

VIA CFTC Portal

14 August 2018

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

LCH Limited Self Certification: Rule changes related to FX Options Swap Contracts Limit in a Liquidity Event

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 in order to remove LCH’s discretion to increase the Mandatory ForexClear Swap Limit above the relevant cap in the context of FX Options clearing.

Part I: Explanation and Analysis

The ForexClear service processes of all the key lifecycle events related to FX Options, i.e. trade booking, exercise and settlement across all eligible currencies. LCH manages the settlement risk associated with clearing the product in collaboration with the Continuous Linked Settlement Bank (“CLS”). All settlement obligations of FX Options Clearing Members must be performed in the daily LCH-CLS session between 6am and 8am CET. Failure to do so will result in LCH declaring a Liquidity Event, whereby LCH will pay into the CLS cycle on behalf of the failing Clearing Member using dedicated liquidity provisions. The liquidity provisions will consist of a range of Clearing Member-funded committed resources, either in the form of cash for certain currencies or as Mandatory ForexClear Swap Contracts. The latter is a guaranteed capped commitment from Clearing Members allowing ForexClear to effectively manage same-day settlement via the execution of cleared FX swaps with non-failing Clearing Members.

The amount of Mandatory ForexClear Swap Contracts that LCH may enter into is subject to a daily limit (“Mandatory ForexClear Swap Limit”) and a cap. LCH may decide, at its own discretion, to increase such limit for any FX Options Clearing Member; however, the proposed rule changes note that LCH shall not increase the limit to an amount that, if calculated in aggregate across FX Options Clearing Members, would exceed the relevant cap amount. The change is intended to help Clearing Members manage their FX Options exposure in the context of a Liquidity Event.

The rule changes will go live on, or after, August 28, 2018.

Part II: Description of Rule Changes

Regulation 101 of the General Regulations has been amended in paragraph e) to note that LCH shall not, under any circumstance, increase the Mandatory ForexClear Swap Limit to an amount that, if

calculated in aggregate across FX Options Clearing Members, would exceed the relevant cap amount, currently set at USD 1bn.

The text of the changes to the General Regulations is 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 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



Julian Oliver
Chief Compliance Officer
LCH Limited

Appendix I
General Regulations

REGULATION 100 FOREXCLEAR OPTION SERVICE – SETTLEMENT LIMITS, SETTLEMENT TRADE-DOWN AND SETTLEMENT EVENETS

Settlement Limits

- (a) Subject to (c) and (d) below, the Clearing House may, in its sole and absolute discretion, determine from time to time:
- (i) the Settlement Position Limit;
 - (ii) the Settlement Exposure Limit; and
 - (iii) the Mandatory ForexClear Swap Limit,
- in respect of each ForexClear Option Clearing Member and each ForexClear Currency.
- (b) From time to time the Clearing House shall notify each ForexClear Option Clearing Member of the Settlement Position Limit, Settlement Exposure Limit and Mandatory ForexClear Swap Limit applicable to it and each ForexClear Currency in accordance with the Procedures.
- (c) Subject to (e) below, if the Clearing House wishes to increase the Settlement Position Limit, Settlement Exposure Limit or, the Mandatory ForexClear Swap Limit, which shall be applicable to all ForexClear Option Clearing Members, in relation to a given ForexClear Currency to no more than the Settlement Position Limit Cap, Settlement Exposure Limit Cap or Mandatory ForexClear Swap Limit Cap applicable to that ForexClear Currency (with respect to the Mandatory ForexClear Swap Limit) or when such limit is aggregated in respect of all ForexClear Currencies (with respect to the Settlement Position Limit or Settlement Exposure Limit), then the Clearing House may propose such amendment by giving all ForexClear Option Clearing Members no fewer than 10 business days' notice, such notice to specify the proposed new Settlement Position Limit, Settlement Exposure Limit and/or Mandatory ForexClear Swap Limit (the "**Revised Limits**"). If the Requisite ForexClear Option Clearing Members vote in favour of the Revised Limits then the Revised Limits shall take effect following 30 calendar days' notice (or such other period as the Clearing House shall decide) from, and including, the expiration of the notice period specified above. If the Requisite ForexClear Option Clearing Members do not vote in favour of the Revised Limits then the Revised Limits shall not take effect. For the purposes of the foregoing, a ForexClear Option Clearing Member that does not communicate its vote to the Clearing House by the end of the notice period specified above shall be deemed to have voted in favour of the Revised Limits. The Clearing House shall publish the terms of the voting process on or prior to the business day on which the vote is initiated.
- (d) Subject to (e) below, if the Clearing House wishes to increase the Settlement Position Limit Cap, Settlement Exposure Limit Cap or Mandatory ForexClear Limit Cap (as applicable), then the Clearing House may propose such amendment by giving all ForexClear Option Clearing Members no fewer than 10 business days' notice, such notice to specify the proposed new Settlement Position Limit Cap, Settlement Exposure Limit Cap and/or Mandatory ForexClear Limit Cap (the "**Revised Caps**").

If 100% of the then total number of ForexClear Option Clearing Members vote in favour of the Revised Caps then the Revised Caps shall take effect following 30 calendar days' notice (or such other period as the Clearing House shall decide) from, and including, the expiration of the notice period specified above. If less than 100% of the then total number of ForexClear Option Clearing Members vote in favour of the Revised Caps then the Revised Caps shall not take effect. For the purposes of the foregoing, a ForexClear Option Clearing Member that does not communicate its vote to the Clearing House by the end of the notice period specified above shall not be deemed to have voted in favour of the Revised Caps. The Clearing House shall publish the terms of the voting process **on or prior** to the business day on which the vote is initiated.

- (e) The Clearing House shall be entitled to increase the Settlement Position Limit, Settlement Exposure Limit, Mandatory ForexClear Swap Limit, Settlement Position Limit Cap ~~and/or~~ Settlement Exposure Limit Cap ~~and/or Mandatory ForexClear Swap Limit Cap~~ without the consent of any ForexClear Option Clearing Member, and without regard for the process in paragraphs (c) or (d) above if, it determines, in its sole and absolute discretion, that:
- (i) it considers such action advisable for its own protection or the protection of the relevant market;
 - (ii) it is required to take such action to comply with any regulation, rule, official directive, request or guideline (whether or not having the force of law) of any governmental, intergovernmental or supranational body, agency, department or of any regulatory, self-regulatory or other authority or organisation;
 - (iii) except with respect to an increase to the Settlement Position Limit, Settlement Exposure Limit and/or Mandatory ForexClear Swap Limit, a new ForexClear Option Clearing Member has been designated as a new ForexClear Option Clearing Member, provided, however that, in such circumstance, the Clearing House shall only be entitled to increase the caps referenced in (e) above without using the process in paragraph (d) above to the extent that such increase is no greater, in percentage terms, than the percentage increase in the number of ForexClear Option Clearing Members that has occurred as a result of such ForexClear Option Clearing Member being so designated;
 - (iv) solely with respect to the Settlement Position Limit and/or Settlement Position Limit Cap, it considers such action advisable where (A) the register of primary nostro account providers of ForexClear Option Clearing Members is updated in accordance with the Procedures and (B) an increase to the Settlement Position Limit occurs as the direct result of the given update to register of primary nostro account providers; or
 - (v) it considers such action advisable in connection with an operational or technical failure or delay.

provided, however, that in no event shall the Clearing House be entitled to increase the Mandatory ForexClear Swap Limit (when aggregated across all ForexClear Option Clearing Members) above the Mandatory ForexClear Swap Limit Cap.-