

VIA CFTC PORTAL

12 September 2018

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

LCH Limited Self-Certification: Inflation Swaps – Reporting Threshold Amounts

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 to set reporting thresholds above which clearing members are required to provide inflation market data for inflation rate swaps.

Part I: Explanation and Analysis

At intervals during each business day LCH takes snaps of market data that it receives from clearing members in respect of each currency and index. This change (i) codifies the reporting threshold amounts above which clearing members are required to provide market data to LCH for a given inflation index and (ii) provides that LCH may lower the relevant thresholds in the event there is insufficient market data for the relevant index.

The rule changes will go live on, or after, 27 September 2018.

Part II: Description of Rule Changes

Regulation 60A of the General Regulations provides that the reporting threshold amount for an inflation index is set out in the Procedures and grants LCH the right to prescribe a lower reporting threshold, if necessary. Section 1.31 (Provision of Market Data) of Procedures Section 2C provides the reporting threshold amounts for each index.

The texts of the rule changes are attached hereto as:

- i. **Appendix I**, General Regulations
- ii. **Appendix II**, Procedures Section 2C

Part III: Core Principle Compliance

LCH has reviewed the changes against the requirements of the Core Principles and finds it 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



**GENERAL REGULATIONS OF
LCH LIMITED**

REGULATION 60A INFLATION SWAPS

- (a) This (a) should be read separately for each index identified in the Product Specific Contract Terms and Eligibility Criteria Manual as an acceptable index for vanilla inflation rate swaps (each an “**Index**”) and, in respect of each SwapClear Clearing Member or Inflation Clearing Group (as applicable), with regards to each Index in respect of which the SwapClear Clearing Member clears or intends to clear, or the Group Members of the relevant Inflation Clearing Group clear or intend to clear, an Inflation SwapClear Contract through the Clearing House.
- (b) Each SwapClear Clearing Member represents and warrants that it has the capacity, power and authority under all Applicable Law to enter into, to exercise its rights and to perform its obligations in relation to the Inflation SwapClear Contracts registered in its name.
- (c) In respect of each quarter (the start dates of the quarters being 1 January, 1 April, 1 July and 1 October in each year (each a “**Quarter Start Date**”), the Clearing House will determine which Inflation Clearing Groups shall be required to provide Market Data during the relevant quarter, as set out below:
- (i) Each SwapClear Clearing Member clearing Inflation SwapClear Contracts is combined in a group with those of its affiliates (if any) who also clear Inflation SwapClear Contracts (each such group being an “**Inflation Clearing Group**”) and each SwapClear Clearing Member that is a member of an Inflation Clearing Group being a “**Group Member**”). For the avoidance of doubt, an Inflation Clearing Group may consist of one or more Group Members.
 - (ii) The Clearing House will calculate, on each Quarter Start Date and for each Inflation Clearing Group, the aggregate of all Inflation SwapClear Contracts referencing each particular Index cleared, over the course of the immediately preceding 12 months, through the Proprietary Accounts of the Group Members of that Inflation Clearing Group (the “**Inflation Clearing Group Aggregate**”).
 - (iii) Where the Inflation Clearing Group Aggregate of an Inflation Clearing Group in respect of a particular Index on a particular Quarter Start Date exceeds the Reporting Threshold Amount, each Group Member of that Inflation Clearing Group (each a “**Market Data Provider**”) will be required to provide Market Data in respect of that Index for the duration of the quarter in question in accordance with (f)(i). An Inflation Clearing Group, acting through one of its Group Members, shall be entitled to request a deferral of such obligation, on a one-off basis on the first occasion that the obligation arises in respect of the relevant Index, until the Quarter Start Date of the quarter immediately following the quarter in question.
 - (iv) If for any quarter there are to be less than 8 Inflation Clearing Groups to which (f)(i) applies in respect of a particular Index (or such lower number of Inflation Clearing Groups as the Clearing House may from time to time consider sufficient to allow it to produce Inflation Derived Data that is fair and representative of the pricing level of the relevant Index), the Clearing House may: (i) require any Inflation Clearing Group to which (f)(i) applied in the

prior quarter and which includes at least one Group Member who continues to enter into a non-trivial number of Inflation SwapClear Contracts referencing the relevant Index (as determined by the Clearing House in its sole discretion) to continue to comply with the obligations set out in (f)(i) in respect of that Index, notwithstanding that it may otherwise not be required to do so; or (ii) where the course of action outlined in (i) is not possible or would not be sufficient to ensure that an adequate number of Inflation Clearing Groups provide Market Data in relation to the relevant Index in accordance with (f)(i), require an Inflation Clearing Group requesting a deferral in accordance with (c)(iii) above to start complying with the relevant obligation to provide Market Data from an earlier date.

- (d) If, on a Quarter Start Date or on the date of launch of a new Index, the Clearing House has insufficient data for the purposes of calculating an Inflation Clearing Group Aggregate, it shall make its determinations on the basis of the following:
- (i) in respect of Inflation SwapClear Contracts referencing a particular Index which were not eligible for clearing by the Clearing House for some or all of the immediately preceding 12 month period, the Clearing House shall determine the Inflation Clearing Group Aggregate of each relevant Inflation Clearing Group by estimating what it would have been, had the relevant Inflation SwapClear Contracts been eligible for clearing for all of such period; and
 - (ii) when the Clearing House wishes to launch a new Index, it shall reasonably determine the Inflation Clearing Group Aggregate of each Inflation Clearing Group with at least one Group Member who has informed the Clearing House that it intends to transact in Inflation SwapClear Contracts referencing the relevant new Index.

Any determination made by the Clearing House as to the Inflation Clearing Group Aggregate of an Inflation Clearing Group for which the Clearing House does not have the requisite data shall be made by the Clearing House applying, in its opinion, the most suitable methodology, which will, wherever possible, be based on the relevant Group Members' volume of business and trading patterns in relation to the relevant Index (where available) and, otherwise, any other Index that the Clearing House deems to be relevant. Any determination made by the Clearing House pursuant to Regulation 60A shall be final and binding.

- (e) For the purposes of this ~~(a)Regulation 60A~~, the reporting threshold in respect of an Index (the “**Reporting Threshold Amount**”) shall be ~~250 of such lower number as the Clearing House may from time to time apply in order to set forth in the Procedures, provided that the Clearing House may from time to time (upon reasonable prior notice) prescribe a lower Reporting Threshold Amount to~~ ensure that the number of Inflation Clearing Groups providing Market Data in accordance with (f)(i) in relation to ~~that an~~ Index will be ~~at least 8~~ no fewer than eight (8) (or such lower number that the Clearing House considers sufficient, as described in (c)(iv) above).
- (f) Each relevant Inflation Clearing Group required to provide Market Data to the Clearing House shall do so in accordance with the following procedures:

Appendix II
Procedures Section 2C



LCH LIMITED

PROCEDURES SECTION 2C

SWAPCLEAR CLEARING SERVICE

All fees and other payments payable under the Clearing House's rules are exclusive of sales tax, purchase or turnover tax, levies, duties and their equivalent in each jurisdiction, which, if applicable, shall be payable by SwapClear Clearing Members at the applicable rate in force at the given time.

1.30 Approved Compression Services Providers

Applicants for Approved Compression Services Provider status should contact ratesclientservices@lch.com. Approved Compression Services Providers will be required to meet the requirements of the Clearing House from time to time, including the provision of relevant information, execution of documents, and proof of operational capabilities. A list of Approved Compression Services Providers currently approved by the Clearing House is available on the Clearing House's website. Where the Clearing House approves additional Approved Compression Services Providers, it will notify Clearing Members via member circular.

Notwithstanding the designation by the Clearing House of any applicant as an Approved Compression Services Provider, the Clearing House makes no warranty (and will accept no liability) as to the effectiveness, efficiency, performance or any other aspect of the services provided by any Approved Compression Services Provider. Such matters form part of the relationship between the Clearing Members and that Approved Compression Services Provider.

1.31 Provision of Market Data

1.31.1 Provision of Market Data

The provisions of this Section 1.31 ~~should be read~~apply separately in respect of each Index.

Inflation Clearing Groups who exceed the Reporting Threshold Amount applicable to an Index are required to submit Market Data to the Clearing House in accordance with Regulation 60A and the provisions of this Section 1.31.

The Reporting Threshold Amount for each Index is as follows:

	EUR	FRF	GBP	USD
Threshold	1000	250	1000	500

provided that the Clearing House may from time to time (upon prior reasonable notice) prescribe a lower Reporting Threshold Amount for a given Index in its sole discretion in accordance with Regulation 60A.

At intervals during each Inflation Swap Business Day in respect of an Index, the Clearing House will take snaps of Market Data that it receives from Inflation Clearing Groups in respect of that Index. An Inflation Clearing Group may update its Market Data outside of an Inflation Swap Business Day for a particular Index. The timings for the close of business data snaps shall be published in the Inflation Swaps Operational Specifications.

If either the Clearing House or an Inflation Clearing Group believes that, for whatever reason, the data provided by the Inflation Clearing Group on a particular date is not representative of market prices, including due to technical issues, software failure or other data corruption (any such data, “**Corrupted Data**”), that party shall notify the other party as soon as reasonably practicable. Following a notification pursuant to this paragraph, the relevant Inflation Clearing Group shall promptly take such action as the Clearing House may reasonably require (after consulting with the Group Member of that Inflation Clearing Group who provided the relevant Market Data) to remedy the relevant data corruption issue(s). In no circumstances will Corrupted Data constitute Market Data for the purposes of Regulation 60A(f)(i). In the event that the provision of Corrupted Data is caused by the Inflation Clearing Group and the Inflation Clearing Group fails to resubmit corrected Market Data before the Clearing House calculates the SwapClear End of Day Price, the Clearing House will treat the provision of Corrupted Data as a failure to submit Market Data in respect of the relevant day for the purposes of Section 1.31.2 below and, based on the circumstances surrounding the provision of Corrupted Data and in its sole discretion, may deliver to the relevant Nominated Group Member of the Inflation Clearing Group a Market Deviation Notice. Notwithstanding the foregoing and with respect to an Index, the Clearing House will always issue a Market Deviation Notice to an Inflation Clearing Group pursuant to this paragraph on the third consecutive Inflation Swap Business Day where the Inflation Clearing Group delivers Corrupted Data.

With respect to an Index, if an Inflation Clearing Group is unable to provide Market Data on a particular date, including due to technical issues, software failure or other data corruption (such failure, a “**Data Disruption Event**”), then a Group Member of that Inflation Clearing Group shall notify the Clearing House as soon as reasonably practicable. Following a notification pursuant to this paragraph, the relevant Inflation Clearing Group shall promptly take such action as the Clearing House may reasonably require (after consulting with the Group Member of that Inflation Clearing Group who failed to provide the relevant Market Data) to remedy the relevant technical or data corruption issue(s). Based on the circumstances surrounding the Data Disruption Event and in its sole discretion, the Clearing House may deliver to the relevant Nominated Group Member of the Inflation Group a Non-performance Notice. Notwithstanding the foregoing and with respect to an Index, the Clearing House will always issue a Non-performance Notice to an Inflation Clearing Group pursuant to this paragraph on the third consecutive Inflation Swap Business Day where the Inflation Clearing Group suffers a Data Disruption Event.

If the Clearing House receives data from an Inflation Clearing Group that it considers does not constitute a reasonable estimate of the current market price for the relevant tenor and Index (whether such data is treated as Market Data or Corrupted Data), it shall be entitled to ignore the submission of that data in making its calculation of the Derived Data.

The Clearing House may use the Market Data that it receives as provided for in Regulation 60A(h).

- 1.31.2 If at any time at which it is due to calculate the Derived Data, the Clearing House considers that it has failed to receive good data (as defined below) in respect of an particular Index from such number of Inflation Clearing Groups as the Clearing House may consider sufficient to allow it to produce Derived Data that is fair and representative of the pricing level of the relevant Index, the Clearing House may as an alternative (a) use a set of previously produced Derived Data that the Clearing House considers to be the most suitable substitute, and/or (b) obtain substitute market data from one or more alternative sources, including but not limited to, brokers and third party data vendors (any data derived from a source described in (a) or (b) of this paragraph being "**Alternative Data**"), provided, however, that Clearing House must use Alternative Data if it considers that it has failed to receive good data in respect of an Index from at least 4 Inflation Clearing Groups. The Clearing House will not impose any obligation for an Inflation Clearing Group to enter into a Crossing Transaction where less than 4 Inflation Clearing Groups have provided good data. For the purpose of this paragraph, "good data" means Market Data received from an Inflation Clearing Group which in the Clearing House's view, constitutes a reasonable estimate of the current market price for the relevant tenor and Index.
- 1.31.3 For each day on which the Clearing House produces Derived Data, it will provide to at least one Group Member of each Inflation Clearing Group that submitted Market Data, a report showing the Market Data that the relevant Inflation Clearing Group provided, together with any curves produced from the relevant Derived Data. The Clearing House will provide such reports on the Inflation Swap Business Day following the date when the relevant Derived Data was prepared. In addition, the Clearing House shall make available Derived Data to at least one Group Member of each Inflation Clearing Group that submitted Market Data on a same-day basis, including by way of end-of-day reporting. A Group Member that receives Derived Data is entitled to share the Derived Data within its Inflation Clearing Group, provided that the recipients of the Derived Data within the Inflation Clearing Group use the Derived Data in accordance with the terms of the Rulebook.

1.31.4 *Inflation Swap Crossing*

In order to ensure the quality of the Market Data it receives, Regulations 60A(l) and 60A(m) enables the Clearing House to impose a mandatory Crossing Transaction upon Inflation Clearing Groups in certain circumstances. In respect of an Index, an Inflation Clearing Group shall not be required to enter into more than one Crossing Transaction in any calendar month.

The Market Data required to be submitted by the relevant Inflation Clearing Groups comprises a mid-price quote for each relevant Index and tenor combination. A list of eligible Indices and tenors is published in the Inflation Swaps Operational Specifications. At the close of each Inflation Swap Business Day in respect of an Index, the Clearing House will use all relevant