

VIA CFTC PORTAL

10 March 2017

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

**LCH Limited Self-Certification: Introduction of facility to amend certain economic attributes of cleared SwapClear trades**

Dear Mr Kirkpatrick,

Pursuant to Commodity Futures Trading Commission (the "CFTC") Regulation §40.6(a), LCH Limited ("LCH"), a derivatives clearing organization registered with the CFTC, is submitting for self-certification changes to its rules to allow updates to a limited set of economic attributes of a cleared trade.

**Part I: Explanation and Analysis**

The change allows some economic attributes of the trade to be amended by the Clearing Members (CMs) post registration of the trade, by submitting the changes in a specified form. This facility is primarily intended to allow correction of originally incorrectly entered trade details. Currently, when errors occur in the booking or routing of trades and the CM wants to update the trade to correct the error, the only option it has is to book an equal and opposite transaction, and then a new trade.

The amendments are limited to a small set of parameters such as calendars, business days and day count conventions, for example. Changes to the interest rate reference index or coupon amounts are not permitted. The amendment process has both automated and manual checks added. Both sides of the trade will have to consent to the change and any NPV/IM (Net Present Value/Initial Margin) changes will be immediately updated. Amendment completion will be subject to available margin. LCH will not have any exposure as a result as both sides of the trade will be amended together.

The facility will be available to both SCMs (SwapClear Clearing Members) and FCMs (Futures Commission Merchants).

The changes will go live on, or after, March 27, 2017.

**Part II: Description of Rule Changes**

A new section to address the changes has been added to the Procedures sections of the LCH rulebooks. Section 1.32 has been added to the Procedures section 2C and Section 2.1.14 has been added to the FCM Procedures. These rule changes cover the process for making an amendment request, the conditions that must have been fulfilled (e.g. consent and clearing members status) for the service to affect the amendment and the procedure that the service will adopt to affect the change.

The texts of the changes are attached hereto as:

- **Appendix I** – Procedures Section 2C of the SwapClear Clearing Service
- **Appendix II** – FCM Procedures of the Clearing House

**Part III: Core Principles Compliance**

LCH has reviewed the changes to its rules against the Core Principles and finds that these will continue to comply with all the requirements and standards therein.

**Part IV: Public Information**

LCH has posted a notice of pending certification with the CFTC and a copy of the submission on LCH's website at:

<http://www.lchclearnet.com/rules-regulations/proposed-rules-changes>

**Part V: Opposing Views**

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

**Certification**

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

Yours sincerely



Julian Oliver  
Chief Compliance Officer  
LCH.Clearnet Limited

**Appendix I**  
**Procedures Section 2C of the SwapClear Clearing Service**



**LCH.CLEARNET LIMITED**

**PROCEDURES SECTION 2C**

**SWAPCLEAR CLEARING SERVICE**

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The relevant Crossing Transaction(s) (referencing the relevant Index and tenor) must then be entered into by the relevant Designated Clearing Members, on the terms as to price and notional set out in the Inflation Swaps Operational Specifications, before the close of business on the next following Inflation Swap Business Day following the receipt of the Crossing Transaction notice. Any Designated Clearing Member entering into a Crossing Transaction that is not cleared through the Clearing House must provide the Clearing House with documentary evidence that it has entered into the required Crossing Transaction.

The fixed coupon in respect of a Crossing Transaction will be determined as the mid-point between the Key Tenor Market Data submitted by the Inflation Clearing Group that is required to enter into the Crossing Transaction and the SwapClear End of Day Price in respect of the relevant tenor and Index on the relevant Inflation Swap Business Day, with a cap of 15bps from the SwapClear End of Day Price being the maximum distance between the price of the Crossing Transaction and the SwapClear End of Day Price. The notional amount of the Crossing Transaction will be denominated in the same currency as the relevant Index and, for Indices denominated in USD, GBP or EUR, will be a number of currency units equal to the number given for the relevant tenor published in the Inflation Swaps Operational Specifications. Where the Inflation Clearing Group that is required to enter into a Crossing Transaction submitted Key Tenor Market Data that is lower than the SwapClear End of Day Price, its Designated Clearing Member will be required to receive a fixed price under the Crossing Transaction whilst an Inflation Clearing Group that submits Key Tenor Market Data that is higher than the SwapClear End of Day Price will be required to pay a fixed price as determined by the formula published in the Inflation Swaps Operational Specifications.

In the case of a Designated Clearing Member engaging in a Crossing Transaction as a result of its Inflation Clearing Group receiving 2 Non-performance Notices or a Market Deviation Notice as a result of providing Corrupted Data, the price in respect of its Crossing Transaction will be the mid-point between the value ascribed to the Designated Clearing Member for the purposes of a Non-performance Notice Crossing Transaction (in accordance with the Inflation Swaps Operational Specifications) and the SwapClear End of Day Price.

### 1.31 [Reserved.]

### 1.32 Economic Amendments to SwapClear Contracts

The SwapClear Clearing System provides functionality for certain Economic Terms of each Contract in an Amendment Pair to be amended to have new identical Economic Terms (both such amendments, together, an “Economic Amendment”) upon request, provided that the requirements and conditions specified in this Section [1.32] are met.

For purposes of this Section [1.32], an “Amendment Pair” means two SwapClear Contracts or one SwapClear Contract and one FCM SwapClear Contract, each

registered in respect of the same SwapClear Transaction, and “**Economic Amendment CM**” means each SwapClear Clearing Member of each Contract in the Amendment Pair that is being requested for Economic Amendment.

Notwithstanding anything to the contrary in this Section [1.32], the Clearing House may reject any Economic Amendment Request in its sole and absolute discretion, and the Clearing House shall not be liable for any costs, expenses, damages or losses of whatsoever nature, whether direct or indirect, suffered by a SwapClear Clearing Member and/or SwapClear Clearing Client in connection with this Section [1.32], including effecting a requested Economic Amendment erroneously or failing to effect a requested Economic Amendment.

#### 1.32.1 Economic Amendment Requests

Each request for an Economic Amendment (an “**Economic Amendment Request**”) to be made to an Amendment Pair pursuant to this Section [1.32] must be prepared and submitted in the form and manner prescribed by the Clearing House from time to time by each Economic Amendment CM for that Amendment Pair. A SwapClear Clearing Client may submit, on behalf of an Economic Amendment CM, an Economic Amendment Request, or any details connected therewith, to the Clearing House.

An Economic Amendment Request must:

- (i) specify the relevant Contract requested to be amended by the Economic Amendment Request along with all details relating to the Economic Amendment as required by the Clearing House from time to time ;
- (ii) specify the original and amended Economic Terms of the Contract identified in (i) above; and
- (iii) specify such other details as the Clearing House may reasonably require from time to time.

Where relevant, the Clearing House shall notify the requesting Economic Amendment CM or SwapClear Clearing Client of its rejection of an Economic Amendment Request as soon as reasonably practicable after rejection of that Economic Amendment Request.

#### 1.32.2 Procedure for Effecting an Economic Amendment to an Amendment Pair

The process for effecting an Economic Amendment to an Amendment Pair under this Section [1.32] is as follows:

- (a) the Clearing House must receive an Economic Amendment Request in accordance with Section [1.32.1] above from an Economic Amendment CM, or SwapClear Clearing Client on behalf of such, for that Amendment Pair, in each case, by the end of the business day requested for such Economic Amendment, or such other time as notified by the Clearing House from time to time (the “**Economic Amendment Cut-off Time**”);

- (b) the Clearing House must receive consent to the relevant Economic Amendment Request from each Economic Amendment CM, in the form and manner prescribed by the Clearing House from time to time, by close of the relevant business day, provided that each Economic Amendment CM shall be deemed to have provided consent to the Clearing House to the relevant Economic Amendment Request unless an Economic Amendment CM provides evidence to the contrary or as otherwise reasonably determined by the Clearing House;
- (c) immediately upon an Economic Amendment Request being submitted to the Clearing House by the Economic Amendment CMs and/or relevant SwapClear Clearing Client(s), as the case may be, in accordance with this Section [1.32]:

  - (i) that Economic Amendment Request may not be rescinded, reversed or revoked; and
  - (ii) each Economic Amendment CM for that Amendment Pair is deemed to:

    - (A) represent and warrant that such Economic Amendment will not violate or result in the violation of any Applicable Law; and
    - (B) represent and warrant, either on behalf of itself or the relevant SwapClear Clearing Client, that the individual making the Economic Amendment Request is appropriately authorised to do so and all of the conditions set forth in this Section [1.32] (other than the condition relating to the Clearing House's right to reject) have been, or will be, satisfied; and
- (d) each of the conditions specified in Section [1.32.3] below are satisfied in all respects at the applicable Economic Amendment Cut-off Time for that Economic Amendment.

If all requirements specified in this Section [1.32.2] are met, the requested Economic Amendment shall take effect in accordance with this Section [1.32].

If any requirements specified in this Section [1.32.2] are not met, the requested Economic Amendment shall automatically be rejected, or shall deemed to be automatically rejected, by the Clearing House.

### 1.32.3 Conditions Precedent to an Economic Amendment

It is a condition precedent for any requested Economic Amendment taking effect under this Section [1.32] to an Amendment Pair that:

- (a) the requested Economic Amendment relates to a SwapClear Contract Term prescribed by the Clearing House as applicable for Economic Amendment under this Section [1.32];

- (b) (i) each Economic Amendment CM for such Amendment Pair and (ii) if that Amendment Pair comprises a SwapClear Contract entered into by a SwapClear Clearing Member on behalf of a SwapClear Clearing Client, each such SwapClear Clearing Client, has satisfied all conditions and executed all documents necessary or required by the Clearing House in order to give effect to that Economic Amendment;
- (c) no Economic Amendment CM for such Amendment Pair is a Defaulter;
- (d) neither Economic Amendment CM of either Contract in such Amendment Pair has rejected that Economic Amendment using the form and manner prescribed by the Clearing House from time to time (it being understood that each such Economic Amendment CM will be presumed by the Clearing House not to have rejected that Economic Amendment unless such Economic Amendment CM provides evidence to the contrary or as otherwise reasonably determined by the Clearing House); and
- (e) the Clearing House has not rejected the Economic Amendment Request for that Economic Amendment, acting in its sole and absolute discretion.

## 2. PORTFOLIO MARGINING SERVICE

### 2.1 Introduction

The Portfolio Margining Service is an optional service which provides Joint Rates Service Clearing Members portfolio-margining functionality in respect of pairs of accounts which are held in the SwapClear and Listed Interest Rates Services by transferring Eligible Listed Interest Rates Contracts between accounts in each Service.

A Joint Rates Service Clearing Member must opt-in to the Portfolio Margining Service in accordance with the procedure set out in paragraph 2.2 below and meet the PM Eligibility Criteria (as defined below) in order to benefit from the portfolio-margining functionality provided by the service. However it should be noted that, regardless of whether or not a Joint Rates Service Clearing Member opts in, the SwapClear Service and Listed Interest Rates Service share a common default fund. Accordingly, the risk profile of participating in either one of such Services may be impacted by other Clearing Members participating in the other such Service whether or not as a Portfolio Margining Clearing Member. In particular, the resources of a Clearing Member that is a member of the SwapClear Service and the Listed Interest Rates Service will be made available to cover the Clearing House's losses in a different manner to those of a Clearing Member that is only a member of one of those Services, regardless of whether that Clearing Member opts-in to the Portfolio Margining Service. SwapClear Clearing Members should therefore familiarise themselves with the provisions of the Rulebook (including, but not limited to, the Default Rules).



**Appendix II**  
**FCM Procedures of the Clearing House**

**LCH** The Markets'  
Partner

**FCM PROCEDURES OF  
THE CLEARING HOUSE**

**LCH.CLEARNET LIMITED**

otherwise of the delivery of any compression-related details by that FCM Approved Trade Source System to the Clearing House of the FCM Clearing Member, (ii) the Clearing House will process and use any compression-related information provided to it via an FCM Approved Trade Source System on an “as is” basis (with no obligation to verify any details), (iii) the Clearing House accepts no liability for any error within or corruption of any data sent by an FCM Approved Trade Source System to the Clearing House or to the FCM Clearing Member or any delay in or failure of the transmission of such data to the Clearing House or the FCM Clearing Member. In the event that the Clearing House terminates, registers or otherwise effects an action in connection with a compression relating to any FCM SwapClear Contract on the basis of incorrect or corrupted data sent to it by an FCM Approved Trade Source System, the FCM Clearing Member concerned shall be bound by the results of such actions. Such matters form part of the relationship between the FCM Clearing Member and the relevant FCM Approved Trade Source System. Notwithstanding anything in this Section 2.1.11 of the FCM Procedures, the Clearing House records in relation to any compression and the status of any FCM SwapClear Contract prior to, during or following a compression run shall be the definitive record in connection therewith and shall prevail over any such records maintained by any FCM Approved Trade Source System.

Any election from an FCM Clearing Member to provide notices or reports to the Clearing House through an FCM Approved Trade Source System must be made in writing and using the Clearing House’s standard documentation. Through making an election, an FCM Clearing Member is deemed to represent and warrant that the individual making the election is appropriately authorized to do so.

- (e) Following the compression process described above and as further set out in FCM Regulation 46(m) (*Registration of FCM SwapClear Contracts; Novation and Post-Novation Compression; SwapClear Accounts*), the applicable FCM Clearing Member shall promptly notify the Clearing House if it believes that any errors have occurred in the compression process or if its books and records do not reconcile with those of the Clearing House in respect of the compressed FCM SwapClear Contracts as notified to the FCM Clearing Member by the Clearing House.

#### 2.1.12 **Portfolio Transfers (BAU)**

FCM Clearing Members may, acting for their own account or for the account of an FCM Client, effect Permitted Transfers in accordance with the provisions of FCM Regulation 46(m).

#### 2.1.13 ~~[Reserved]~~

#### 2.1.14 ~~[Reserved]~~ **Economic Amendments to FCM SwapClear Contracts**

The FCM SwapClear Clearing System provides functionality for certain Economic Terms of each Contract in an Amendment Pair to be amended to have new identical Economic Terms (both such amendments, together, an “**Economic Amendment**”) upon request, provided that the requirements and conditions specified in this Section are met.

For purposes of this Section [2.1.14], an “**Amendment Pair**” means two FCM SwapClear Contracts or one SwapClear Contract and one FCM SwapClear Contract, each registered in respect of the same FCM SwapClear Transaction, and “**Economic Amendment CM**” means each FCM Clearing Member of each Contract in the Amendment Pair that is being requested for Economic Amendment.

Notwithstanding anything to the contrary in this Section [2.1.14], the Clearing House may reject any Economic Amendment Request in its sole and absolute discretion, and the Clearing House shall not be liable for any costs, expenses, damages or losses of whatsoever nature, whether direct or indirect, suffered by an FCM Clearing Member and/or FCM Client in connection with this Section [2.1.14], including effecting a requested Economic Amendment erroneously or failing to effect a requested Economic.

(a) *Economic Amendment Requests*

Each request for an Economic Amendment (an “**Economic Amendment Request**”) to be made to an Amendment Pair pursuant to this Section [2.1.14] must be prepared and submitted in the form and manner prescribed by the Clearing House from time to time by each Economic Amendment CM for that Amendment Pair. An FCM Client may submit, on behalf of an Economic Amendment CM, an Economic Amendment Request, or any details connected therewith, to the Clearing House.

An Economic Amendment Request must:

- (i) specify the relevant Contract requested to be amended by the Economic Amendment Request along with all details relating to the Economic Amendment as required by the Clearing House from time to time ;
- (ii) specify the original and amended Economic Terms of the Contract identified in (i) above; and
- (iii) specify such other details as the Clearing House may reasonably require from time to time.

Where relevant, the Clearing House shall notify the requesting Economic Amendment CM or FCM Client of its rejection of an Economic Amendment Request as soon as reasonably practicable after rejection of that Economic Amendment Request.

(b) Procedure for Effecting an Economic Amendment to an Amendment Pair

The process for effecting an Economic Amendment to an Amendment Pair under this Section [2.1.14] is as follows:

- (i) the Clearing House must receive an Economic Amendment Request in accordance with Section [2.1.14] above from an Economic Amendment CM, or FCM Client on behalf of such, for that Amendment Pair, in each case, by the end of the business day requested for such Economic Amendment, or such other time as notified by the Clearing House from time to time (the “Economic Amendment Cut-off Time”);
- (ii) the Clearing House must receive consent to the relevant Economic Amendment Request from each Economic Amendment CM, in the form and manner prescribed by the Clearing House from time to time, by close of the relevant business day, provided that each Economic Amendment CM shall be deemed to have provided consent to the Clearing House to the relevant Economic Amendment Request unless an Economic Amendment CM provides evidence to the contrary or as otherwise reasonably determined by the Clearing House;
- (iii) immediately upon an Economic Amendment Request being submitted to the Clearing House by the Economic Amendment CMs and/or relevant FCM Client(s), as the case may be, in accordance with this Section [2.1.14];
  - (A) that Economic Amendment Request may not be rescinded, reversed or revoked; and
  - (B) each Economic Amendment CM for that Amendment Pair is deemed to:
    - (1) represent and warrant that such Economic Amendment will not violate or result in the violation of any Applicable Law; and
    - (2) represent and warrant, either on behalf of itself or the relevant FCM Client, that the individual making the Economic Amendment Request is appropriately authorised to do so and all of the conditions set forth in this Section [2.1.14] (other than the condition relating to the Clearing House’s right to reject) have been, or will be, satisfied; and

- (iv) each of the conditions specified in sub-clause (c) below are satisfied in all respects at the applicable Economic Amendment Cut-off Time for that Economic Amendment.

If all requirements specified in this sub-clause (c) are met, the requested Economic Amendment shall take effect in accordance with this Section [2.1.14].

If any requirements specified in this sub-clause (c) are not met, the requested Economic Amendment shall automatically be rejected, or shall deemed to be automatically rejected, by the Clearing House.

(c) *Conditions Precedent to an Economic Amendment*

It is a condition precedent for any requested Economic Amendment taking effect under this Section [2.1.14] to an Amendment Pair that:

- (i) the requested Economic Amendment relates to an FCM SwapClear Contract Term prescribed by the Clearing House as applicable for Economic Amendment under this Section [2.1.14];
- (ii) (i) each Economic Amendment CM for such Amendment Pair and (ii) if that Amendment Pair comprises an FCM SwapClear Contract entered into by an FCM Clearing Member on behalf of an FCM Client, each such FCM Client, has satisfied all conditions and executed all documents necessary or required by the Clearing House in order to give effect to that Economic Amendment;
- (iii) no Economic Amendment CM for such Amendment Pair is a Defaulter;
- (iv) neither Economic Amendment CM of either Contract in such Amendment Pair has rejected that Economic Amendment using the form and manner prescribed by the Clearing House from time to time (it being understood that each such Economic Amendment CM will be presumed by the Clearing House not to have rejected that Economic Amendment unless such Economic Amendment CM provides evidence to the contrary or as otherwise reasonably determined by the Clearing House); and
- (v) the Clearing House has not rejected the Economic Amendment Request for that Economic Amendment, acting in its sole and absolute discretion.

~~2.1.13—~~

~~2.1.14~~2.1.15 *Amendment of Trade References*