a status of "Instructed". No authorisation is required in CMS for instructions originating via SWIFT.

Triparty instructions are not currently supported and must continue to be input via the GUI.

After successful receipt of the proposal, it can then be monitored (and cancelled) in CMS in the same way as a regular manual instruction.

The below diagram shows the flow of messages as they relate to a security proposal:



Details of the SWIFT message specification and a guide to on-boarding to this service can be found at the following link:

[www.lchclearnet.com/risk\\_management/ltd/benefits\\_of\\_the\\_collateral\\_management\\_system.asp](http://www.lchclearnet.com/risk_management/ltd/benefits_of_the_collateral_management_system.asp)

### **Cover Summary, Headroom and Liabilities**

Supporting the anticipated growth in both the number of accounts and collateral movements LCH.Clearnet will provide a greater degree of visibility within CMS of the Clearing Member’s liabilities per account and the overall cover and headroom they have in place.

LCH.Clearnet will provide a new Cover Summary view of the Clearing Member’s assets and liabilities per mnemonic and sub account, indicating the value of collateral that is available for withdrawal.

In support of Cash Withdrawal, Securities Release and Tri-party Amendment, CMS will validate that there is sufficient headroom available, both at the point of instruction and again at the point of authorization. In the event of an insufficient balance CMS will prevent the instruction from being submitted and notify the user appropriately.

### **Additional functionality for splitting cash instructions**

In order to reduce the potentially significant increase in settlement instructions between the Clearing Member and LCH.Clearnet, CMS will allow input of single deposit and withdrawal cash instructions that may then be split to debit or credit multiple sub accounts upon settlement.

It will be possible for the Clearing Member to input a single aggregate instruction for cash (i.e. either lodge or release but not both) for a specific cash amount and then specify to which accounts the resulting debit or credits are to be applied. Note: the accounts must be associated to the same mnemonic and PPS account.

For example:



Currency	Value Date	Amount	Collateral Accounts
EUR	18-03-14	100,000.00	S123
		500,000.00	S456
		400,000.00	O123
		<b>Total 1,000,000.00</b>	

### Improved reporting of securities balances

With the anticipated growth in the number of OSAs, ISAs and ICAs, LCH.Clearnet recognises that a greater degree of Straight Through Processing (STP) is required for collateral processing. In order to provide better STP in the area of reconciliations LCH.Clearnet is implementing the provision of standard messaging via SWIFT.

LCH.Clearnet currently provides reporting of securities balances via proprietary reports that are accessed via the Member reporting website or can be downloaded using a secure FTP connection. The current Collateral by Member report will continue to be available for OSAs, ISAs and ICAs.

In addition to the current reporting, Clearing Members will be provided with standard SWIFT reporting of securities balances via the MT535 Statement of Holdings (end of day) message. The message will be delivered to Clearing Members over the SWIFT network only.

Clearing Members will be able to subscribe to the MT535 by setting up their subscription in CMS. Members must ensure that the relevant SWIFT Relationship Management Application (RMA) authentication is in place between LCH.Clearnet and the Member first.

Subscription to the message will be at the following level:

- Clearing Member level – a single MT535 will be generated containing all mnemonics and sub accounts of the Clearing Member. Multiple pages may be generated depending upon the size of the data; or
- Mnemonic/sub account level – a single message will be generated for each mnemonic/sub account that the Clearing Member has specified.

There will be no charges for subscription to these messages.

### Aggregate PPS Calls

PPS Calls are as standard made to each member per currency, per sub-account and while the netting of VM calls to the “L” account for many account types (see Margin Calls section) goes some way to reduce the number of individual calls, given the expected increase in the number of ISA, OSA and ICA accounts, PPS volumes are likely to be higher than pre-EMIR volumes.

Therefore LCH.Clearnet is looking to develop the PPS call and pay process to offer aggregation across all sub accounts, whilst still providing a full breakdown of individual calls and pay amounts via enhanced reporting.

## Changes for LCH.Clearnet SA

This section offers an overview of the collateral services provided to Clearing Members of all the LCH.Clearnet SA clearing services impacted by the changes as a result of the European Market Infrastructure Regulations (EMIR), namely

- Listed Equities markets,
- Listed Derivatives (equity options & commodities) markets,
- Fixed Income and €GCPlus
- CDS (Credit Default Swaps).

The CDS business is already compliant with EMIR and so no changes will be observed on the existing CDS collateral processing. CDS processes are available at the following link: [https://www.lchclearnet.com/cdsclear/how\\_it\\_works.asp](https://www.lchclearnet.com/cdsclear/how_it_works.asp) and on the CDS members' secured area: [https://www.lchclearnet.com/secure\\_area/Default.asp](https://www.lchclearnet.com/secure_area/Default.asp)

All details on existing Treasury procedures can be found on LCH.Clearnet SA web site: [http://www.lchclearnet.com/risk\\_management/sa/collateral\\_management.asp](http://www.lchclearnet.com/risk_management/sa/collateral_management.asp)

## Current account structure

### Clearing Member code

The Clearing House maintains an identifier of the Clearing Member which identifies the Clearing Member legal entity i.e. the legal counterparty to the Clearing House, this is known as the clearing member code.

This member code is defined for a Clearing Member on one or several clearing services / markets. Member codes are used to map liabilities to the correct collateral account. It is possible for a member to use the same member code for more than one clearing service / market. However CDS Members must maintain a member code that is not shared with other clearing services.

Member liabilities are provided at the member code level for their House and Client accounts.

When a Clearing Member lodges collateral with the Clearing House they do so at the level of the member codes and segregation type i.e. to cover liabilities for that market for their House or Client business. When a member uses a single code for more than one Clearing Service the member is able to lodge collateral to cover liabilities across those clearing services / markets.

### Collateral Accounts / segregation type

At the member collateral account level the Clearing House holds:

#### House segregated liabilities

A House segregation type allows clearing services to provide liabilities for the Clearing Member proprietary business for offsetting against the Clearing Member's proprietary assets held within the collateral account.

### Client segregated liabilities

A Client segregation type allows clearing services to provide liabilities for a group of clients to be offset against the Clearing Member’s assets held within the collateral account.

### Market Maker segregated liabilities

A Market Maker segregation type allows clearing services to provide liabilities for a market maker activities (for derivatives) to be offset against the Clearing Member’s assets held within the collateral account.

### Gross Client segregated liabilities

A Clearing Member can offer a Gross Client collateral account that allows clearing member to isolate liabilities of a specific client within this dedicated collateral account.

## New account structure

In order to comply with EMIR requirements, the Clearing House must be able to offer a greater degree of segregation for Client collateral accounts as follows.

LCH.Clearnet clearing system		Clearing Member (CM)				
	HOUSE	CLIENTS				
	House	ISA 1	ISA 2	OSA Gross Omnibus	OSA Net Omnibus	
Position account	PAH <sub>1</sub>	Affiliate	Client 1	Client 2 <sub>A</sub>	Client 2 <sub>B</sub>	Client 3 <sub>A</sub> / Client 3 <sub>B</sub>
Margin account	MAH <sub>1</sub>	PAC <sub>AF</sub>	PAC <sub>1</sub>	PAC <sub>2A</sub>	PAC <sub>2B</sub>	PAC <sub>3A</sub> / PAC <sub>3B</sub>
Requirements before margin run	5	MAC <sub>AF</sub>	MAC <sub>1</sub>	MAC <sub>2A</sub>	MAC <sub>2B</sub>	MAC <sub>3A</sub>
FA Aggregation	5	10	20	30	20	65
		10	20	50	65	

LCH.Clearnet Cover system		ISA 1	ISA 2	OSA Gross Omnibus	OSA Net Omnibus
Allocated collateral	5	10	20	50	65
Excess House	4	5	10	15	10
Total	9	15	30	65	75
		Unallocated collateral: 0			

LCH.Clearnet Treasury system		ISA 1	ISA 2	OSA Gross Omnibus	OSA Net Omnibus
Total cover	9	15	30	65	75
Valuated collateral By Collateral Accounts	9	15	30	65	75

NB 1: The Excess House or Excess Client corresponds to the difference between the Valuated Collateral and the Allocated Collateral, by collateral account

NB 2: If the Clearing Member (CM) sends cash collateral without specifying the collateral account concerned, this cash will be put in Unallocated collateral pool waiting for allocation from the CM. At 16:00 CET if no allocation has been provided by the CM, this cash collateral will be returned to the CM.

### Clearing Member codes

There are no changes at the Clearing Member code level.

### Collateral Account

The new structure introduces 3 new segregation types: Omnibus Segregated Account (OSA), Individual Segregated Account (ISA) and Indirect Client Account (ICA).

To integrate a new set of collateral accounts at Clearing Member level for ICA, ISA, OSA client a new collateral account nomenclature is created based on 5 alphanumeric for instance. Each new collateral account to be opened will follow the following rule.

NB: the nomenclature of existing collateral account for House compartment will not change.

#### For all markets (except CDS)

**xxxxx** => New Collateral House account on 5 numeric digits maximum

**Axxxx** => Collateral Direct Client account on 5 alphanumeric digits

- A => for Direct client
- xxxx => specific code on 4 numerical digits to identified the client (incremental)

**Alxxx** => Collateral Indirect Client account on 5 alphanumeric digits

- Al => for Indirect client
- xxx => specific code on 3 numerical digits to identified the Indirect Client (incremental)

#### For CDS market

**Cxxxx** => New Collateral House & Client account on 5 alphanumeric digits

- C => for CDS market
- xxxx => specific code on 4 numerical digits to identified House or Client (incremental)

**Clxxx** => Collateral Indirect Client account on 5 alphanumeric digits

- Cl => for Indirect client
- xxx => specific code on 3 numerical digits to identified the Indirect Client (incremental)

#### House accounts

There are no changes to House accounts.

#### Market Maker accounts

There are two possibilities for Market Maker (MM) activity:

- If this Market Maker activity is linked to the clearing member itself; then the “House” column and “MM” column are populated in the same report AC102, the clearing member one having a Market Maker activity,
- If the Market Maker activity is linked to the Client (ISA or OSA); then the “column MM” and “client” column are populated in the same report AC102, the Client (ISA or OSA) one having a Market Maker activity.

#### Client Accounts

With the implementation of EMIR, LCH.Clearnet SA will have to split the Clearing Member’s House compartment collateral account from its Clients compartment collateral account. This first step of segregation at collateral account level between House and Clients will create de facto an Omnibus Segregated Account used to offset (aggregated or net - depending upon the clearing service / market) client liabilities.

In a second step, Clearing Members will provide the Clearing House, details of its Clients compartment segregation based on the proposed ICA, ISA and OSA segregation type.

The same OSA or ISA can share one single collateral account for several clearing services / markets if its clearing member legal entity is the same.

#### Omnibus Segregated Accounts (OSA)

A Clearing Member may define - at client compartment level - a structure involving several OSAs based on one collateral account dedicated to each OSA concerned in order to group specific clients together.

The OSA allow clearing services to provide liabilities for a defined group of clients to be offset against an omnibus pool of assets held within the collateral account.

Those OSAs can be margined on a “gross” or “net” basis.

- For the OSA gross, each trade/position account has a dedicated margin account linked to the common collateral account designated to this OSA gross structure.
- For the OSA net, the different trade/position accounts are linked to one single margin account and one collateral account

OSA collateral accounts will be designated with a new five alpha-numeric digit code.

#### Individual Segregated Accounts (ISA)

A Clearing Member may define - at client compartment level - a structure involving several ISAs. This consists of one single trade/position account linked to one margin account linked to one collateral account dedicated to each ISA concerned.

The ISA allows clearing services to provide individual client level liabilities to be offset against assets held for the same individual client only within the account.

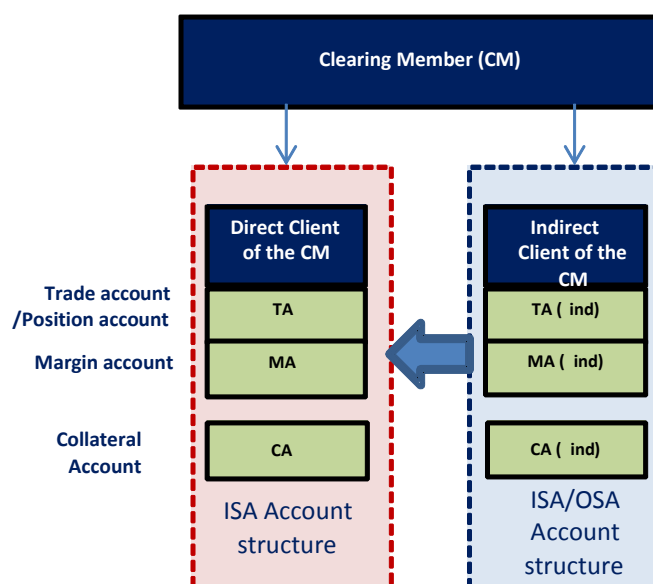
ISA collateral accounts will be designated with a new five alpha-numeric digit code.

#### Indirect Client Accounts (ICA)

EMIR requires the Clearing House to support the Indirect Client Model where a Direct Client can isolate its own Direct Clients who are Indirect clients to the Clearing Member.

Only the Direct Client in ISA structure mode can ask its Clearing Member to open one or more ICA account(s) in order to segregate positions and underlying assets of one or more Indirect clients.

The ICA account will operate in the same way as a regular ISA/OSA account but be labelled to show who the relevant Direct Client is and the Clearing House will apply the same porting and liquidation rules to the ICA account as that of the Direct Client's ISA account (in the event of Member default).



NB: The large blue arrow in the picture shows that the Indirect Client is labelled to the ISA Direct client, but Direct and Indirect clients are managed “at the same level” by the Clearing House, below the Clearing Member.

### Collateral account identifier mapping with clearing member code

As per above the collateral account code used to identify an OSA, ISA or ICA will consist of up to five alpha-numeric characters within the Clearing House’s collateral systems; e.g.:

- “Axxxx or Alxxx” ,

Liabilities for the client identified will be mapped to the correct collateral account for that ISA, OSA, ICA in the collateral systems. In order for Clearing Members to have traceability of ISA, OSA, ICA liabilities to assets, the Clearing House will adapt the Treasury reporting provided such that the holder of ISA/OSA/ICA account identifiers are provided in clearing service reports alongside the collateral account identifier currently used in Treasury reports.

```

1 CODE ETAT : AC0102E  BANQUE CENTRALE DE COMPENSATION DITE LCH.CLEARNET SA - 18 RUE DU QUATRE SEPTEMBRE 75002 PARIS
BANQUE CENTRALE DE COMPENSATION DITE LCH.CLEARNET SA - 18 RUE DU QUATRE SEPTEMBRE 75002 PARIS PAGE 1
-----
DOCUMENT APPEL DE FONDS VALEURS MOBILIERES EN EUR - INITIAL
CASH SECURITIES CASH CALL DOCUMENT IN EUR - INITIAL
-----
ADHERENT / MEMBER : TOTO OSA DATE DE VALEUR/VALUE DATE : 10/06/2013
CODE MEMBRE / MEMBER CODE : A0003 DATE DE BOURSE/TRADING DATE : 07/06/2013
    
```

The example above shows how all Treasury reports will be enhanced with the relevant client identifier used by the banking system (“TOTO OSA” in the above example).

### Treasury reports

All Treasury reports will be adapted to include any ISA/OSA identifiers linked to the Clearing Member along with their associated market code without impacting the existing report formats: XSD (XML) / TXT.

The Clearing House provides:

- one Treasury report (AC102) per Market and per collateral account for House, for each ISA and for each OSA, plus
- one Global Cash Call (AC103) by collateral account, plus
- one Treasury Net Payment report (AC113) summarizing the payments processed through Target2 for House, ISA, OSA collateral account linked to this CMF, plus
- a new Treasury report (AC111).

Updated examples of LCH.Clearnet SA Treasury reports impacted by EMIR segregation are available on the LCH.Clearnet website at the following location:

<http://www.lchclearnet.com/Images/EMIR%20Collateral%20Report%20Samples.zip>

The Treasury Report (AC102) will integrate a new liability “Additional margins” to include the concentration risk margin and the wrong way risk margin in both House and ISA/OSA account level.

The House settlement processes will be done on the Target2 RTGS account of LCH.CLEARNET SA dedicated to House and Default Fund activities (namely: BACPFRPP TG2). The Client settlement processes will be done on the Target2 RTGS account of LCH.CLEARNET SA dedicated to Clients activity (namely: BACPFRPP CLI).

A new Treasury report (AC111) will integrate:

- all the deposit and withdrawal demand of collateral (cash or securities) accepted or rejected,
- the total excess collateral that includes the excess collateral requirement defined by Article 39.6 of EMIR<sup>7</sup> to be deposited in the relevant collateral account.

An example of AC111 is provided in appendix. In this example, each of the 3 blocks of the Treasury report AC111 gives the recap of all collateral movements (deposits, withdrawal) made per collateral accounts of member “CMF Name” on the 5<sup>th</sup> of June 2013:

- First block of information details “A0888”; i.e.: 1 collateral movement done for the Client 1 of member “CMF Name”.
- Second block of information details “A0889”; i.e.: no collateral movement done for the Client 2 of member “CMF Name”.
- Third block of information details “CMF NAME”; i.e.: 4 collateral movements done for the Clearing member “CMF Name”.

For each block, the available collateral by collateral account (CMF/ Client 1/ Client 2) is given.

On Listed Derivatives, Market Maker will not have a dedicated treasury report but it will be integrated in the House” report if this market making activity is realised by the CMF or the “ISA/OSA” report if the market making activity is realized by the ISA/OSA concerned.

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<sup>7</sup> For an ISA client, excess margin called from the Client by the Clearing Member must be held at the CCP. ISA Client Excess must be segregated from other Clients and Clearing Members, and not be exposed to losses in any other account. It will be put in the “cushion” of the concerned ISA collateral account as described later in the “Cushion mode and Auto-repay functionality” section.

## Treasury files

Treasury file addressed to Clearing Members is composed of one or several Treasury reports. The Clearing Member will receive one Treasury file containing the activity of the different markets (3 for instance: Cash, Derivatives and Fixed Income markets) using the same member code.

In this example, the file will be containing:

- AC0102 for (Market 1 - Client)
- AC0102 for (Market 1 - House)
- AC0102 for (Market 2 - Client)
- AC0102 for (Market 2 - House)
- AC0102 for (Market 3 - Client)
- AC0102 for (Market 3 - House)
- AC0102 for (Default fund contribution for Market 1 and Market 2<sup>8</sup>).

Followed by:

- AC0103 for Client (aggregated Client Market 1, 2 and 3),
- AC0103 for House (aggregated House Market 1, 2 and 3 and clearing default fund contribution).
- And an AC0113 containing the aggregated figures of the two above AC0103, which lead to two payments.
  - One relating to the net across all the markets for the Client activity.
  - One relating to the net across all the markets for the House activity (including the default fund contribution).

If the Clearing Member is a member having the same member code on the cash, derivatives and fixed income markets, the clearing member will receive one Treasury file only (EPxxxCNMCddd).

If the Clearing Member is a member having 3 different member codes on the cash, derivatives and fixed income markets, the clearing member will receive three treasury files.

## Margin calls

### Process per Collateral Account Type

The following section outlines the Margin Call process per collateral account type.

#### House Collateral Accounts

There will be no change to the processing of margin calls for House collateral accounts.

#### OSA Collateral Accounts

There will be no change to the processing of the margin calls for the Clients OSA accounts. Initial Margin (IM) and Variation Margin (VM) will be posted to the account in the same way as currently on the Target2 RTGS account dedicated to clients (BACPFPP CLI). Margin calls will be generated for IM deficits and to settle VM.

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<sup>8</sup> One default fund for both Derivatives & Cash markets, one default fund for Fixed Income market and one default fund for CDS market.



Excess cash balances will not be automatically repaid to the Clearing Member at the end of the first margin call or one of the intraday cycles. For withdrawal, the Clearing Member will have to send a request to release.

### ISA Collateral Accounts

There will be no change to the processing the margin calls for the Clients ISAs accounts. Initial Margin (IM) and Variation Margin (VM) will be posted to the account in the same way as currently on the Target2 RTGS account dedicated to clients (BACPFRPP CLI). Margin calls will be generated for IM deficits and to settle VM.

Excess cash balances will not be automatically repaid to the Clearing Member at the end of the first margin call or one of the intraday cycles. For withdrawal, the Clearing Member will have to send a demand for such.

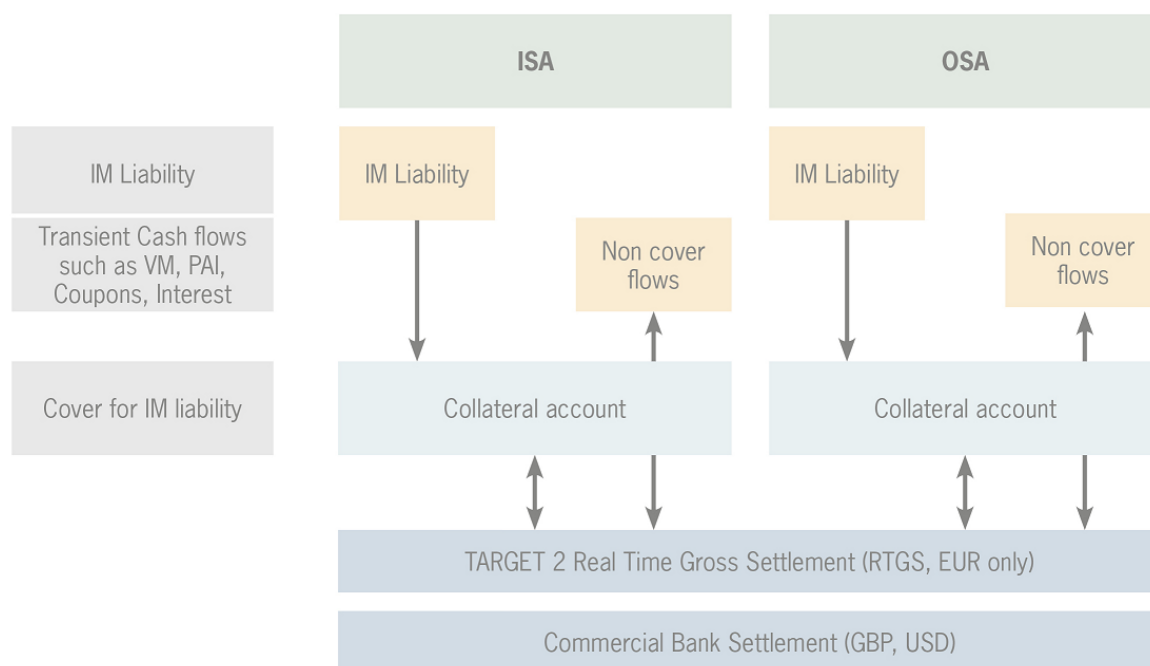
### Illustration by Business Line

The below diagrams illustrate the Margin Call process at a business line and collateral account type level.

Note: For ease of explanation ICA accounts are not shown but will follow the same process as ISA/OSA accounts.

The diagram below illustrates that for all SA business lines:

- Liabilities for each ISA account are offset by assets held for this ISA only and will generate a margin call should a deficit arise;
- Liabilities for each OSA will be posted to the relevant account and offset against assets held on the concerned OSA collateral account and will generate a margin call should a deficit arise;
- ISA or OSA cash postings in relation to VM or other non cover flows will be offset (where applicable) with and excess cash balance on the concerned collateral account.



### Target2 and Custody accounts for additional OSAs and ISAs

There will be no change on the way Clearing Member deposits assets under EMIR:

- EUR is settled via TARGET2 RTGS using two different RTGS accounts at CCP level for House and Clients.
- GBP & USD are settled via commercial banks,
- Securities are lodged using the same process as now.

LCH.Clearnet book keeping must record assets as covering liabilities on specific ISA or OSA collateral accounts. Assets are held in an account with LCH.Clearnet RTGS account, Commercial bank account or CSD/ICSD.

A Clearing Member makes deposits and withdrawal of assets by indicating which House, ICA, ISA or OSA collateral account are concerned to ensure the assets are recorded in the relevant collateral account.

The Clearing House will assume that the existing Target2 RTGS accounts used to settle the existing House and Clients cash posting will be used for any additional collateral accounts at CMF level unless the Clearing Member provides the Clearing House with any new Target2 RTGS accounts.

### Account configuration for OSAs and ISAs

There will be no change on the way margin calls are processed and with respect ISA and OSA accounts are configured. A new OSA or ISA collateral account will be created with the same configuration as existing Client accounts.

### “Cushion” mode and Auto-repay functionality

The Clearing House provides a facility whereby cash balances that are identified as excess are automatically repaid to the Clearing Member’s Target2 cash account during the Initial margin call or during one of the intraday margin calls for House excess. Clearing Members may ask the CCP to maintain excess balances by specific demand.

For OSA and ISA, the auto-repay functionality will not be activated. Clearing Members may ask to have excess balances returned by specific withdrawal demand.

Nevertheless, the different applicable rules may authorize exceptions

- The rule for the clearing member is that they are managed in auto repay mode, the exception is that they can ask to be managed in “cushion” mode,
- The rule for the customers (ISA or OSA) is that they are managed in “cushion” mode, the exception is that they can ask to be managed in auto repay mode.

So the different cases can occur:

Clearing Member	Clients ISA/OSA
« cushion » mode	« cushion » mode
« cushion » mode	Auto repay
Auto repay	« cushion » mode
Auto repay	Auto repay

If the Clearing Members use “cushion” mode (for the clearing member itself or its clients), they have to send an email (or a fax) to get back their excess.

## Provision of collateral - Cash

### Identifying the account for deposits and withdrawals

There are changes in the existing cash collateral procedures. When depositing or withdrawing cash, the Clearing Member must specify its House, OSA or ISA collateral account where the cash is to be credited or debited.

#### Depositing and withdrawing euro Cash

When depositing or withdrawing euro cash, the Clearing Member must specify its House collateral account and use the dedicated Traget2 RTGS account of the CCP for such (BACPFRPPTG2).

For the OSA or ISA collateral account, the Clearing Member must specify the collateral account where the euro cash is to be credited or debited and use the dedicated RTGS account of the CCP for such (BACPFRPPCLI).

If the collateral accounts concerned are not indicated, the cash deposit on client side will be put onto an unallocated collateral account waiting further allocation. If this allocation is not received by the CCP before 16:00 CET, the cash amount will be returned to the Clearing Member.

#### Depositing cash collateral

Members will be provided with the ability to deposit other currency (GBP, USD) cash collateral onto House, OSAs and ISAs collateral account. As is currently the case, it will only be possible to deposit currencies accepted as cover for initial margin (GBP, USD).

Note: cash deposits can be made in addition to €uro cash that has been called by the margin call process.

### Withdrawing cash collateral

Members will be able to withdraw cash collateral only if it is not currently being used to cover liabilities. Nevertheless the collateral substitution processes will remain cash versus securities, cash (euro or currencies) versus cash (currencies or euro) securities versus cash or securities versus securities.

### Timing of deposits and withdrawals

There are no changes to when cash can be deposited or withdrawn in respect to EMIR. However timeframes for withdrawal of client excess are currently under review and any changes will be communicated separately.

## Provision of collateral – Securities

### Identifying the account for lodging and releasing securities

There are changes in the existing securities collateral procedures. When depositing or withdrawing securities collateral the Clearing Member must specify the House, OSA or ISA collateral account where the securities collateral is to be credited or debited.

### Lodging securities

Clearing Members should lodge collateral to House, OSAs and ISAs collateral accounts in the same way that collateral is lodged currently. Member must inform the Clearing House of their intention to lodge eligible securities via a fax or an email.

An instruction will be input by the Clearing House with the relevant (I)CSD to be matched with the instruction sent by the Clearing Member. Once matched and settlement of securities transactions has been confirmed by the (I)CSD, the Clearing House will update the balance of collateral on the concerned collateral account (ISA/OSA/House) and allow the collateral to be used as cover for liabilities.

### Releasing securities

Clearing Members can release collateral from House, OSAs and ISAs collateral accounts in the same way that collateral is released currently, with the member informing the Clearing House of their intention to release securities via a fax or an email.

The Clearing House will ensure that the release of the securities would not cause insufficient cover on the account and will input a matching instruction only upon such confirmation. Note: Additional collateral in the form of cash or securities may be required before the securities can be released (cf. supra substitution processes).

## Interest and accommodation

### Interest

Interest on cash balances will be calculated on ISAs and OSAs at the prevailing rate and will be credited (or debited) to/from cash balances on the account.

### Accommodation charges

Accommodation charges (where applicable) will be calculated at OSAs and ISAs collateral account level at the prevailing rate and will be debited from cash balances on the concerned account.

## **CMS enhancements**

Already in live for Limited Clearing Members, the CMS (Collateral Management System) application is not yet available for Clearing Members active on the LCH.Clearnet SA businesses.

Some enhancements are currently being developed to adapt existing functionalities to EMIR. The Clearing House will communicate in due course when the access to the CMS tool will be extent to the SA Clearing Members.

## **Appendices**

### **LCH.Clearnet SA Fax templates**

Up-dated versions of the Fax templates will be provided on the LCH.Clearnet SA website.