

VIA CFTC PORTAL

22 May 2019

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

LCH Limited Self Certification: Rule Changes on Treatment of Variation Margin at Account Level for 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 changes to its rules to allow ForexClear Clearing Members to convert their cleared Contracts from "Collateralised to Market" ("CTM") to "Settled to Market" ("STM")¹ and make such conversion at account level. The changes do not apply to Futures Commission Merchants or US-incorporated Clearing Members (thereafter "US FXCCM Clearing Members"), which are already required to treat all their cleared Contracts as STM, in line with the CFTC regulatory guidance².

Part I: Explanation and Analysis

In November 2018, LCH made changes to its rules to provide the option to non-US FXCCM Clearing Members to treat variation margin payments in respect to cleared Contracts as settlement payments (STM Contracts), as opposed to transfer of collateral (CTM Contracts).

Currently, once the relevant Clearing Member requests LCH to treat its Contracts as STM, all open Contracts across all its proprietary and client accounts are converted from CTM to STM Contracts from a given date (the "ForexClear STM Conversion Date"). LCH proposes to change its rules so that eligible Clearing Members are able to choose the account/s in which Contracts will be converted to STM, therefore dealing with proprietary and client accounts separately. This change brings the ForexClear service in line with the offering in the SwapClear service.

¹ Contracts for which variation margin is treated as transfer of collateral are referred to as "Collateralised-to-Market" or "CTM Contracts". Contracts for which variation margin is treated as settlement payment are referred to as "Settled-to-Market Contracts" or "STM Contracts". For STM Contracts, upon payment of amounts due in respect of such variation margin, the outstanding exposure of the relevant Contracts will be discharged.

² <http://www.cftc.gov/idc/groups/public/@lrlattergeneral/documents/letter/17-51.pdf>

The rule changes will go live on, or after, June 10, 2019.

Part II: Description of Rule Changes

Regulation 106A ("Settlement-to-market or ForexClear STM Contracts") of the General Regulations set out the process whereby i) a non-US FXCCM Clearing Member may request LCH to convert its open Contracts from CTM to STM Contracts and ii) LCH gives effect to such request, subject to certain conditions. The Regulation has been amended in paragraphs n), o), p), and q) clarifying that such Clearing Member will have to specify which account, whether the proprietary or a given client account, is to be converted from CTM to STM treatment.

The texts of the changes are attached hereto as **Appendix I**.

Part III: Core Principle Compliance

LCH has reviewed the changes against the requirements of the Core Principles and finds that they 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 the attached rule submission complies with the Commodity Exchange Act, as amended, and the regulations promulgated thereunder.

Should you have any questions, please contact me at julian.oliver@lch.com.

Yours sincerely,



Julian Oliver
Chief Compliance Officer
LCH Limited

Appendix I
General Regulations



**GENERAL REGULATIONS OF
LCH LIMITED**

REGULATION 106A SETTLEMENT-TO-MARKET OF FOREXCLEAR STM CONTRACTS

- (a) Notwithstanding anything to the contrary in Regulation 20, neither the Clearing House nor a ForexClear Clearing Member shall be obliged to make any payment by way of variation margin in respect of a ForexClear STM Contract. This Regulation 106A shall be without prejudice to the Clearing House's other rights to require Collateral to be transferred to it under Regulation 20 (including, but not limited to, its right to require Collateral to be transferred to it in respect of a ForexClear Clearing Member's initial margin obligations in respect of a ForexClear STM Contract).
- (b) The Clearing House shall, at least once per business day, determine (i) the change in the net present value of each ForexClear STM Contract, and (ii) the Price Alignment Amount payable on such business day, in each case in accordance with the relevant ForexClear STM Terms and in such manner and at such times as may be provided in the Procedures. Immediately upon the Clearing House making each such determination of the net present value of a ForexClear STM Contract, an NPV Reset shall occur with respect to that ForexClear STM Contract.
- (c) Upon the occurrence of an NPV Reset in relation to a ForexClear STM Contract that is not a ForexClear Option Contract:
 - (i) if the Clearing House has determined that the net present value of the ForexClear STM Contract has increased since the immediately preceding NPV Reset, an amount of cash (denominated in the currency determined in accordance with the Procedures for that ForexClear STM Contract) equal to the amount of such increase shall immediately become due and payable by the ForexClear Clearing Member to the Clearing House under the relevant ForexClear STM Terms;
 - (ii) if the Clearing House has determined that the net present value of the ForexClear STM Contract has decreased since the immediately preceding NPV Reset, an amount of cash (denominated in the currency determined in accordance with the Procedures for that ForexClear STM Contract) equal to the amount of such decrease shall immediately become due and payable by the Clearing House to the ForexClear Clearing Member under the relevant ForexClear STM Terms;
 - (iii) if the Clearing House has determined that the net present value of the ForexClear STM Contract has not changed since the immediately preceding NPV Reset, neither the Clearing House nor the ForexClear Clearing Member shall be obliged to make any payment; and
 - (iv) the net present value of the ForexClear STM Contract shall for all purposes be reset to zero.
- (d) Upon the occurrence of an NPV Reset in relation to a ForexClear STM Contract that is a ForexClear Option Contract:

- (v) if the Clearing House has determined that the net present value of the obligation to pay the “Premium” (as defined in the ForexClear Contract Terms of that ForexClear STM Contract) has increased since the immediately preceding NPV Reset, an amount of cash (denominated in the currency determined in accordance with the Procedures for that ForexClear STM Contract) equal to the amount of such increase shall immediately become due and payable by the ForexClear Clearing Member to the Clearing House under the relevant ForexClear STM Terms;
 - (vi) if the Clearing House has determined that the net present value of the obligation to pay the “Premium” (as defined in the ForexClear Contract Terms of that ForexClear STM Contract) has decreased since the immediately preceding NPV Reset, an amount of cash (denominated in the currency determined in accordance with the Procedures for that ForexClear STM Contract) equal to the amount of such decrease shall immediately become due and payable by the Clearing House to the ForexClear Clearing Member under the relevant ForexClear STM Terms;
 - (vii) if the Clearing House has determined that the net present value of the ForexClear STM Contract (excluding the obligation to pay the “Premium” (as defined in the ForexClear Contract Terms of that ForexClear STM Contract)) has increased since the immediately preceding NPV Reset, an amount of cash (denominated in the currency determined in accordance with the Procedures for that ForexClear STM Contract) equal to the amount of such increase shall immediately become due and payable by the ForexClear Clearing Member to the Clearing House under the relevant ForexClear STM Terms;
 - (viii) if the Clearing House has determined that the net present value of the ForexClear STM Contract (excluding the obligation to pay the “Premium” (as defined in the ForexClear Contract Terms of that ForexClear STM Contract)) has decreased since the immediately preceding NPV Reset, an amount of cash (denominated in the currency determined in accordance with the Procedures for that ForexClear STM Contract) equal to the amount of such decrease shall immediately become due and payable by the Clearing House to the ForexClear Clearing Member under the relevant ForexClear STM Terms;
 - (ix) if the Clearing House has determined that the net present value referred to in any of (i)-(iv) above has not changed since the immediately preceding NPV Reset, neither the Clearing House nor the ForexClear Clearing Member shall be obliged to make any payment; and
 - (x) the net present value of the ForexClear STM Contract shall for all purposes be reset to zero.
- (e) The ForexClear Clearing Member and the Clearing House hereby agree that:
- (i) for the avoidance of doubt, an "increase" in the net present value of a ForexClear STM Contract or an obligation thereunder shall mean that the net present value of that ForexClear STM Contract or that obligation has moved in favour of the Clearing House since the immediately preceding NPV Reset;

- (ii) for the avoidance of doubt, a “decrease” in the net present value of a ForexClear STM Contract or an obligation thereunder shall mean that the net present value of that ForexClear STM Contract or that obligation has moved in favour of the ForexClear Clearing Member since the immediately preceding NPV Reset; and
 - (iii) unless otherwise agreed between the ForexClear Clearing Member and the Clearing House, the net present value of a ForexClear STM Contract or an obligation thereunder on the Trade Date (as such term is defined in the ForexClear STM Terms applicable to that ForexClear STM Contract) shall be reset to zero.
- (f) Except as prescribed in the Procedures, the net present value calculated by the Clearing House shall in no circumstances be called in question.
 - (g) Any determination of the net present value of a ForexClear STM Contract or obligation thereunder shall not take into account the ForexClear STM Terms of such ForexClear STM Contract.
 - (h) Upon the Clearing House’s determination of the Price Alignment Amount in relation to a ForexClear STM Contract or certain obligations thereunder:
 - (i) if the Clearing House has determined that the Cumulative Net Present Value in relation to the ForexClear STM Contract or those obligations is greater than zero, then, subject to (iii) below, an amount of cash (denominated in the currency determined in accordance with the Procedures for that ForexClear STM Contract) equal to the relevant Price Alignment Amount shall immediately become due and payable by the Clearing House to the ForexClear Clearing Member;
 - (ii) if the Clearing House has determined that the Cumulative Net Present Value in relation to the ForexClear STM Contract or those obligations is less than zero, then, subject to (iii) below, an amount of cash (denominated in the currency determined in accordance with the Procedures for that ForexClear STM Contract) equal to the relevant Price Alignment Amount shall immediately become due and payable by the ForexClear Clearing Member to the Clearing House; and
 - (iii) if any Price Alignment Amount payable by a party on a business day is a negative amount, then the relevant Price Alignment Amount payable by that party will be deemed to be zero, and the other party will pay to that party the absolute value of the negative Price Alignment Amount on such business day.
 - (i) For the purpose of determining the Cumulative Net Present Value in relation to a ForexClear STM Contract that has been (i) transferred to a Backup Clearing Member pursuant to the Default Rules in relation to ForexClear Contracts, or (ii) novated pursuant to Regulation 91(n), the Trade Date of the ForexClear STM Contract that comes into existence immediately following such transfer or novation (as applicable) shall be the Trade Date of the ForexClear STM Contract that was so transferred or novated (as applicable).

- (j) For the purpose of determining the Cumulative Net Present Value in relation to a ForexClear STM Contract that has been converted from a ForexClear CTM Contract pursuant to Regulation 106A, the Trade Date of the ForexClear STM Contract that comes into existence immediately following such conversion shall be the Trade Date of the ForexClear CTM Contract that was so converted.
- (k) The payment of each of the amounts due and payable under the ForexClear STM Terms applicable to a ForexClear STM Contract shall be made in such manner and at such times as may be provided in the Procedures.
- (l) In respect of all ForexClear STM Contracts the Clearing House shall:
 - (i) on each business day (as such term is defined in the ForexClear STM Terms relating to that ForexClear STM Contract), and to the extent that the following amounts are payable in the same currency and in respect of the same Client Account (that is not an Indirect Gross Account), Proprietary Account or Indirect Gross Sub-Account (as applicable), aggregate:
 - (A) the amounts (if any) payable by the ForexClear Clearing Member to the Clearing House on such business day in accordance with Regulation 106A(c)(i), 106A(d)(i) and 106A(d)(iii);
 - (B) the Price Alignment Amount (if any) payable by the ForexClear Clearing Member to the Clearing House on such business day in accordance with Regulation 106A(h)(ii); and
 - (C) any other amounts which are payable by the ForexClear Clearing Member to the Clearing House on such business day under those ForexClear STM Contracts,
 - (ii) on each business day, and to the extent that the following amounts are payable in the same currency and in respect of the same Client Account (that is not an Indirect Gross Account), Proprietary Account or Indirect Gross Sub-Account (as applicable), aggregate:
 - (A) the amounts (if any) payable by the Clearing House to the ForexClear Clearing Member on such business day in accordance with Regulation 106A(c)(ii), 106A(d)(ii) and 106A(d)(iv);
 - (B) the Price Alignment Amount (if any) payable by the Clearing House to the ForexClear Clearing Member on such business day in accordance with Regulation 106(a)(h)(ii); and
 - (C) any other amounts which are payable by the Clearing House to the ForexClear Clearing Member on such business day under those ForexClear STM Contracts,

and only the excess of the larger amount over the smaller amount (when comparing the aggregate amounts payable under (i) and (ii) above) shall be payable by the party by whom the larger amount would otherwise have been payable. To the extent the smaller amount is so applied, the smaller amount will be discharged promptly and in all respects.

- (m) The Clearing House and the ForexClear Clearing Member agree that satisfaction of the payment obligation arising under the ForexClear STM Terms of a ForexClear STM Contract by the applicable party shall discharge such obligation for the purpose of settling the then outstanding exposure under that ForexClear STM Contract.
- (n) A ForexClear Clearing Member that is not a US FXCCM may submit a request in accordance with the Procedures (a “**ForexClear STM Conversion Request**”) to the Clearing House requesting that the Clearing House convert all of its open ForexClear CTM Contracts in its Proprietary Account or a given Client Account to ForexClear STM Contracts and register all of its future ForexClear Contracts in its Proprietary Account or such Client Account as ForexClear STM Contracts (such ForexClear Clearing Member, a “**Converting ForexClear Clearing Member**”). For the avoidance of doubt, a ForexClear STM Conversion Request must specify the given Proprietary Account or Client Account that contains the ForexClear Contracts the Converting ForexClear Clearing Member wishes to convert.
- (o) Following the Clearing House’s receipt of a ForexClear STM Conversion Request, the Clearing House may, in its sole and absolute discretion, nominate a business day (such day, a “**ForexClear STM Conversion Date**”) from, and including which, all of such ForexClear Clearing Member’s ForexClear CTM Contracts in its Proprietary Account or in a given Client Account shall cease to be registered as ForexClear CTM Contracts and shall immediately and automatically become registered as ForexClear STM Contracts, which are subject to this Regulation 106A and the ForexClear STM Terms. For the avoidance of doubt, if the Clearing House determines that it shall convert a ForexClear CTM Contract into a ForexClear STM Contract, such conversion shall be effected through the Clearing House and the Converting ForexClear Clearing Member agreeing to a modification of the terms of the relevant ForexClear CTM Contract to include the ForexClear STM Terms, and each Converting ForexClear Clearing Member hereby agrees to such modification. Such conversion shall not be effected through the Clearing House and the Converting ForexClear Clearing Member terminating the relevant ForexClear CTM Contract and entering into a new ForexClear STM Contract.
- (p) A conversion of a Converting ForexClear Clearing Member’s ForexClear Contracts pursuant to paragraph (o) above shall be subject to the following conditions precedent:
- (i) the Converting ForexClear Clearing Member is not a Defaulter;
 - (ii) the conversion of the Converting ForexClear Clearing Member’s ForexClear Contracts to ForexClear STM Contracts would not violate or result in the violation of any Applicable Law;
 - (iii) the Converting ForexClear Clearing Member has satisfied all of its obligations to meet any margin calls made by the Clearing House with respect to its ForexClear Contracts subject to conversion pursuant to paragraph (o) above up to, but excluding, the ForexClear STM Conversion Date. The Converting ForexClear Clearing Member shall satisfy such margin calls in accordance with the Procedures and/or applicable Regulations, as would ordinarily be the case;
 - (iv) the Converting ForexClear Clearing Member has paid to the Clearing House, or the Clearing House has paid to the Converting ForexClear Clearing Member (as applicable), any cash settlement amount that the Clearing House determines (in

its sole and absolute discretion) must be paid to ensure that the net present value of each ForexClear Contract to be converted shall be equal to zero on the ForexClear STM Conversion Date. Such amounts shall be determined and paid by the relevant party in accordance with the Procedures. The Converting ForexClear Clearing Member and the Clearing House agree that the Clearing House may, in its sole and absolute discretion, apply any Collateral held by it in respect of the ForexClear Contracts of the Converting ForexClear Clearing Member to satisfy (in whole or in part) the Converting ForexClear Clearing Member's obligation to pay the amount (if any) required under this Regulation 106A(p)(iv). The Converting ForexClear Clearing Member and the Clearing House agree that any Collateral held by the Converting ForexClear Clearing Member in respect of each ForexClear Contract registered in the name of the Converting ForexClear Clearing Member and subject to conversion under paragraph (o) above shall be applied to satisfy (in whole or in part) the Clearing House's obligation to pay the amount (if any) required under this Regulation 106A(p)(iv) in relation to such ForexClear Contracts; and

- (v) all other conditions stipulated by the Clearing House have been complied with in a manner satisfactory to it.
- (q) Upon the occurrence of a ForexClear STM Conversion Date, the given Converting ForexClear Clearing Member agrees and acknowledges for the benefit of the Clearing House that the ForexClear Contracts registered in its name and converted pursuant to paragraph (o) above cannot, in any circumstance, be re-converted into ForexClear CTM Contracts.
- (r) For the purposes of this Regulation 106A;
 - (i) **"Cumulative Net Present Value"** means:
 - (A) in respect of a ForexClear STM Contract that is not a ForexClear Option Contract and a business day (as such term is defined in the ForexClear STM Terms relating to that ForexClear STM Contract) falling after the Trade Date, a hypothetical value, determined by the Clearing House acting in its sole and absolute discretion, equal to:
 - (1) the aggregate of the amounts (if any) payable by the ForexClear Clearing Member to the Clearing House (expressed as a positive number) under Section 4.1 (or Section 10.1, if the ForexClear STM Contract is a ForexClear NDF STM Contract) of the applicable ForexClear STM Terms from, and including, the Trade Date to, but excluding, that business day; plus
 - (2) if such ForexClear STM Contract has been converted from a ForexClear CTM Contract, the aggregate of the amounts (if any) of variation margin determined to be payable by the ForexClear Clearing Member to the Clearing House (expressed as a positive number) from, and including, the Trade Date, to, and including, the