

VIA CFTC PORTAL

15 Aug 2016

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

LCH.Clearnet Limited Self Certification: Extension of Variation Margin settlement to client contracts and allowing partial conversion of contracts from Collateralised-to-Market (“CTM”) to Settled-to-Market (“STM”).

Dear Mr Kirkpatrick,

Pursuant to Commodity Futures Trading Commission (the “CFTC”) Regulation §40.6(a), LCH.Clearnet Limited (“LCH”), a derivatives clearing organization registered with the CFTC, is submitting for self-certification changes to its rules which will allow SwapClear Clearing Members (“SCMs”) to elect to change the characterisation of their SwapClear client contracts from CTM to STM and to allow partial conversion of SCM house and client contracts from CTM to STM.

As an earlier phase of this change, on November 18, 2015, LCH had submitted for self-certification changes to rules allowing full conversion of SCM house contracts only.

As earlier, the new rule changes are not applicable to Futures Commissions Merchants (“FCMs”).

Part I: Explanation and Analysis

LCH is proposing rule changes which will allow SCMs to opt to change their client contracts from the current form (CTM contract) to STM. The rule changes will also allow the SCMs to partially convert their house and client CTM contracts to STM. SCMs will be able to select a group of contracts to convert to the STM structure from the existing CTM structure. Once converted to STM, members and clients cannot convert the contract back to CTM.

The earlier phase of this initiative, the rule changes for which were self-certified in November 2015, only allowed the SCMs to convert their house contracts. In addition, the rule changes did not permit partial conversion of contracts.

As context, a CTM contract operates on the basis of collateral in the form of variation margin being held in relation to the mark-to-market of the original swap transaction throughout its life. An STM contract is structured such that (i) all of the outstanding transaction exposure of either LCH or the SCM that arises from such a contract are fully and finally settled on a daily basis, and (ii) the terms of such STM contract are reset daily so that the market value of such STM contract will be zero at each point at which the terms are so reset.

The rule changes will allow only SCMs to make this conversion. Once a contract has been converted it cannot be converted back.

In addition, LCH is proposing a rule change to remove the requirement that the SCM request this conversion in written form only; instead, to request in a form that is permitted by LCH in its discretion.

These rule changes are not applicable to FCMs.

The changes will go live on, or after, September 12, 2016.

Part II: Description of Rule Changes

General Regulations

Regulation 57A (Settlement of SwapClear STM contracts and conversion to SwapClear STM contracts)

Regulation 57A sets out how SCMs can make a STM Conversion Request, in order to request that its contracts be converted. Sub-section (m) of Regulation 57A has been amended to remove the requirement that the SCM request this conversion in written form only; instead, to request in a form that is permitted by LCH in its discretion from time to time.

Regulation 57B (Transitional Provisions applicable to SwapClear STM contracts)

Regulation 57B set out transitional provisions applicable to STM Contracts and requires that any request be made in respect of all house contracts. This has been deleted in its entirety thus allowing requests to be made in respect of client contracts as well and allowing partial conversion of house and client contracts.

The text of the changes to General Regulations is attached hereto as **Appendix I**.

Part III: Core Principle Compliance

LCH has concluded that compliance with the Core Principles will not be adversely affected by these changes.

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.Clearnet Limited

Appendix I
General Regulations



**GENERAL REGULATIONS OF
LCH.CLEARNET LIMITED**

- (k) On each Business Day the Clearing House shall, to the extent that the following amounts are payable in the same currency and in respect of the same Client Account or the same Proprietary Account (as applicable) aggregate the amount that is payable by either the SwapClear Clearing Member or the Clearing House following the operation of the payment netting provision under Regulation 57(d) and the amount that is payable by either the SwapClear Clearing Member or the Clearing House following the operation of the payment netting provision under Regulation 57A(j), and only the excess of the larger amount over the smaller amount 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.
- (l) The Clearing House and the SwapClear Clearing Member agree that satisfaction of the payment obligation arising under the SwapClear STM Terms by either party shall discharge such obligation for the purpose of settling the then outstanding exposure under a SwapClear STM Contract.
- (m) A SwapClear Clearing Member (a **Converting SwapClear Clearing Member**) may, from time to time, submit a request, in such form as permitted by ~~written request~~ the Clearing House from time to time in its sole discretion, or in the case of a compression of the type described in Regulation 56(c)(iii) or Regulation 56(e)(iv)(A) a SwapClear Clearing Member shall be deemed to have submitted a written request (each such request, an **STM Conversion Request**) to the Clearing House requesting that the Clearing House converts one or more of its open SwapClear CTM Contracts to SwapClear STM Contracts. Such request shall identify those SwapClear CTM Contracts (the **STM Conversion Contracts**) which the SwapClear Clearing Member wishes to be converted to SwapClear STM Contracts. No open SwapClear CTM Contract shall be converted into a SwapClear STM Contract except as provided in this Regulation 57A or the Procedures.
- (n) Following its receipt of an STM Conversion Request made (or deemed to have been made) by a Converting SwapClear Clearing Member pursuant to (m) above, the Clearing House may, in its sole and absolute discretion, nominate a Business Day (the **STM Conversion Date**) from, and including which, some or all of the STM Conversion Contracts shall, subject to the satisfaction of the conditions specified in (o) below, cease to be registered as SwapClear CTM Contracts and shall immediately and automatically become registered as SwapClear STM Contracts which are subject to this Regulation 57A and the SwapClear STM Terms. For the avoidance of doubt, if the Clearing House determines that it shall convert a SwapClear CTM Contract into a SwapClear STM Contract, such conversion shall be effected through the Clearing House and the Converting SwapClear Clearing Member agreeing to a modification of the terms of the relevant STM Conversion Contract, and such conversion shall not be effected through the Clearing House and the Converting SwapClear Clearing Member terminating the relevant STM Conversion Contract and entering into a new SwapClear STM Contract.
- (o) The occurrence of an STM Conversion Date in respect of an STM Conversion Contract shall be subject to the condition precedent that:
- (i) the Converting SwapClear Clearing Member is not a Defaulter;

~~**REGULATION 57B TRANSITIONAL PROVISIONS APPLICABLE TO SWAPCLEAR STM CONTRACTS**~~

- ~~(a) This Regulation 57B shall apply until SwapClear Clearing Members are otherwise notified by the Clearing House.~~
- ~~(b) Notwithstanding Regulation 55(b), no SwapClear Clearing Member shall be entitled to elect that any of its then open SwapClear Contracts or future SwapClear Contracts be registered as SwapClear STM Contracts, unless such an election is made in respect of all of its then open SwapClear Contracts and future SwapClear Contracts that are, or will be, recorded in its Proprietary Account. For as long as this Regulation 57B is applicable, any purported election that is not permitted in accordance with this Regulation 57B shall be void, and the Clearing House shall be entitled to treat it as such.~~
- ~~(c) Notwithstanding Regulation 57A(m), and without prejudice to the right of a SwapClear Clearing Member to request a conversion in connection with an election of the type permitted under (b) above, no SwapClear Clearing Member shall be entitled to deliver (or be deemed to have delivered) a STM Conversion Request in respect of any SwapClear CTM Contract.~~