

VIA CFTC PORTAL

13 June 2017

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

LCH Limited Self-Certification: Rule Changes on Compression Services Fees and Payments for Portfolio Transfers

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 its rules related to i) the processing of ancillary Compression fees and ii) the requirement for Clearing Members to make payments related to portfolio transfers.

Part I: Explanation and Analysis

As part of their participation in the SwapClear Compression services, Clearing Members or Customers may agree between themselves on ancillary Compression fees or payments. LCH proposes to change its rules to support the processing of such fees or payments; but, where it agrees to do so, it accepts no liability in relation to this administrative process.

Separately, LCH proposes a clarifying change in the context of portfolio transfers providing that LCH may require a Carrying Clearing Member (i.e. the entity transferring the contracts) to make a payment, other than the transfer of associated collateral. These may include fees or coupon payments.

The changes will go live on, or after, June 28, 2017.

Part II: Description of Rule Changes

Regulation 56 (o) of the General Regulations has been changed to refer to the ability of LCH to process ancillary Compression fees or payments agreed upon by the participating Clearing Members or Customers, while accepting no liability for such process. An equivalent change has been made to Regulation 46 (m) (xiv) of the FCM Regulations.

Further, Procedures Section 2C (SwapClear Clearing Service) have been amended in section 1.15.5 (j) (Conditions Precedent to Permitted Transfer) to require Carrying Clearing Members to fulfil any required payments associated with a portfolio transfers. There is no change required in the FCM Procedures because these cross-reference the Procedures Section 2C in respect to portfolio transfers, including the conditions required to effect the transfers.

The texts of the above changes are attached hereto as:

- **Appendix I** – General Regulations
- **Appendix II** – FCM Regulations
- **Appendix III** – Procedures Section 2C

Part III: Core Principles Compliance

LCH has reviewed the changes to its rules against the Core Principles and finds that these 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 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



**GENERAL REGULATIONS OF
LCH LIMITED**

- (ii) shall meet any margin calls from the Clearing House made prior to the Compression Time, and shall pay to the Clearing House any amounts that have become due and payable to the Clearing House under the SwapClear STM Terms at or prior to the Compression Time, in connection with the Multilateral Compression Cycle. Any such margin will be called, and any such amounts shall be paid, in accordance with the Procedures; and
 - (iii) is bound by the terms of the Compression Proposal and the terminations and, where applicable, registrations of SwapClear Contracts comprised therein.
- (l) Following acceptance of the Compression Proposal by all participating Compression Clearing Members, the Clearing House shall effect Multilateral Compression at such time as it may determine. For the avoidance of doubt, the irrevocable acceptance of a Compression Proposal by participating Compression Clearing Members shall not bind or require the Clearing House to proceed with a Multilateral Compression Cycle. At any time prior to the Compression Time, the Clearing House may, in its sole and absolute discretion, decide not to proceed with a Multilateral Compression Cycle.
- (m) Without prejudice to the rights of the Clearing House set out in paragraph (l) above, a Compression Proposal shall be rejected by the Clearing House if:
- (i) a Compression Clearing Member that has accepted a Compression Proposal is not eligible to participate in the relevant Multilateral Compression Cycle;
 - (ii) any of the SwapClear Contracts included as a Post-Multilateral Compression Contract or a Terminating SwapClear Contract are not eligible for such Multilateral Compression Cycle;
 - (iii) in relation to a Member Compression Cycle, the proposals submitted by the relevant Compression Clearing Members do not match; or
 - (iv) any Compression Clearing Member due to participate in a Multilateral Compression Cycle rejects the Compression Proposal or does not provide the margin, or make any other payments, as required by the Clearing House (a “**Rejecting Compression Clearing Member**”).
- (n) When the Clearing House effects a Multilateral Compression, it shall terminate all Terminating SwapClear Contracts and, where the Multilateral Compression includes the registration of Post-Multilateral Compression Contracts, simultaneously with and contingent upon the termination of such Terminating SwapClear Contracts, shall register the Post-Multilateral Compression Contracts in the name of the relevant Compression Clearing Members (either in their respective Proprietary Account or Client Account, as applicable). The Clearing House shall notify the participating Compression Clearing Members once the Multilateral Compression has been effected. Compression Clearing Members are responsible for providing notifications to SwapClear Clearing Clients.
- (o) Unless otherwise stated in the relevant Compression Documentation, ~~The~~ the Clearing House shall have no involvement in and accepts no responsibility or liability in relation to any Multilateral Compression-related balancing, termination or ancillary payments or fees that participating Compression Clearing Members (or SwapClear

Clearing Clients) may agree between themselves in accordance with relevant Compression Documentation or otherwise. In the event the Clearing House agrees to participate in the processing of ancillary payments or fees pursuant to the relevant Compression Documentation, the Clearing House accepts no liability to any Compression Clearing Member, SwapClear Clearing Client or third party in connection with or related to the processing of such ancillary payments or fees.

- (p) Without prejudice to any other provisions of these Regulations, in particular Regulation 45, or any Compression Documentation, neither the Clearing House, nor any other member of LCH.Clearnet Group shall have any liability whatsoever to any Compression Clearing Member or to any other person (including any SwapClear Clearing Client) in contract, tort (including, without limitation, negligence), trust, as a fiduciary or under any other cause of action in respect of any damages, losses, costs or expenses of whatsoever nature suffered or incurred by a Compression Clearing Member or any other person (including any SwapClear Clearing Client), as the case may be:
- (i) as a result of any action the Clearing House takes under this Regulation 56, whether in accordance with a Compression Proposal, in reliance on information provided by Compression Clearing Members or any ACSP or otherwise;
 - (ii) in relation to an ACSP Compression Cycle, as a result of any action or omission of an ACSP, including, without limitation, any error or omission in the terms of any Compression Proposal; or
 - (iii) in relation to any Multilateral Compression Cycle, as a result of any action or omission of a participating Compression Clearing Member, including, without limitation, any error or omission in the terms of any Compression Proposal.
- (q) An ACSP's liability in respect of its acts or omissions is subject to the relevant terms of the applicable Compression Documentation.
- (r) Any notification or communication required in connection with a Multilateral Compression Cycle shall be made in accordance with the Compression Documentation (if any) or, if not specified in the Compression Documentation, the Procedures or such other guidance as the Clearing House may provide from time to time.
- (s) Notwithstanding any other provision of these Regulations or the terms of the SwapClear Contracts, the Clearing House may disclose details of any Compression Proposal and related details of Compression Clearing Members including (with respect to their Proprietary Accounts and Client Accounts) to any ACSP or otherwise as the Clearing House considers appropriate in order to facilitate a Multilateral Compression Cycle.
- (t) Where a Clearing Member is a Rejecting Compression Clearing Member with respect to a Multilateral Compression Cycle and acting with respect to one or more of its Client Accounts, the Clearing House may, in its sole discretion, prevent such Clearing Member from participating in future Multilateral Compression Cycles with respect to

Appendix II
FCM Regulations



FCM REGULATIONS OF THE CLEARING HOUSE

LCH LIMITED

- (B) any of the FCM SwapClear Contracts included as a Post-Multilateral Compression Contract or a Terminating SwapClear Contract are not eligible for such Multilateral Compression Cycle;
 - (C) in relation to a Member Compression Cycle, the proposals submitted by the relevant Compression Clearing Members do not match;
 - (D) any Compression Clearing Member due to participate in a Multilateral Compression Cycle rejects the Compression Proposal or does not provide the margin, or make any other payments, as required by the Clearing House (a “**Rejecting Compression Clearing Member**”); or
 - (E) a Compression Clearing Member has provided or accepted instruction in respect of an FCM Client that is not an Authorised Compression Client.
- (xiii) When the Clearing House effects a Multilateral Compression, it shall terminate all Terminating FCM SwapClear Contracts and, where the Multilateral Compression includes the registration of Post-Multilateral Compression Contracts, simultaneously with and contingent upon the termination of such Terminating FCM SwapClear Contracts, shall register the Post-Multilateral Compression Contracts in the name of the relevant Compression Clearing Members (either in their respective Proprietary Account or FCM Client Sub-Account, as applicable). The Clearing House shall notify the participating Compression Clearing Members once the Multilateral Compression has been effected. Compression Clearing Members are responsible for providing notifications to Authorised Compression Clients.
- (xiv) Unless otherwise stated in the relevant Compression Documentation, the Clearing House shall have no involvement in and accepts no responsibility or liability in relation to any Multilateral Compression-related balancing, termination or ancillary payments or fees that participating Compression Clearing Members (or Authorised Compression Clients) may agree between themselves in accordance with relevant Compression Documentation or otherwise. In the event the Clearing House agrees to participate in the processing of ancillary payments or fees pursuant to the relevant Compression Documentation, the Clearing House accepts no liability to any Compression Clearing Member, FCM Client or third party in connection with or related to the processing of such ancillary payments or fees.
- (xv) Without prejudice to any other provisions of these FCM Regulations, in particular FCM Regulation 37, or any Compression Documentation, neither the Clearing House nor any other member of LCH.Clearnet Group shall have any liability whatsoever to any Compression Clearing Member or to any other person (including any FCM Client) in contract, tort (including, without limitation, negligence), trust, as a fiduciary or under any other cause of action in respect of any damages, losses, costs or expenses of whatsoever nature suffered or incurred by a Compression Clearing Member or any other person (including any FCM Client), as the case may be:

Appendix III
Procedures Section 2C



LCH LIMITED

PROCEDURES SECTION 2C

SWAPCLEAR CLEARING SERVICE

Carrying Clearing Member shall not be permitted to submit additional SwapClear Contracts in the Transfer Account of the Eligible Transferor whose SwapClear Contracts are to be subject to transfer until the time at which the relevant transfer (including the transfer of any relevant Associated Collateral Balance, if applicable) is actually effected, fails or is rejected in accordance with Regulation 60 (*Transfer*) and these Procedures.

1.15.4 *Transfer Notice Period*

The timing for Transfer Requests pursuant to Regulation 60 (*Transfer*) and this Section 1.15 will be as prescribed by the Clearing House by way of a member circular.

1.15.5 *Conditions Precedent to Permitted Transfer*

It is a condition precedent to any Permitted Transfer from the Transfer Account of an Eligible Transferor to the Transfer Account of an Eligible Transferee pursuant to Regulation 60 (*Transfer*) and this Section 1.15 that:

- (a) the transfer is a Permitted Transfer as defined in Section 1.15.2;
- (b) the Receiving Clearing Member has provided the Clearing House with:
 - (i) a Transfer Request in the form and manner prescribed by the Clearing House; and
 - (ii) such evidence of the authorisation of the Permitted Transfer by the Eligible Transferor, Eligible Transferee and SwapClear Clearing Client, as applicable as the Clearing House may require in its sole discretion;
- (c) neither the Eligible Transferor nor the Eligible Transferee nor the SwapClear Clearing Client, as applicable, has become insolvent (each Eligible Transferor, Eligible Transferee and SwapClear Clearing Client, as the case may be, will be presumed to be solvent by the Clearing House unless evidenced to the contrary by the Carrying Clearing Member in the manner reasonably determined by the Clearing House);
- (d) neither the Carrying Clearing Member nor the Receiving Clearing Member is a Defaulter;
- (e) such transfer would not violate or result in the violation of any Applicable Law or regulation, including:
 - (i) the authorisation, registration or other regulatory requirements, if any, that may apply to the Receiving Clearing Member as a consequence of the transfer; and

- (ii) where the transfer leads to a change in beneficial ownership, the requirements, if any, that may apply to the method of execution by which the Eligible Transferor has sold the Transferring SwapClear Contracts to the Eligible Transferee;
- (f) the Eligible Transferor, Eligible Transferee, the Receiving Clearing Member, the Carrying Clearing Member and SwapClear Clearing Client, as applicable, have each executed all documents necessary or required by the Clearing House in order to effect such transfer (including, where applicable, a Security Deed, Deed of Charge, Clearing Membership Agreement and/or a Clearing Agreement);
- (g) the Receiving Clearing Member has consented to the transfer of the Transferring SwapClear Contracts and, where relevant, the Associated Collateral Balance(s);
- (h) the Receiving Clearing Member has transferred (or has made available) sufficient Collateral to the Clearing House in respect of its current SwapClear Contracts and the Transferring SwapClear Contracts;
- (i) the Carrying Clearing Member has not rejected such transfer in accordance with Section 1.15.6 (it being presumed that the Carrying Clearing Member has not so rejected the transfer unless evidenced to the contrary by the Carrying Clearing Member in accordance with this Section 1.15 or as otherwise reasonably determined by the Clearing House); and
- (j) in the event that the transfer will lead to a requirement for the Carrying Clearing Member to transfer (or make available) additional Collateral or any other payment to the Clearing House, the Carrying Clearing Member transfers sufficient Collateral or makes such payment to the Clearing House.

In the event that any of the conditions set forth above are not satisfied, including where the Carrying Clearing Member notifies the Clearing House that certain conditions have not been satisfied in a manner reasonably acceptable to the Clearing House, the Clearing House shall not proceed with the transfer of the Transferring SwapClear Contracts or, if applicable, the transfer of any Associated Collateral Balance, and shall promptly notify the Receiving Clearing Member of such outcome. If the Receiving Clearing Member wishes to proceed with such transfer or any other transfer of Transferring SwapClear Contracts of the Eligible Transferor(s), it shall be required to submit a new Transfer Request in accordance with these Procedures.

By requesting a transfer of the Transferring SwapClear Contracts from the Transfer Account of an Eligible Transferor and, if applicable, the Associated Collateral Balance(s) pursuant to this Section 1.15, the Receiving Clearing Member shall be deemed to have represented to the Clearing House that all of the conditions to such transfer set forth herein have been satisfied.