VIA CFTC PORTAL

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

1 May 2020

LCH Limited Self-Certification: Clarification Change on the Allocation of the ForexClear Default Fund to ForexClear Clearing Members

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 clarifying amendments to its rules regarding the allocation of the Default Fund to ForexClear Clearing Members.

Part I: Explanation and Analysis

The ForexClear Default Fund is allocated to each Clearing Member based on their average Stress Test Loss Over Additional Margin\(^1\) ("STLOAM") across a 30 day period. The allocation is subject to a floor amount, such that no Clearing Member can ever pay less than USD 5m per segment.

The proposed rules clarify that STLOAM is a measurement metric used for the purpose of calculating the ForexClear Clearing Members’ contribution to the mutualised Default Fund and refer to it as the “Uncovered Stress Loss Metric”. This complements a recent rule change on the allocation of the ForexClear Default Fund, whereby the calculation of each Clearing Member’s contribution to such Default Fund would take into account the likelihood that its clients may port in the event of its default\(^2\).

The changes will go live on, or after, 15 May 2020.

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\(^1\) STLOAM is calculated based on Stress Test Loss less the sum of Initial Margin, Sovereign Risk Margin, Credit Risk Margin, Stressed VaR, Completion Margin and Default Fund Additional Margin ("DFAM").

Part II: Description of Rule Changes

The above changes have been reflected to Schedule 5 ("ForexClear Default Fund Supplement") of the LCH Default Rules, paragraph F2 (d). The text of the changes is attached hereto as Appendix I. ForexClear maintains a procedure document setting out the details on the metric and the approach used to calculate the Default Fund amount and allocate it across the ForexClear membership. The related updates are provided as a confidential submission (Appendix II).

Part III: Core Principles 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. [Signature]

Julian Oliver
Chief Compliance Officer
LCH Limited
Appendix I
LCH Default Rules
SCHEDULE 5
FOREXCLEAR DEFAULT FUND SUPPLEMENT

F1. **In accordance** with and subject to Rule F2, the amount of each ForexClear Clearing Member's ForexClear Contributions shall be determined by the Clearing House as soon as practicable after each ForexClear Determination Date as appropriate on the basis of information available as at close of business on such ForexClear Determination Date and notified to such FXCCM as soon as practicable after such determination in accordance with the Procedures.

F2. Each FXCCM's ForexClear Contribution (other than any ForexClear Unfunded Contribution or any Supplementary Contribution) shall be determined by the Clearing House in accordance with the following provisions:

(a) determinations will be made by the Clearing House on the date that an FXCCM joins the ForexClear Service, and at the close of business on the first business day of each month, and otherwise in accordance with paragraph (f) below (each, a "ForexClear Determination Date") provided, however, that following a Default, any such determinations and any such ForexClear Determination Date which might otherwise have occurred under this Rule F2 shall be suspended for the duration of the period (the "ForexClear Default Period") commencing on the date of such Default and terminating on the last to occur of the following dates:

(i) the date which is the close of business on the day falling 30 calendar days after the ForexClear Default Management Process Completion Date in relation to such Default (or, if such day is not a business day, the next succeeding business day); and

(ii) where, prior to the end of the period referred to in (i) above (or such period as has already been extended pursuant to this paragraph (ii)), one or more subsequent Defaults (each a "Relevant Default") occur, the date which is the close of business on the day falling 30 calendar days after the ForexClear Default Management Process Completion Date in relation to a Relevant Default which falls latest in time (or, if such day is not a business day, the next succeeding business day);

(b) On each business day, the Clearing House will determine a "**Combined Loss Value**" in respect of each of the 30 preceding business days. The Combined Loss Value in respect of a particular day will be the sum of the largest and the second largest stress-testing loss incurred on that day in relation to ForexClear Business (for a given scenario);

(c) the "**ForexClear Fund Amount**" shall equal the sum of (i) the "**ForexClear NDF Sub-Fund Amount**," (ii) the "**ForexClear Non-NDF Sub-Fund Amount**" and (iii) the "**ForexClear Tolerance Amount**". The ForexClear NDF Sub-Fund Amount and ForexClear Non-NDF Sub-Fund Amount shall be calculated in United States dollars ("USD") and, for a given ForexClear Determination Date, shall be (i) in relation to the ForexClear NDF Sub-Fund Amount, the largest of the 30 Combined Loss Values in respect of ForexClear NDF Contracts, and (ii) in relation to the ForexClear Non-NDF Sub-Fund Amount, the largest of the 30 Combined Loss Values in respect of ForexClear Non-NDF Contracts.
Amount, the largest of the 30 Combined Loss Values in respect of ForexClear Contracts other than ForexClear NDF Contracts, each as determined under paragraph (b) above plus 10 per cent. Each of the ForexClear NDF Sub-Fund Amount and ForexClear Non-NDF Sub-Fund Amount shall not be less than USD 70 million (the "ForexClear Fund Floor"). The “ForexClear Tolerance Amount” for a given ForexClear Determination Date shall equal the aggregate amount of ForexClear Tolerance provided by the Clearing House to all participating FXCCMs to facilitate the registration of ForexClear Contracts, provided that the ForexClear Tolerance Amount shall not exceed USD 500 million;

(d) the "ForexClear Margin Weight" means the "ForexClear NDF Margin Weight" or the "ForexClear Non-NDF Margin Weight", as applicable.

(i) an FXCCM’s “ForexClear NDF Margin Weight” shall be calculated by dividing (A) the Uncovered Stress Loss Metric associated with such FXCCM’s ForexClear NDF Contracts by (B) the total Uncovered Stress Loss Metric applied to all Non-Defaulting FXCCMs with respect to their ForexClear NDF Contracts, in each case where the ForexClear NDF Contracts are (I) entered into on the FXCCM’s own behalf or with respect to a ForexClear Clearing Client or an FCM Client and (II) open and outstanding during the reference period set forth in paragraph (b) above;

(ii) an FXCCM’s “ForexClear Non-NDF Margin Weight” shall be calculated by dividing (A) the Uncovered Stress Loss Metric associated with all of such FXCCM’s ForexClear Contracts other than ForexClear NDF Contracts by (B) the total Uncovered Stress Loss Metric applied to all Non-Defaulting FXCCMs with respect to their ForexClear Contracts that are not ForexClear NDF Contracts, in each case where the ForexClear Contracts are (I) entered into on the FXCCM’s own behalf or with respect to a ForexClear Clearing Client or an FCM Client and (II) open and outstanding during the reference period set forth in paragraph (b) above;

(iii) an FXCCM’s “Uncovered Stress Loss Metric,” as determined in accordance with sub-paragraphs (i) and/or (ii) above, is a risk metric used by the Clearing House in the calculation of the FXCCM’s ForexClear Contribution and shall be determined by the Clearing House (and notified to each FXCCM) from time to time by, inter alia, deducting the amount of eligible margin held by the Clearing House with respect to the relevant ForexClear Contracts from the stress loss associated with such ForexClear Contracts; provided that the Clearing House may, in determining the Uncovered Stress Loss Metric of an FXCCM, take into account, inter alia, the number of alternative FXCCMs that clear ForexClear Contracts with respect to that FXCCM’s ForexClear Clearing Clients or FCM Clients; for the avoidance of doubt, the largest and second largest stress-testing losses for purposes of determining a Combined Loss Value in accordance with paragraph (b) above are not the applicable Uncovered Stress Loss
Metrics of the relevant FXCCMs for purposes of this sub-paragraph (iii):

(iv) the provisions of this sub-paragraph (d) shall not apply to New Members and, for the avoidance of doubt, New Members shall not constitute Non-Defaulting FXCCMs for the purposes of limb (B) of sub-paragraphs (i) and (ii);

(e) each FXCCM’s ForexClear Contribution comprises the "ForexClear NDF Contribution," the "ForexClear Non-NDF Contribution" and its ForexClear Tolerance, as applicable. The FXCCM’s ForexClear NDF Contribution shall be calculated by multiplying the ForexClear NDF Sub-Fund Amount by the FXCCM’s ForexClear NDF Margin Weight, and shall be no less than the Minimum ForexClear Contribution. The FXCCM’s ForexClear Non-NDF Contribution shall be calculated by multiplying the ForexClear Non-NDF Sub-Fund Amount by the FXCCM’s ForexClear Non-NDF Margin Weight, and shall be no less than the Minimum ForexClear Contribution; and

(f) subject to a suspension pursuant to paragraph (a) above, the Clearing House may recalculate the ForexClear Fund Amount on any business day if the Combined Loss Value differs by more than 25 per cent. from the figure on which the previous ForexClear Contribution determination was based.

F3. For the purposes of the calculations under Rule F2:

(a) references to "ForexClear Clearing Members" or "FXCCMs" do not include references to Defaulting FXCCMs (apart from any Defaulting FXCCM in respect of which the Clearing House permits the application of Rule F2) or persons which were formerly FXCCMs but are not FXCCMs at the ForexClear Determination Date at which the relevant determination is made;

(b) contributions shall be rounded upwards, if not already such a multiple, to the next integral multiple of one thousand US dollars;

(c) no account shall be taken, in calculating initial margin or ForexClear Margin Weight under Rule F2 of any offsets applied in calculating initial margin obligations imposed on an FXCCM in respect of ForexClear Contracts, which may otherwise be permissible under the Procedures or other arrangements applicable;

(d) provided that the FXCCM is not a Defaulter, the amount of its ForexClear Contribution shall be calculated in accordance with and subject to Rule F2. The provisions of Rule F1, Rule F2, this Rule F3 and Rule F5 do not apply to a Defaulting FXCCM, unless the Clearing House so permits in any particular case; and

(e) if (i) an FXCCM (other than an FCM Clearing Member) notifies the Clearing House on the ForexClear Default Management Process Completion Date or the business day occurring immediately after such date that it wishes to resign from the ForexClear Service, (ii) the ForexClear AET Requirement in respect of such proposed resignation has been satisfied by the ForexClear
Appendix II
ForexClear procedure document
(Confidential Submission)