

SUBMISSION COVER SHEET

Registered Entity Identifier Code (optional) LCHLTD Date: April 22, 2014

IMPORTANT: CHECK BOX IF CONFIDENTIAL TREATMENT IS REQUESTED.

ORGANIZATION LCH.Clearnet Limited

FILING AS A: DCM SEF DCO SDR ECM/SPDC

TYPE OF FILING

• Rules and Rule Amendments

- Certification under § 40.6 (a) or § 41.24 (a)
- “Non-Material Agricultural Rule Change” under § 40.4 (b)(5)
- Notification under § 40.6 (d)
- Request for Approval under § 40.4 (a) or § 40.5 (a)
- Advance Notice of SIDCO Rule Change under § 40.10 (a)

• Products

- Certification under § 39.5(b), § 40.2 (a), or § 41.23 (a)
- Swap Class Certification under § 40.2 (d)
- Request for Approval under § 40.3 (a)
- Novel Derivative Product Notification under § 40.12 (a)

RULE NUMBERS

FCM Procedures: 3.2.1(d), 3.3.4, 4.1.7; FCM Regulation: 4(n), 24(f), 27
LCH Clearnet Rulebook (Procedures): Section (3), 3.2.1.5
LCH Clearnet Rulebook: (Procedures): Section (4), 4.1.4
LCH Clearnet Rulebook: General Regulation 39(i), 39(c)

DESCRIPTION

Due to revisions in Section 3 of SI 2013/1908, The Financial Services and Markets Act 2000 (Over the Counter Derivatives, Central Counterparties and Trade Repositories)(No.2) Regulations 2013 (“UK CCP Recognition Requirements”), which become effective on May 1, 2014, LCH.Clearnet is proposing rule changes for the allocation of non default losses and to augment the range of liquidity tools available to deal with times of market stress.



VIA EMAIL TO: SUBMISSIONS@CFTC.GOV

April 22, 2014

Ms. Melissa Jurgens
Commodity Futures Trading Commission
1155 21st Street NW
Three Lafayette Centre
Washington DC 20581

Dear Ms. Jurgens,

Pursuant to CFTC regulation §40.6(a), LCH.Clearnet Limited ("LCH.Clearnet"), a derivatives clearing organization registered with the Commodity Futures Trading Commission (the "CFTC"), is submitting for self-certification changes to its Rulebook and FCM Rulebook to have rules in place for the allocation of solvency threatening losses arising other than as a result of a clearing member default ("non-default losses") and rule changes that enable LCH.Clearnet to more predictably manage contingent liquidity outflows. These changes will be implemented and effective on May 6, 2014 in order to meet UK Central Counterparty Recognition Requirements.

Please find attached as Appendix I the relevant changes to the LCH.Clearnet Rulebook and FCM Rulebook.

Part I: Explanation and Analysis

Due to revisions in Section 3 of SI 2013/1908, The Financial Services and Markets Act 2000 (Over the Counter Derivatives, Central Counterparties and Trade Repositories)(No.2) Regulations 2013 ("UK CCP Recognition Requirements"), which become effective on May 1, 2014, LCH.Clearnet is required to have rules in place for the allocation of non default losses.

Cash collateral that is provided to LCH.Clearnet as margin and default fund contributions is reinvested primarily in reverse repos and high quality sovereign debt instruments. The investment criteria are conservative and consistent with those permissible in regulation, which along with internal controls ensure that the risk within the investment portfolio is minimal. However, in the event that LCH.Clearnet suffers a loss on its treasury investment portfolio due to either the default of the issuer of a debt instrument (e.g. a sovereign government) and/or the default of an investment counterparty, LCH.Clearnet will allocate the loss to clearing members in proportion to each clearing member's average margin weight. LCH.Clearnet will absorb the loss first by utilising its own capital of €15m and then allocating any remaining loss to clearing members (a "Solvency Threatening Treasury Default Loss"). The FCM Regulations and Procedures have been amended to specify LCH.Clearnet's investment criteria in respect of FCM customer funds.

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In addition to Solvency Threatening Treasury Default Losses, LCH.Clearnet will implement a rule change to clarify the extent of its liability in the event of the failure of a certain market infrastructure providers (e.g. a Central Securities Depository).

Finally, under the UK CCP Recognition Requirements, LCH.Clearnet must maintain a plan that sets out the steps that it will take in order to maintain the continuity of its exempt activities in the event that such continuity is threatened (“Recovery Plan”). In order to augment LCH.Clearnet’s Liquidity management tools to be able to flexibly deal with times of market stress, two rulebook changes will be implemented to:

1. Lower the threshold amount for substitution of non-cash collateral; and
2. Enable LCH.Clearnet to disable auto-repayment of excess collateral during times of stress.

LCH.Clearnet will only utilise the above provisions after regulators have been notified of the intention to do so.

The above changes will be made to the LCH.Clearnet Rulebook and FCM Rulebook as described in Part II and shown in Appendix I.

Part II: Description of Rule Changes

1. FCM Procedure 3.2.1(d); and LCH Clearnet Rulebook (Procedure) 3.2.1.5: enables LCH.Clearnet to disable auto-repay functionality;
2. FCM Procedure 4.1.7; and LCH.Clearnet Rulebook (Procedure) 4.1.4: enables LCH.Clearnet to vary the threshold amount for substitution of non cash collateral;
3. FCM Regulation 24(e); and LCH.Clearnet Rulebook (General Regulation) 39(i): clarifies the extent of LCH.Clearnet’s liability in the event of a failure of a market infrastructure provider; and
4. LCH.Clearnet Rulebook (General Regulation) 39C; FCM Regulation 4(n), 24(e) and 27; and FCM Procedure 3.3.4: sets out LCH.Clearnet’s approach to allocating Solvency Threatening Treasury losses.

Part III: Core Principle Compliance

The rule changes submitted herein ensure continued compliance with the DCO Core Principles. LCH.Clearnet will continue to comply with all Core Principles following the introduction of these changes and has concluded that its compliance with the Core Principles will not be adversely affected by these changes.

Part IV: Public Information

LCH.Clearnet has posted a notice of pending certification with the CFTC and a copy of the submission on LCH.Clearnet’s website at: http://www.lchclearnet.com/rules_and_regulations/lt/d/proposed_rules.asp.

Part V: Opposing Views

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



Certification

LCH.Clearnet Limited hereby certifies to the Commodity Futures Trading Commission, pursuant to the procedures set forth in the Commission regulation § 40.6, that attached rule submission complies with the Commodity Exchange Act, as amended, and the regulations promulgated there under.

Should you have any questions please contact me at jay.iyer@lchclearnet.com or Vikesh Patel at vikesh.patel@lchclearnet.com

Yours sincerely,

Jay Iyer, Chief Compliance Officer,
LCH.Clearnet Limited

Cc: Robert Wasserman, CFTC
Phyllis Dietz, CFTC
Kenji Takaki, CFTC
Shawn Durrani, CFTC



Appendix I
LCH.Clearnet Rulebook Changes

SECTION 2G**CONTENTS**

2G.	THE NODAL SERVICE	2
2G.1	INTRODUCTION.....	2
2G.2	MEMBERSHIP	2
2G.3	GENERAL.....	3
2G.4	NODAL TRANSACTIONS.....	3
2G.5	CLEARING FOR NODAL NON-CLEARING PARTICIPANTS	4
2G.6	REGISTRATION OF NODAL TRANSACTIONS.....	5
2G.7	POSITION AND FINANCIAL ACCOUNTS	6
2G.8	FEES	8
2G.9	MARGIN.....	8
2G.10	TAX.....	9
2G.11	SETTLEMENT OF NODAL CONTRACTS	9
2G.12	POSITION TRANSFERS	10

The static data form executed by both the NODAL NCP and the NODAL Service CM shall be definitive proof of the NODAL Service CM clearing for a NODAL NCP.

The Clearing House contracts with the NODAL Service CM alone and, to the fullest extent permitted by law, disclaims any duties or obligations to a NODAL NCP.

Further details regarding clearing for NODAL NCPs can be obtained from [the Clearing House Membership Department on +44 \(0\) 207426 7627 / 7063NODAL](#).

2G.5.2 **Termination**

The NODAL Service CM may terminate its agreement with a NODAL NCP at any time by giving 21 days written notice to NODAL and the Clearing House. For the avoidance of doubt, the Clearing House need not receive any notice of or any confirmation of such termination from the NODAL NCP.

For the avoidance of doubt, termination by the NODAL Service CM of its agreement with a NODAL NCP will be without prejudice to the NODAL Service CM's obligations arising from or in relation to any NODAL Transaction or NODAL Contracts arising prior to such termination.

2G.6 **REGISTRATION OF NODAL TRANSACTIONS**

2G.6.1 **General**

The Clearing House may require a NODAL Service CM in whose name a NODAL Transaction is to be registered to transfer Collateral in respect of initial and variation margin obligations to the Clearing House as a condition of registration as a NODAL Contract.

2G.6.2 **Registration**

All matched transactions which have been presented for registration and comply with the Clearing House requirements for registration of a NODAL Transaction, are deemed to have been registered by the Clearing House immediately upon receipt by [the Nodal Clearing System \(NCS\) TRS/CPS](#).

2G.6.3 **Novation**

With effect from registration, novation operates to replace each NODAL Transaction with two separate NODAL Contracts, one between the selling NODAL Service CM and the Clearing House and the other between the buying NODAL Service CM and the Clearing House. Novation is described in more detail in the NODAL Regulations.

2G.6.4 **Notification**

All NODAL Contracts arising from registered NODAL Transactions are listed on the NODAL Service [Clearing Member Statement \(CMS\) rReport](#) available [via LCH.C's Member Reporting website](#) through TRS.

2G.7 **POSITION AND FINANCIAL ACCOUNTS**

2G.7.1 **Position-Keeping Accounts**

2G.7.1.1 **Types of Account**

Positions with regard to NODAL Contracts are recorded within [NCSCPS](#) in position-keeping accounts at Individual Trader Mnemonic (ITM) level-, which are not CM accounts as described in Regulation 5. The account types are as follows:

H House [excluding Clients]¹

N Non-segregated client

S Segregated client

~~Z Default account, only to be used in the event of a CM default~~

~~D Default “transactions” which have not been assigned to one of the above account codes~~

The requirement to open a H_ and D_ accounts is compulsory. Other position-keeping accounts may be opened by agreement with the Clearing House.

¹ The “house position-keeping account” represents a Member’s principal business; ~~the “house financial account” (see 2G.8.2.1 below) also includes non-segregated clients’ positions.~~

2G.7.1.2 **Basis of Position Keeping**

(a) **Net Accounts**

The following position-keeping accounts are held net at ITM level, e.g. a position of bought one lot and sold two lots will be reported as sold one:-

H House

N Non-segregated client

S Segregated client

~~(b) **Gross Accounts**~~

~~The following position-keeping accounts are held gross at ITM level e.g. a position of bought one lot and sold two lots will show both bought and sold positions:-~~

~~D Default “transactions” which have not been assigned to one of the above account codes~~

2G.7.2 **Financial Accounts**

NODAL Service CM position-keeping accounts have financial accounts associated with them. These are, amongst other things, used to record cash balances, securities/documentary credits and non-realised margin obligations.

Where appropriate, a NODAL Service CM's financial accounts are identified by a single character code: C for segregated client and non segregated client business (~~recorded as S within CPS~~); H for house ~~and non-segregated business (recorded as H within CPS)~~. Only the H financial account is obligatory.

Information contained within position-keeping accounts is consolidated into financial accounts, as follows:

2G.7.2.1 Relationship with Position-keeping accounts

Position-keeping accounts	Financial account
H House	H
N Non-segregated client	H C
S Segregated client	C
D Default "transactions" which have not been assigned to one of the above account codes	H

By permitting a transaction to be allocated to a position-keeping account, a NODAL Service CM is also deemed to be designating that transaction for the associated financial account.

2G.7.2.2 Other Financial Accounts

Subject to approval by the Clearing House, further financial accounts, used only to record financial balances, may be opened as follows:

	Code
Buffer account (House), used for holding additional cash in relation to House business	B
Buffer account (Client), used for holding additional cash in relation to Client business	E
Resources account, used for holding supplementary financial resources	Q
Buyers' and Sellers' security account (segregated business) used for certain delivery contracts	X

2G.7.2.3 Default Fund (DF) Account

Each NODAL Service CM's Default Fund Contribution is held on a separate financial account. ~~In accordance with the Default Fund Rules this account attracts a rate of interest at 3 month LIBOR +1%.~~ The Default Fund account code is F.

as the contracts traded. A list of acceptable Collateral to cover initial margin requirements can be found at the following location:

http://www.lchclearnet.com/risk_management/ltd/acceptable_collateral.asp

2G.9.2.1 Initial Margin Parameters

Initial margin parameters are set by the Clearing House. ~~However, in~~ accordance with the NODAL Regulations, the Clearing House retains the discretion to vary the rates for the whole market or for a NODAL Service CM's house and/or client accounts.

NODAL Service CMs will be notified by the Clearing House of alterations to initial margin parameters no later than the day before calls are made based on the new rates.

2G.9.2.2 Intra-day Margin Calls

In accordance with the Regulations, the Clearing House is entitled to make additional margin calls for ~~payment transfer of the Collateral on the Clearing House on~~ the same day (intra-day margin calls) where it considers it necessary. Intra-day margin calls will be made through the protected payments system ("PPS") in London ("London PPS") or the USA ("US PPS") (see section 3.2 of these Procedures - "Protected Payments System").

2G.9.2.3 Calculation of Initial Margin

VaR

Initial margin obligations are re-calculated at the close of each business day using a VaR algorithm developed to margin Nodal exchange contracts.

Technical questions about this algorithm should be directed to the Clearing House Risk Management Department on +44 (0)20 7426 7520

2G.10 **TAX**

NODAL Service CMs should take their own advice regarding any taxation liabilities in any country in which a liability to pay tax may arise.

In the event that the Clearing House incurs any liability to pay any tax in respect of or in connection with any NODAL Contract, it shall have the right to require reimbursement of such tax liability, together with any costs and expenses incurred by the Clearing House in connection with the administration and processing of such tax liability, from the NODAL Service CM who is or was party to that NODAL Contract, and whom, in the Clearing House's opinion should be responsible for meeting such tax liability, costs and expenses. The Clearing House will collect such payments through PPS.

2G.11 **SETTLEMENT OF NODAL CONTRACTS**

NODAL Contracts are settled depending upon their terms, as set out in the relevant NODAL Contract Terms.

2G.11.1 Cash Settlement

Cash settlement is a final settlement derived from the difference between the final Settlement Price and the previous trading day's daily Settlement Price or such other quotation as is specified in NODAL's Rules. This is debited from or credited to the NODAL Service CMs' financial accounts.

2G.11.2 Reference Prices for daily settlement to market

Should NODAL fail to determine Reference Prices, the Clearing House will itself determine these as necessary. This will be done at the Clearing House's discretion and be announced as soon as possible following such determination.

2G.12 POSITION TRANSFERS

A Nodal Service Clearing Member may affect a transfer with agreement from the Clearing House. The Clearing House will effect such transfer (in conjunction with Nodal) within two days of receiving a request for such transfer from the relevant Receiving Nodal Service Clearing Member; provided, that the Nodal Service Clearing Member completes, to the satisfaction of the Clearing House, any documentation as required and provided by the Clearing House.

~~NODAL Service CMs will not have the functionality to affect a position transfer to another NODAL Service CM or between internal accounts.~~

CONTENTS

FCM PROCEDURES	1
1. FCM CLEARING MEMBER STATUS	1
1.1 FCM Clearing Member Application Procedure	1
1.2 Net Capital	4
1.3 Calculation Of Net Capital	5
1.4 Reporting	5
1.5 Additional Requirements	6
1.6 Other Conditions	7
2. PRODUCT-SPECIFIC PROCEDURES	8
2A SWAPCLEAR	9
2A.1 The Clearing Process	9
2A.2 Operating Times And Calendars	10
2A.3 Registration	10
2A.4 Position Accounts	1946
2A.5 Financial Accounts	1946
2A.6 FCM SwapClear Contract Valuation	2047
2A.7 Coupon Payments	2249
2A.8 Initial Margin	3330
2A.9 Intra-Day Margin Call: Collateral Management	3434
2A.10 Declearing and Compression	3532
2A.11 Affiliate Clearing	3532
2A.12 Transfers of FCM Clients; Defaulting FCM Clients and Affiliates	3633
2A.13 Proprietary Account Position Transfers	3936
2A.14 Amendment of Trade References	4037
2A.15 Default Management	4239
2A.16 Payment of Stamp Tax	4845
2A.17 Section 696, Corporation Tax Act 2009	4845
APPENDIX 2A.A	4946
SWAPCLEAR PROCESSING SCHEDULE	4946
APPENDIX 2A.B	5047
FCM CLIENT – PARTIAL TRANSFER FORM	5047
APPENDIX 2A.C	5249
FCM CLIENT – FULL TRANSFER FORM	5249
APPENDIX 2A.D	5552
FCM CLIENT TRANSFER – CARRY FCM CLEARING MEMBER REPOSSES FORM	5552
APPENDIX 2A.E	5754
CONFIDENTIALITY, NON-DISCLOSURE AND PARTICIPATION IN THE DEFAULT MANAGEMENT GROUP	5754
2B FOREXCLEAR	6259
2B.1 Introduction and Interpretation	6259
2B.2 Users of FCM ForexClear	6259

2B.3	Termination of FX FCM Status	<u>6259</u>
2B.4	Service Scope	<u>6259</u>
2B.5	Position Accounts	<u>6360</u>
2B.6	Financial Accounts	<u>6464</u>
2B.7	Novation and Registration	<u>6562</u>
2B.8	Trade Validation and Registration.....	<u>6865</u>
2B.9	Market Data.....	<u>7474</u>
2B.10	FCM ForexClear Contract Valuation.....	<u>7774</u>
2B.11	Initial Margin ("IM")	<u>7976</u>
2B.12	ADDITIONAL MARGIN, MER BUFFER, MCE AND INTRADAY MARGIN CALLS	<u>8077</u>
2B.13	Initial Margin Management Events Service ("IMMES").....	<u>8279</u>
2B.14	Intra-Day Margin Call: Collateral Management	<u>8380</u>
2B.15	General Margining Process	<u>8380</u>
2B.16	Types of Margin Runs	<u>8380</u>
2B.17	Margin Run Process.....	<u>8484</u>
2B.18	Transfer of FCM Clients; Defaulting FCM Clients and Affiliates	<u>8582</u>
2B.19	Proprietary Account Position Transfers.....	<u>8986</u>
2B.20	FCM Clearing Member's Client Fund Transfer.....	<u>8986</u>
2B.21	ForexClear Reporting	<u>8986</u>
2B.22	Treasury Operations & Collateral Management	<u>9188</u>
2B.23	Default Management	<u>9289</u>
2B.24	Payment of Stamp Tax	<u>9794</u>
2B.25	Section 696, Corporation Tax Act 2009	<u>9895</u>
2C	ENCLEAR	<u>111408</u>
2C.1	General Matters.....	<u>111408</u>
2C.2	Freight Division.....	<u>127424</u>
2C.3	Option Exercise and Expiry	<u>130427</u>
2D.	THE FCM NODAL CLEARING SERVICE.....	<u>131428</u>
3.	FINANCIAL TRANSACTIONS.....	<u>139436</u>
3.1	Accounts	<u>139436</u>
3.2	Protected Payments System (PPS)	<u>140437</u>
3.3	Acceptable Forms Of Collateral	<u>144444</u>
3.4	Distribution Of Collateral.....	<u>144444</u>
3.5	Interest And Accommodation Charge Structure	<u>145442</u>
3.6	Fees	<u>148445</u>
3.7	Default Fund; SwapClear Contributions.....	<u>149446</u>
3.8	Quantifying SwapClear Contributions	<u>149446</u>
3.9	Default Fund; ForexClear Contributions.....	<u>149446</u>
3.10	Quantifying ForexClear Contributions.....	<u>150447</u>
3.11	Default Fund Contributions and Loss Distribution Charges: EnClear Service and Nodal Service	<u>150447</u>
	APPENDIX 3A.....	<u>151448</u>

	BANK PARTICIPANTS IN THE LONDON PROTECTED PAYMENTS SYSTEM.....	151448
	APPENDIX 3B.....	152449
	BANK PARTICIPANTS IN THE LONDON PROTECTED PAYMENTS SYSTEM.....	152449
	APPENDIX 3C.....	154454
	BANK PARTICIPANTS IN THE US PROTECTED PAYMENTS SYSTEM.....	154454
	APPENDIX 3D.....	155452
	MANDATE FOR LCH.CLEARNET LIMITED: CLEARING OPERATIONS	155452
4.	COLLATERAL	156453
	4.1 General Information.....	156453
	4.2 Securities	159456
	4.3 Instructions via the Collateral Management System	159456
	4.4 Withholding Taxes.....	162459
	4.5 References.....	164464
	4.6 Contingency arrangements.....	164464
	4.7 Return of Unallocated Excess and FCM Buffer.....	164464
	4.8 Collateral Value Reports.....	164464
	APPENDIX 4A.....	167464
	FCM Client Account Lodgment Form	167464
	APPENDIX 4B.....	168465
	Contingency FCM House Account Lodgment Form.....	168465
	APPENDIX 4C.....	169466
	Contingency Collateral Release Form.....	169466
	Appendix 4D.....	170467
	Settlement Accounts.....	170467
5.	BUSINESS RECOVERY	171468
	5.1 Recovery Situations.....	171468
	5.2 Recovery Situations Affecting Members' Offices	171468
	5.3 Aldgate House Evacuation	171468
	5.4 Clearing House Data Centre.....	174474
	5.5 Compliance with Business Continuity Testing.....	174474
6.	APPEAL PROCEDURES	176473
	6.1 Introduction	176473
	6.2 Decisions In Respect Of Which An Appeal May Be Lodged	176473
	6.3 Initiating An Appeal.....	176473
	6.4 The First Tier Appeal.....	177474
	6.5 The Second Tier Appeal.....	178475
	6.6 Requests For Review	180477
	6.7 Market Disorders etc. and Default	180477
	APPENDIX 6A.....	181478

	APPEAL FORM	181478
	APPENDIX 6B.....	183480
	NOTICE OF FURTHER APPEAL.....	183480
7.	COMPLAINTS	185482
7.1	Introduction	185482
7.2	How To Make A Complaint	185482
7.3	Internal Investigation And Review By The Clearing House	186483
7.4	Referral To An Independent Investigator	186483
7.5	Procedure For Dealing With The Complaint	187484
7.6	Outcomes.....	188485
8.	DISCIPLINARY PROCEEDINGS	189486
8.1	SCOPE OF THIS PROCEDURE	189486
8.2	INVESTIGATION PROCEDURE	189486
8.3	IMMEDIATE MEASURE	194494
8.4	SANCTIONS	195492
8.5	DISPUTING A DECISION	195492
8.6	REPORTING AND PUBLICATION	196493
8.7	INFRINGEMENT OF APPLICABLE LAW	196493

notice of or any confirmation of such termination from the Nodal NCP and (ii) termination by the FCM Nodal Clearing Member of its agreement with a Nodal NCP will be without prejudice to the FCM Nodal Clearing Member's obligations arising from or in relation to any FCM Nodal Transaction or FCM Nodal Contracts arising prior to such termination.

2D.6 REGISTRATION OF NODAL TRANSACTIONS

2D.6.1 General

The Clearing House may require an FCM Nodal Clearing Member in whose name an FCM Nodal Transaction is to be registered to provide it with Collateral for Initial Margin and Variation Margin as a condition of registration as an FCM Nodal Contract.

2D.6.2 Registration

All matched transactions which have been presented for registration and comply with the Clearing House requirements for registration of an FCM Nodal Transaction, are deemed to have been registered by the Clearing House immediately upon receipt by [the Nodal Clearing System \(NCS\) TRS/CPS](#).

2D.6.3 Novation

Upon registration, each FCM Nodal Transaction is novated and replaced with either two separate FCM Nodal Contracts or one FCM Nodal Contract and one Non-FCM Nodal Contract, as applicable, one between the selling FCM Nodal Clearing Member or Nodal Service Clearing Member (as applicable) and the Clearing House and the other between the buying FCM Nodal Clearing Member or Nodal Service Clearing Member (as applicable) and the Clearing House. Novation is described in more detail in the FCM Regulations.

2D.6.4 Notification

With respect to an individual FCM Nodal Clearing Member, all FCM Nodal Contracts arising from its FCM Nodal Transactions are listed on its Nodal Service [Clearing Member Statement \(CMS\)](#) Report available [via LCH.C's Member Reporting website through TRS](#).

2D.7 POSITION AND FINANCIAL ACCOUNTS

2D.7.1 Position-Keeping Accounts

2D.7.1.1 Types of Account

Positions with regard to FCM Nodal Contracts are recorded within [NCSCPS](#) in position-keeping accounts at Individual Trader Mnemonic ("ITM") level, which are not FCM Nodal Clearing Member accounts as described in FCM Regulation 4. The account types are as follows:

H House (excluding FCM Clients)

~~N Non-segregated (not to be used for FCM Client business)~~

S Segregated FCM Client

~~Z Default account, only to be used in the event of a FCM Nodal Clearing Member default under the Default Rules~~

The requirement to open an H account and an S account is compulsory. ~~Other position-keeping accounts may be opened by agreement with the Clearing House.~~

2D.7.1.2 Basis of Position Keeping

The ITM represents a trading desk within the NCP. As such, the ITM is the basis for the position keeping account and NCPs can have several ITMs.

Note also that the position-keeping accounts are held net at the ITM level. Netting is permitted with respect to the positions of an individual FCM Client of an FCM Nodal Clearing Member (e.g., a position of bought one lot and sold two lots will be reported as sold one).

2D.7.2 Financial Accounts

FCM Nodal Clearing Member position-keeping accounts have financial accounts associated with them. These are, among other things, used to record cash balances, securities/documentary credits and unrealized margin.

Where appropriate, an FCM Nodal Clearing Member's financial accounts are identified by a single character code: C for segregated client business (recorded as S within NCSCPS); H for house business (recorded as H within NCSCPS).

Information contained within position-keeping accounts is consolidated into financial accounts, as follows:

2D.7.2.1 Relationship with Position-keeping accounts

Position-keeping accounts	Financial account
H House	H
N Non-segregated	H
S Segregated FCM Client (used for Initial Margin flows)	C

By permitting a transaction to be allocated to a position-keeping account, an FCM Nodal Clearing Member is also deemed to be designating that transaction for the associated financial account.

2D.7.2.2 Other Financial Accounts

Subject to approval by the Clearing House, further financial accounts, used only to record financial balances, may be opened as follows:

	Code
Additional Margin accounts, used for holding additional deposits in relation to House Business (FCM Nodal Clearing Members only)	B