



HM TREASURY

## Recognition Order

The Treasury:

- having complied with the requirements of section 186 of the Banking Act 2009 (“the Act”) (including the requirement to notify LCH.Clearnet Limited (“LCH”) in accordance with section 186(1)(b)); and
- having had regard to the factors specified in section 185(2) of the Act,

are satisfied that the recognition criteria specified in section 185(1) of the Act are met in respect of the inter-bank payment system specified in point 1.

Accordingly the Treasury make this Recognition Order in exercise of the power conferred by section 184(1) of the Act.

### **1. SYSTEM SPECIFIED AS A RECOGNISED SYSTEM FOR THE PURPOSES OF PART 5 OF THE ACT:**

The inter-bank payment system operated as part of LCH.

### **2. ARRANGEMENTS CONSTITUTING THE RECOGNISED SYSTEM:**

The system consisting of the formal arrangements and the standardised arrangements designed to facilitate or control payments to or from the members of LCH. The arrangements include:

- the UK Protected Payment System;
- the US Protected Payment System;
- the Rulebook;
- the infrastructure utilised to facilitate or control payments to or from the members of LCH across the Protected Payment Systems.

**SIGNED:**

*Tony Cunningham*

*Frank Roy*

Two of the Lords Commissioners of Her Majesty's Treasury

**DATE OF RECOGNITION:** 5th January 2010

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**Notes**

**These notes do not form part of the Recognition Order**

1. LCH is the main UK central counterparty.<sup>1</sup> LCH acts as a central counterparty for the UK's major markets and exchanges including the London Stock Exchange, the London Metal Exchange and EDX London and provides clearing services for NYSE Euronext LIFFE, the UK's main derivatives exchange. LCH also acts as a central counterparty for over the counter ("OTC") derivatives markets.<sup>2</sup> LCH has 119 members (including financial and non-financial institutions) who settle their payment obligations through 12 UK Protected Payments System ("PPS")<sup>3</sup> banks (and 7 US PPS banks) and 3 concentration banks.
2. LCH is recognised as a "Recognised Clearing House" (defined in section 285 of the Financial Services and Markets Act 2000). As such, LCH is regulated by the Financial Services Authority ("FSA"). In accordance with section 192 of the Act, in exercising its powers under Part 5 of the Act in respect of the inter-bank payment system specified in point 1 of the Recognition Order, the Bank of England must have regard to the action that the FSA has taken or could take.
3. The Treasury are satisfied that the recognition criteria specified in section 185(1) of the Act are met by the inter-bank payment system specified in point 1

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<sup>1</sup> A central counterparty interposes itself between parties to financial transactions becoming a buyer to a seller and a seller to a buyer, reducing the risk of settlement failures.

<sup>2</sup> OTC transactions involve the trade of financial products directly between parties, rather than using an exchange.

<sup>3</sup> A Protected Payment System is a network of commercial banks that provide accounts to LCH and its members in one or more currencies in which its liabilities are incurred. The PPS facilitates the transfer of cash margin, default fund contributions and cash settlement of contracts.

of the Recognition Order, having regard to the factors specified in section 185(2) of the Act. The Treasury note, in particular, that at the time of recognition:

- (a) LCH is the main UK central counterparty and supports a number of UK securities, derivative and commodities markets;
- (b) approximately £6.4 billion of payments are processed using the UK PPS each day;<sup>4</sup> and
- (c) the UK PPS average values and volumes are expected to rise over time.

4. In accordance with section 186 of the Banking Act 2009, before making this Recognition Order, the Treasury:

- (a) consulted the Bank of England,
- (b) consulted the FSA (as the operator of the system specified in point 1 of the Order, LCH, is a Recognised Clearing House),
- (c) notified the operator of the system specified in point 1 of the Order, and considered any representations made.

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<sup>4</sup> *Payment Systems Oversight Report 2008*, Bank of England (April 2009).

