

VIA CFTC PORTAL

21 November 2018

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

**LCH Limited Self Certification: Minor Rule Changes on the ForexClear Service Procedures regarding Calendar Adjustments and the Automatic Exercise of FX Options Contracts**

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 minor changes to the ForexClear Service Procedures. The first clarifies the extent of LCH’s discretion to amend valuation and/or settlement dates to account for public holidays. The second change is specific to the FX Options product and relates to the expiry of a put option upon automatic exercise.

**Part I: Explanation and Analysis**

Calendar adjustments

The proposed rules clarify that LCH reserves the right to amend the valuation date and/or settlement date of a ForexClear Contract to reflect or account for a public holiday (or anticipated holiday), notwithstanding the SwapsMonitor Financial Calendar<sup>1</sup>. Such amendments are necessary where holidays are announced at short notice, for example following natural disasters or political decisions.

Expiry of a put option

The ForexClear Procedures include provisions on the automatic exercise of a ForexClear Option Contract, if, at the expiration time such a Contract has not been exercised but is “in-the-money”. Essentially, the automatic exercise

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<sup>1</sup> ForexClear primarily uses the SwapsMonitor Financial Calendar (as published by Swaps Monitor Publications, INC.) (“SwapsMonitor Financial Calendar”) in order to determine holidays, as set out in the ForexClear Service Procedures.

would occur where the FX Spot Reference equals or exceeds the agreed price (or strike price) in the case of a call option (i.e. right to buy), or vice versa in the case of a put option (right to sell).

In order to meet a Clearing Members' request, LCH proposes to change its rules so that, where the FX Spot Reference equals the strike price, LCH will expire the put option, as there is no gain for the Clearing Member. It will remain the case that the call option will be exercised at the strike price.

The rule changes will go live on, or after, December 6, 2018.

## **Part II: Description of Rule Changes**

### Calendar adjustments

The Procedures Section 2I ("ForexClear Clearing Service") include some minor changes under section 1.3.12 (a) ("Holiday Event Calendar") to clarify LCH's discretion to make calendar adjustments in the ForexClear system, in the event of holidays, notwithstanding the SwapsMonitor Financial Calendar.

### Exercise of a put option

The Procedures Section 2I ("ForexClear Clearing Service") include changes in section 1.17 ("Automatic Exercise of ForexClear Option Contracts") to clarify where the automatic exercise of a ForexClear Option Contract will apply depending on whether it is a call or a put option.

The texts of the changes are attached hereto as:

**Appendix I** – Procedures 2I (Calendar adjustments)

**Appendix II** – Procedures 2I (Expiry of put option)

## **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**

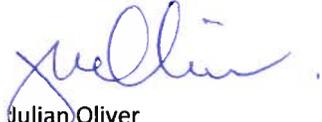
There were no opposing views expressed to LCH by governing board or committee members, members of LCH or market participants that were not incorporated into the rule.

**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](mailto:julian.oliver@lch.com).

Yours sincerely,



Julian Oliver

Chief Compliance Officer

LCH Limited

**Appendix I**

Procedures Section 21 (ForexClear Clearing Service)  
(Calendar adjustments)



**LCH LIMITED**

**PROCEDURES SECTION 2I**

**FOREXCLEAR CLEARING SERVICE**

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that ForexClear NDF Contract, or (ii) all the NPV Payments required pursuant to the ForexClear NDF STM Terms of that ForexClear NDF Contract shall satisfy the relevant party's obligation to pay the Settlement Currency Amount on the Settlement Date of such ForexClear NDF Contract. For the purpose of providing Nostro reconciliations, to the relevant parties, the Clearing House will provide Reporting (as defined in Section 1.7 (*ForexClear Reporting*)) which will reflect an entry for the "**Settlement Currency Amount**" and a separate entry for the reversal of the aggregate net variation margin or NPV Payments which have been paid/received through the term of the ForexClear NDF Contract. This paragraph applies even if the Settlement Date has been adjusted in accordance with the ForexClear NDF Contract Terms.

- 1.3.11 *Portfolio Management*: The Clearing House allows portfolios of ForexClear Contracts to be transferred between FXCCMs (e.g., in the event of merger, or where agreed between the relevant FXPs).

The portfolio transfer capability allows the transfer of:

- (a) A single ForexClear Contract.
- (b) Part of an FXCCM's portfolio (which includes the ability to transfer ForexClear Contracts to various other FXCCMs, e.g. Bank A to Bank B for USD/RUB, Bank A to Bank C for USD/KRW and Bank A to Bank D for USD/BRL).
- (c) Portfolio transfer (i.e. the transfer of all or just one of the portfolios belonging to an FXCCM).
- (d) Multiple portfolio transfers (i.e. the transfer of several portfolios of an FXCCM).

The Clearing House will carry out the portfolio transfer. For transfers under (b), (c) and (d), this can be on either (i) a ForexClear Contract by ForexClear Contract basis, or (ii) in respect of ForexClear NDF Contracts, on a Currency Pair basis.

Before the completion of a portfolio transfer, the Clearing House will perform a margin impact analysis of the transfer to the source and destination portfolios. The Clearing House will advise the relevant FXCCM regarding any additional Collateral that may be required in order to complete the portfolio transfer.

- (e) *Legal Documentation*: The transfer of ForexClear Contracts will be documented in accordance with the standard legal documentation for the transfer of ForexClear Contracts provided by the Clearing House to FXPs. Any such transfer must be authorised by all relevant parties and executed by individuals with appropriate signing authority.

- 1.3.12 *Reference Data*

- (a) *Holiday Event Calendar*:

The ForexClear Service uses the SwapsMonitor Financial Calendar (as published by Swaps Monitor Publications, INC.) (“**SwapsMonitor Financial Calendar**”) in order to determine holidays. This requires all ForexClear Participants to be licensees of the SwapsMonitor Financial Calendar.

If a change is declared that affects the SwapsMonitor Financial Calendar ~~that is referenced on ForexClear then, subject to paragraph (b) below, then~~ a corresponding calendar adjustment will be made ~~to~~ in the ForexClear system, unless the Clearing House ~~informs~~ notifies FXCCMs ~~by notice on its website (at <https://www.lch.com/services/forexclear>, or such other web page as the Clearing House determines) otherwise~~ that the relevant change will not apply to ForexClear Contracts. ~~a corresponding calendar adjustment will be made to the ForexClear system.~~ The Clearing House may temporarily close the ForexClear Service to process a calendar adjustment in its clearing system. FXCCMs will be notified in advance of the date, time and expected duration of such closure.

(b) *Date Adjustment:*

As a result of the calendar adjustment process, (i) the Valuation Date and/or the Settlement Date of any affected ForexClear NDF Contracts will automatically be date adjusted in accordance with the provisions of the Relevant EMTA Template or given LCH G10 NDF Contract Template, as applicable and (ii) the Settlement Date of any affected ForexClear Spot Contract, ForexClear Swap Contract, ForexClear Deliverable Forward Contract, or ForexClear Option Contract and the Premium Payment Date of any affected ForexClear Option Contract will automatically be date adjusted in accordance with the Following Business Day Convention, as detailed in the ~~ISDA definitions~~ Relevant EMTA Template.

Without limiting the foregoing, the Clearing House reserves the right to amend the Valuation Date and/or Settlement Date of a ForexClear Contract to reflect or account for a public holiday (or anticipated public holiday), in its sole discretion.

The Clearing House will notify the FXCCMs ~~via file download from the Clearing Member Reporting of any date adjustments made to as to any ForexClear NDF Contract, ForexClear Spot Contract, ForexClear Swap Contract, ForexClear Deliverable Forward Contract, or ForexClear Option Contract affected and the date adjustments made~~ ForexClear Contract.

## 1.4 Market Data

- 1.4.1 *Sources used by ForexClear Service:* With respect to each ForexClear Contract, the ForexClear Service collates instrument quotes for the following from multiple market sources (as detailed in Section 1.4.2 (*Market Data Sources and Frequencies*)) in relation to each Currency Pair or ForexClear Currency Pair:

**Appendix II**

Procedures Section 21 (ForexClear Clearing Service)

(Expiry of put option)



**LCH LIMITED**

**PROCEDURES SECTION 2I**

**FOREXCLEAR CLEARING SERVICE**

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- 1.16.2 In the event that an exercise and expiry agent is not able to facilitate or communicate the exercise of (or intent to exercise) a ForexClear Option Contract for any reason whatsoever, and the Clearing House becomes aware of such failure to facilitate or communicate, the Clearing House will notify the relevant ForexClear Clearing Members of such failure and may provide details of one or more alternative exercise methods.
- 1.16.3 Exercise and expiry agents may be designated by the Clearing House from time to time and such agents shall be published on the Clearing House's website.
- 1.16.4 Neither the Clearing House nor any other member of the LCH Group shall have any liability whatsoever to any ForexClear Clearing Member or any other person, including any Clearing Client, in contract, tort (including negligence), trust, as a fiduciary or under any other cause of action in respect of any liabilities, damages, losses, costs or expenses of whatsoever nature suffered or incurred by a ForexClear Clearing Member or any other person, including any Clearing Client, as a result of (a) any failure by the Clearing House to provide notice pursuant to Section 1.16.2 or (b) any failure of an exercise and expiry agent to communicate the exercise of (or intent to exercise) a ForexClear Option Contract to the Clearing House.

#### 1.17 Automatic Exercise of ForexClear Option Contracts

- 1.17.1 -In relation to a ForexClear Option Contract, if, at the Expiration Time on the Expiration Date of that ForexClear Option Contract, the ForexClear Option Contract has not been exercised by the relevant ForexClear Clearing Member or the Clearing House, as the case may be, then it will be deemed exercised as of that time if the In-the-Money Amount of that ForexClear Option Contract at the Expiration Time equals (in the case of a Call) or exceeds (in the case of a Call or Put) the product of:
- (a) -the number of basis points as published on the Clearing House's website from time to time as being applicable to the ForexClear Currency Pair referenced in that ForexClear Option Contract; and
  - (b) the Call Currency Amount or the Put Currency Amount, as appropriate,
- in each case as calculated at or immediately prior to the Expiration Time on the Expiration Date of the given ForexClear Option Contract.
- 1.17.2 For the purposes of Section 1.17.1, the Clearing House may change the number of basis point applicable to any ForexClear Currency Pair by giving three Business Days' prior notice to the ForexClear Option Clearing Members (or such shorter notice period as determined by the Clearing House following consultation with ForexClear Option Clearing Members).
- 1.17.3 If the Clearing House receives an instruction from a ForexClear Clearing Member, including via any third party intent agent or middleware provider, before the applicable Expiration Time on the Expiration Date such instruction will in all circumstances be acted upon notwithstanding any administrative, systems or processing delays that may affect the Clearing House immediately