

VIA CFTC PORTAL

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

16 June 2020

LCH Limited Self-Certification: Change to the LCH-CLS settlement session for deliverable FX

Dear Mr Kirkpatrick

Pursuant to CFTC regulation §40.6(a), LCH Limited (“LCH”), a derivatives clearing organization registered with the Commodity Futures Trading Commission (the “CFTC”), is submitting for self-certification amendments to its rules regarding an extension to the payment window in the LCH-CLS settlement session used for the deliverable FX products cleared via the ForexClear service. These products are currently not available for clearing to FCM Clearing Members of the service, therefore the change does not apply to them.

Part I: Explanation and Analysis

The trade-related flows (e.g. principal settlement, variation margin relating to settlement of trades) associated with the clearing of FX options and FX forwards (“deliverable FX”) cleared via the ForexClear service are settled in conjunction with CLS¹ daily. LCH has a dedicated payment window at CLS to process these payments. Each day ForexClear issues a Pay-In Pay-Out (PIPO) schedule to ForexClear Clearing Members and CLS. The schedule shows the amounts expected to be paid/received by each Clearing Member into the LCH-CLS Settlement Session.

At present, Clearing Members are required to fulfil their outstanding Pay-In obligations between 06:00 CET and 08:00 CET (the “CLS Pay-In window”). In case a Member fails to do so in that timeframe, ForexClear triggers a Liquidity Event at 08:00 CET. The payment failure is then solved by LCH via contingent swap lines (“CCSL”)² or cash provisions, depending on the currency, to allow for a successful completion of the LCH-CLS session by 10:00 CET.

¹ CLS Bank International, the global utility for eliminating risk in FX transactions.

² The CCSL is a guaranteed capped commitment from Clearing Members clearing deliverable FX allowing ForexClear to effectively manage same-day settlement via the execution of cleared FX swaps.

Following Clearing Members' feedback, LCH plans to extend the CLS Pay-In window by one hour, 06:00 CET to 09:00 CET, allowing some additional time for Clearing Members to submit their payments. The 08:00 CET deadline will remain in place as a soft target whereby all Clearing Members are still expected to meet their Pay-In obligations before such time and LCH will retain the right to trigger a Liquidity Event between 08:00 CET and 09:00 CET in cases where it is clear that there is no reasonable prospect of a Clearing Member meeting its Pay-In obligation in the session. The new 09:00 CET will be considered a hard deadline by which time a Liquidity Event must be declared in case of a payment failure.

The rule changes will go live on, or after, 1 July 2020.

Part II: Description of Rule Changes

Regulation 101 of the General Regulations will be amended in paragraph a) to reflect the duration of the CLS Pay-In window from 06:00 CET to 09:00 CET and to clarify that LCH will continue to be able to trigger a Liquidity Event from 08:00 CET, if necessary, as noted under Part I above.

The payment schedule in section 1.18 ("CLS Payment Procedures") of the Procedures Section 2I ("ForexClear Clearing Service") has been revised to reflect the new times.

The text of the changes to the General Regulations and Procedures Section 2I are attached hereto as **Appendices I and II**, respectively.

Part III: Core Principle Compliance

LCH has reviewed the changes against the requirements of the Core Principles and finds it 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.lch.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 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 julian.oliver@lch.com.

Yours sincerely

P.P. 

Julian Oliver
Chief Compliance Officer
LCH Limited

Appendix I
General Regulations



**GENERAL REGULATIONS OF
LCH LIMITED**

REGULATION 101 FOREXCLEAR OPTION SERVICE – LIQUIDITY EVENT

- (a) A “**ForexClear Liquidity Event**” shall occur immediately with respect to a ForexClear Option Clearing Member if that ForexClear Option Clearing Member does not pay, in the manner specified by the Procedures, all Relevant FX Liabilities by 09:00 AM Central European Time on the day on which such amounts are due. Notwithstanding the foregoing, the Clearing House may declare a ForexClear Liquidity Event with respect to a ForexClear Option Clearing Member at any time between 08:00 AM and 09:00 AM Central European Time if the Clearing House reasonably believes that such ForexClear Option Clearing Member will not be able to or capable of paying in all Relevant FX Liabilities by 09:00 AM Central European Time on the day on which such amounts are due.
- (b) Upon the occurrence of a ForexClear Liquidity Event with respect to a ForexClear Option Clearing Member (such ForexClear Option Clearing Member, the “**Affected ForexClear Option Clearing Member**”), there shall arise an instruction by the Clearing House for itself and on behalf of the Affected ForexClear Option Clearing Member authorising the Clearing House to take such of the steps listed in (d) below it deems appropriate in the circumstances:
- (i) to satisfy and/or discharge all the Affected ForexClear Option Clearing Member’s liabilities in any ForexClear Currency:
- (A) that are due and payable by it on that day to the Clearing House under a ForexClear Option Contract, ForexClear Swap Contract, ForexClear Deliverable Forward Contract and/or ForexClear Spot Contract; and
- (B) which the Procedures provide are to be paid by it for the Clearing House’s account at the Settlement Service Provider (the “**Relevant FX Liabilities**”) and
- (ii) with a view to completing the settlement cycle for all payments arising under the ForexClear Option Service in all currencies on that day.
- (c) The Clearing House shall, immediately upon the occurrence of a ForexClear Liquidity Event, give notice in writing (which may be given by electronic messaging system or email) to:
- (i) the Affected ForexClear Option Clearing Member; and
- (ii) the Non-Affected ForexClear Option Clearing Members,
- specifying that a ForexClear Liquidity Event that has occurred. A failure by the Clearing House to deliver, or any delay in the delivery of, any of the notices required by this paragraph (c) shall not affect the Clearing House’s ability to exercise any of its rights under this Regulation 101.
- (d) The steps which may be taken by the Clearing House under (a) above are:

Liquidity Fund Contributions

- (i) to utilise any of the ForexClear Liquidity Fund Contributions in respect of any ForexClear Option Clearing Member in support of the Clearing House's obligations to make payments to other ForexClear Option Clearing Members under ForexClear Option Contracts, ForexClear Swap Contracts, ForexClear Deliverable Forward Contracts and/or ForexClear Spot Contracts to which it is a party and which correspond to Relevant FX Liabilities of an Affected ForexClear Option Clearing Member;
- (ii) to satisfy and deem performed the payment obligation of the Affected ForexClear Option Clearing Member to the Clearing House under some or all of the Relevant FX Liabilities, subject always to a corresponding reimbursement obligation arising between the Affected ForexClear Option Clearing Member and the Clearing House pursuant to Regulation 102(i);
- (iii) to charge to the Affected ForexClear Option Clearing Member's account the amount (or, if the amount is not finally known, the estimated amount) of any expenses, liabilities, costs, or reimbursement obligations incurred by the Clearing House with regard to or in consequence of the circumstances in (a) or the steps which are or may be taken under this Regulation 101;
- (iv) to immediately suspend the performance of any payment obligation (denominated in any ForexClear Currency) that it owes to the Affected ForexClear Option Clearing Member on the day of the ForexClear Liquidity Event under any ForexClear Option Contract, ForexClear Swap Contract, ForexClear Deliverable Forward Contract and/or ForexClear Spot Contract, where such payment obligation is owed on the day of the ForexClear Liquidity Event, to the extent that, and for so long as, such Affected ForexClear Option Clearing Member has not paid the amount owed to the Clearing House under Regulation 102(i). If the Affected ForexClear Option Clearing Member does not pay the amount owed to the Clearing House under Regulation 102(i) when due, the Clearing House shall have the right to apply any amounts (denominated in any ForexClear Currency) that it would have owed to the Affected ForexClear Option Clearing Member but for the suspension referred to above, to the extent necessary to fully discharge that Affected ForexClear Option Clearing Member's obligation to the Clearing House under Regulation 102(i) and the Clearing House shall be entitled, pursuant to Regulation 101(d)(iii) above, to charge the Affected Clearing Member for any costs it incurs in converting any amounts pursuant to this paragraph (iv); and/or

Mandatory ForexClear Swap Contracts

- (v) to conclude, and bind the Affected ForexClear Option Clearing Member or another ForexClear Option Clearing Member on the one hand, and the Clearing House on the other hand to, one or more Mandatory ForexClear Swap Contracts on such terms as the Clearing House may determine in its sole and absolute discretion, provided always that:
 - (A) any Mandatory ForexClear Swap Contract shall be concluded only with a view to either, once registered with the Clearing House, (A) reducing or extinguishing some or all of the Relevant FX Liabilities of the Affected ForexClear Option Clearing Member in any ForexClear

Appendix II
Procedures Section 2I
(ForexClear Clearing Service)



LCH LIMITED

PROCEDURES SECTION 2I

FOREXCLEAR CLEARING SERVICE

- 1.17.6 Two ForexClear Option Contracts shall be deemed “equal and offsetting” to each other where:
- (a) the Buyer of one ForexClear Option Contract and the Seller of the other ForexClear Option Contract is the same ForexClear Option Clearing Member; and
 - (b) the ForexClear Option Contracts have the equivalent or equal (1) Call Currency and Put Currency, (2) Call Currency Amount and Put Currency Amount, (3) Strike Price, (4) Expiration Date and (5) Settlement Date.
- 1.17.7 Except where a ForexClear Clearing Member has opted out of the automatic expiry of their ForexClear Option Contracts in accordance with Section 1.17.5, at the start of a given Expiration Date, the Clearing House shall automatically expire and therefore terminate all equal and offsetting pairs of ForexClear Option Contracts of each ForexClear Option Clearing Member.
- 1.17.8 In the event the Clearing House receives an instruction from a ForexClear Option Clearing Member, including via any third party exercise and expiry agent or middleware provider, with respect to any ForexClear Option Contract that is subject to automatic expiry on a given Expiration Date, the Clearing House shall disregard such instruction and in all circumstances such ForexClear Option Contract shall be expired on the given Expiration Date.
- 1.17.9 Capitalised terms used in this Section 1.17 and not otherwise defined shall have the meanings specified for such terms in (i) the ForexClear Option Contract Terms applicable to that ForexClear Option Contract, and, if not defined therein, (ii) the 1998 FX and Currency Options Definitions (including Annex A thereto) as published by the International Swaps and Derivatives Association, Inc., the Emerging Markets Trade Association and The Foreign Exchange Committee.

1.18 CLS Payment Procedures

- 1.18.1 In connection with ForexClear Spot Contracts, ForexClear Deliverable Forward Contracts, ForexClear Option Contracts and ForexClear Swap Contracts, where applicable, FXCCMs are required to meet the following requirements with respect to CLS:

Time	Action or Requirement
00:00 CET	Clearing House to provide FXCCMs expected CLS funding requirements.
01:30 – 02:00 CET	Clearing House to provide FXCCMs final CLS funding requirements. FXCCMs required to make such payments by 09:00 CET (the “Daily CLS Cut-Off Time”).

06:00 – 09 8:00 CET	FXCCMs required to make payments to cover all short positions in all currencies.
08:00 CET	CLS to issue payments to FXCCMs per settlement instructions for each relevant FXCCM.
09 8:00 – 10:00 CET	<u>Subject to the Regulation 101</u> , Clearing House to initiate and complete liquidity provisions.

1.18.1 In connection with ForexClear Spot Contracts, ForexClear Deliverable Forward Contracts, ForexClear Option Contracts and ForexClear Swap Contracts, where applicable, the following Relevant FX Liabilities are payable to CLS by FXCCMs in accordance with instructions from the Clearing House:

- (a) Initial Exchange Amounts, Final Exchange Amounts and amounts owed under the Economic Terms of ForexClear Spot Contracts and ForexClear Deliverable Forward Contracts; and
- (b) Premiums under ForexClear Option Contracts,

in each case net of any return of aggregate variation margin or NPV Payments denominated in the same currency and due on the same day.

1.18.2 Each ForexClear Option Clearing Member warrants that the Relevant FX Liabilities that are paid to CLS pursuant to Section 1.18.2 are transferred free from any proprietary, equitable or other similar interest of any person.

1.18.3 Each ForexClear Option Clearing Member shall at all times maintain complete and accurate written records of all Payment Transfer Orders given by it (or on its behalf) to its Member Settlement Bank(s) in respect of all amounts under all of the ForexClear Contracts (other than ForexClear NDF Contracts) registered in its name from time to time. Upon demand by the Clearing House, a ForexClear Option Clearing Member shall immediately provide all such records to the Clearing House.

1.19 Settlement Limits for ForexClear Option Clearing Members

1.19.1 Subject to the Regulations and Section 1.19.2, the Clearing House shall from time to time determine the (i) Settlement Position Limit and (ii) Settlement Exposure Limit in respect of each ForexClear Currency and each ForexClear Option Clearing Member.

1.19.2 A ForexClear Option Clearing Member may request, in such form and manner as the Clearing House prescribes from time to time, that the Clearing House set a Settlement Position Limit for a given ForexClear Currency below the limit determined pursuant to paragraph (a) above, provided that such requested limit meets the Clearing House's risk tolerance, as determined by the Clearing House in its sole discretion. Upon the Clearing House notifying the ForexClear Option Clearing Member that such requested limit is approved, including the time at