

VIA CFTC PORTAL

11 December 2018

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

LCH Limited Self-Certification: Approved Compression Service Providers changes

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 the participation choices available to Approved Compression Service Providers ("ACSPs").

Part I: Explanation and Analysis

LCH's SwapClear Service can receive and process valid compression proposals created by Approved Compression Service Providers. LCH intends to amend the participation choices available to ACSPs. In summary the changes are:

| Feature | Current | Proposal |
|--|--|--|
| Platinum eligibility for following year | Vendor must generate £5,000,000 for LCH in compression revenues this year | Vendor must terminate 1,000,000 trades this year |
| Annual Gold or Silver ACSP fee | Silver and Gold vendors pay an annual ACSP fee which allows them to perform a given number of runs | If a Silver or Gold vendor becomes eligible for Platinum the following year they are refunded this year's annual ACSP fee |
| Gold or Silver charge for additional runs | Silver and Gold vendors can perform additional runs for a charge: £22,500 for Silver or £18,000 for Gold | <ul style="list-style-type: none"> • Additional EUR and USD runs can be requested and will be free of charge if the run terminates at least 15,000 trades • Additional GBP runs can be requested and will be free of charge if the run terminates at least 8,000 trades • Additional runs in other currencies can be requested and will be free of charge • If an additional run does not achieve the minimum number of terminations the charge shall be <ul style="list-style-type: none"> o £22,500 for Silver o £18,000 for Gold |
| Charge for Platinum runs not achieving minimum terminations | Platinum vendors are not charged for any cycles by LCH | <ul style="list-style-type: none"> • If a cycle by a Platinum vendor does not terminate 15,000 EUR or USD trades or 8,000 GBP trades LCH will charge <ul style="list-style-type: none"> o £18,000 |

The changes will be effective on, or after, January 1, 2019.

Part II: Description of Rule Changes

There are no changes to the LCH Rulebook, however LCH will make changes to its website to highlight the new participation choices available to ACSPS. There are other minor tidying up of webpage as shown in **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 change.

Certification

LCH hereby certifies to the Commodity Futures Trading Commission, pursuant to the procedures set forth in Commission Regulation § 40.6, that the attached 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

Website changes (ACSPs webpage)

<https://www.lch.com/services/swapclear/essentials/approved-compression-service-providers>

Approved Compression Service Providers (ACSPs)

SwapClear can receive and process valid compression proposals created by Approved Compression Service Providers (as defined in the applicable LCH rulebook).

Below is a list of the Approved Compression Service Providers for SwapClear:

- TriOptima AB
- Quantile Technologies Limited
- Capitalab, a division of BGC Brokers L.P.

~~The initial steps in becoming an Approved Compression Service Provider (ACSP) require LCH to review and agree that the potential ACSP will~~ LCH requires all prospective compression providers meet the following criteria:

- Meets the ~~definition-requirements to provide~~ of SwapClear compression services as Multilateral Compression in accordance with ~~per~~ LCH's rulebook
- Potential ACSP has robust legal framework under which to provide such compression services
- Potential ACSP can demonstrate robust controls and operational capability
- LCH can operationally support the proposed compression services
- Potential ACSP has written confirmation of commitment from at least six SwapClear clearing members to use their compression services
- Potential ACSP can demonstrate successful testing of its compression services with a minimum number of potential participants

ACSP Onboarding ~~s~~Steps

Minimum Onboarding Steps

- Having a suitable NDA in place for discussion on ~~potential-prospective~~ ACSP's proposed ~~solution~~ compression services
- Validation by LCH that the above minimum criteria have been met
- Established with LCH an ACSP compression documentation under which such service will operate along with LCH Rulebook
- Established a service agreement with LCH on which to operate and any agreed legal and commercial arrangements

- Successfully complete testing phases required by LCH
- LCH's receipt of all ~~has received the required~~ risk and regulatory approvals as necessary to operate the required to onboard the potential prospective ACSP compression service

The anticipated duration from once the criteria set forth above has been met is between 3-three to 6-six months, dependent on the ACSP's ability to satisfying the steps-criteria above.

ACSP Membership Choice

Once the potential-prospective ACSP has satisfied the above criteria, it may elect a Silver or Gold membership. ACSPs will be required to pay a once-off onboarding fee of ~~£75,000k~~ to cover LCH's costs to support the product's compression services and, as well as, the operational, legal and sales efforts to onboard the ACSP.

Where an ACSP's compression cycles have terminated at least 1,000,000 trades sides in a given calendar year, that ACSP is eligible to apply for Platinum ACSP status, as shown-described below. In the event a Platinum ACSP does not maintain the minimum number of terminations required for Platinum members status in a given calendar year, LCH will retroactively charge the ACSP the applicable membership applicable fees for Gold membership. Choice of applicable membership can be elected annually from 1st November to 15 December each year. ~~I~~ in the event an ACSP does not elect a membership plan by 15 December, the ACSP will be deemed to have elected a dormant membership plan.

| | Commercial Model for ACSP | Silver | Gold | Platinum |
|---|---|----------|----------|----------------------------|
| 1 | Once-off onboarding Fee (Required <u>required</u> for all new ACSPs) | £75,000 | £75,000 | N/A |
| 2 | Annual ACSP Fee (refunded if the ACSP terminates 1,000,000 trade sides within the <u>calendar</u> year) | £200,000 | £480,000 | N/A |
| 3 | <u>Compression</u> Runs included in Annual ACSP Fee (subjected to member demand and operational constraints – no refunds if unused) | 8 | 24 | Subjected to member demand |
| 4 | Average cost per run included in annual fee | £25,000 | £20,000 | N/A |
| 5 | <u>Charge for Additional-additional compression</u> runs (above inclusion) <u>in either EUR, USD or GBP. Additional runs will not incur this charge if they terminate at least 15,000 EUR or USD trade sides or at least 8,000 GBP trade sides can be requested and performed free of charge if the additional run terminates 20,000 EUR, USD, GBP or JPY</u> | £22,500 | £18,000 | N/A |

| | | | | |
|----|--|-----|-----|-----------|
| | trade sides, or 5,000 trade sides of any other currency. If not otherwise, LCH shall each charge for each additional run. | | | |
| 6 | Charge for a <u>EUR or USD cycle-compression run</u> that terminates less-fewer than 2015,000 EUR, USD, trades sides or a <u>GBP compression run</u> that terminates lessfewer than 8,000 GBP or JPY trade sides, or 5,000 trade sides of any other currency | N/A | N/A | £18,000 |
| 7 | Min. Participants in EUR, USD, GBP, JPY <u>compression runs</u> | 8 | 8 | 8 |
| 8 | Min. Participants in other s currency-specific runs | 6 | 6 | 6 |
| 9 | Platinum qualification -- m Min. number of trade side terminations from ACSP <u>cycles-compression runs</u> P per <u>calendar</u> year based on previous 12 months | N/A | N/A | 1,000,000 |
| 10 | If Platinum <u>ACSP</u> does not meet <u>minimum trade side terminations</u> target, then <u>ACSP</u> must revert to Gold status | | | |

The terms of an ACSP's appointment as such by LCH, including all fees, costs, expenses, minimum criteria and membership terms, shall be subject to and governed by the relevant service agreement with LCH.

Note, LCH charges its clearing members and clients for using LCH ACSP compression services. These are described [here](#).

~~LCH's process for confirming proposed ACSP's cycles~~

- ~~1. For the next quarter all vendors submit to LCH requests for runs, including the date they want to perform a run and its currency[s]

 - ~~a. A vendor can only do one run a day~~
 - ~~b. A vendor can only perform one run in a currency per calendar week~~~~
- ~~2. Vendors must all submit their requests by email on the same pre-agreed day

 - ~~a. For Q1 – Second Wednesday of preceding November~~~~

- ~~b. For Q2 – Second Wednesday of preceding February~~
 - ~~c. For Q3 – Second Wednesday of preceding May~~
 - ~~d. For Q4 – Second Wednesday of preceding August~~
- ~~3. LCH collates all the requested runs and identifies those which LCH cannot support, these being~~
 - ~~a. Runs on days that LCH is not open~~
 - ~~b. Runs on days that LCH believe is sensitive, e.g. elections~~
 - ~~c. Runs on days when LCH may be making a release~~
 - ~~d. Others to be determined at LCH’s discretion~~
- ~~4. LCH collates the eligible requested runs and confirms to the vendors which runs have been accepted by the following Wednesday. Acceptance and confirmation of request runs are subject to the following:~~
 - ~~a. Where more than one vendor has requested to perform a run in the same currency on the same day, LCH will inform such vendors that these runs could be subject to constraints on the number of “events” (each termination and new trade is an event) they can generate in the applicable run~~
 - ~~b. Impacted vendors may choose to request different dates for runs and can work with LCH to identify appropriate, alternative dates~~
 - ~~c. Runs may also be subject to event constraints depending on the combinations of currencies requested~~
- ~~5. Where runs will be subjected to event constraints, LCH will inform the impact vendors approximately a week before the applicable run as to the number of events each vendor is permitted to perform in each of their runs~~
 - ~~a. Where a vendor’s run is subject to event constraints, the number of events a vendor may effect shall be limited based on (x) the number of events effected in the vendor’s previous run(s) in the relevant currency and/or (y) the anticipated number of events in the given run~~
- ~~6. LCH will publish on its Secure Area the approved run schedule, including the date, currency[s] and vendor(s), and will provide such information in the next RSU that follows such run allocation~~

~~Notwithstanding the above, LCH may allocate, cancel or reschedule compression runs in its discretion for operational, technical, risk or legal considerations.~~

LCH's process for confirming proposed ACSP's cycles

1. For the next quarter all vendors submit to LCH requests for runs including the date they want to perform a run and its currency[s]
 - A vendor can only do one run a day
2. Vendors all submit their requests by email on the same pre agreed day
 - For Q1 – Second Wednesday of preceding November
 - For Q2 – Second Wednesday of preceding February
 - For Q3 – Second Wednesday of preceding May
 - For Q4 – Second Wednesday of preceding August
3. LCH collates all the requested runs and identifies those which LCH cannot support, these being
 - Runs on days that LCH is not open
 - Runs on days that LCH believe is sensitive eg elections
 - Runs on days when LCH may be making a release
 - Others to be determined at LCHs discretion
4. LCH collates the remaining eligible requested runs and identifies where there are conflicts with the LCH's operational constraints, these being
 - Cannot have a USD and EUR on the same day
 - Cannot have two USD runs on the same day
 - Cannot have two EUR runs on the same day
 - Can have a maximum of two AM currencies (other than USD, CAD, MXN) a day
 - Can have a maximum of two PM currencies (USD, CAD, MXN) a day
5. When runs are identified as breaching LCH operational constraints (4 above)
 - LCH will request each affected vendor to supply the members which have expressed an interest in participating
 - i. A member being a House member, CB member, a Client
 - Vendor[s] will be awarded run in order of the number of participants expected and where appropriate other vendor[s] will have their requests rejected
 - i. If a member is submitted by more than one vendor it will not be counted for any vendor
 - ii. If two or more vendors have the same number of members the gross notional in USD equivalent of the members in the currency will be used to allocate the run
 - iii. Periodically LCH can request a vendor to provide evidence they sought and got the members intent that they submitted
6. LCH will revert to each vendor confirming what runs they have been allocated by the close of the Wednesday following the submission of their requests

7. Vendors who have runs rejected can work with LCH to identify appropriate alternatives
8. LCH will publish on the secure site the approved run schedule including the date, currency[s] and vendor as well as including in the RSU update following a quarters allocation

Notwithstanding the above, LCH may allocate, cancel or reschedule compression runs in its discretion for operational, technical, risk or legal considerations.