

VIA CFTC PORTAL

16 March 2018

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

LCH Limited Self Certification: Clarifying Rule Changes related to the Provisions on the Treatment of Variation Margin for FCMs

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 a clarifying change related to the rules on the treatment of variation margin for Futures Commission Merchant Clearing Members ("FCM Clearing Members").

Part I: Explanation and Analysis

LCH proposes to make changes to its rules that presently govern variation settlement in respect of FCM SwapClear Contracts and FCM ForexClear Contracts, namely that all variation settlement payments to and from FCM Clearing Members (not transferred by way of a security interest or default fund payments) are included in the variation settlement calculation.

The rule changes will go live on, or after, 2 April 2018.

Part II: Description of Rule Changes

The clarifying amendment to FCM Regulations 47, paragraphs (d)(i) and (ii) is summarised as follows:

On every Business Day, LCH will aggregate and net the variation settlements, price alignment amounts, coupon payments and other amounts owing to and from an FCM Clearing Member in respect of such FCM Clearing Member's SwapClear Contracts and separately, its ForexClear Contracts.

Following such aggregation and netting, LCH or the relevant FCM Clearing Member, as applicable, will pay a net sum (a "Settlement Payment") in respect of each netting set of FCM SwapClear Contracts or FCM ForexClear Contracts.

The amendment clarifies that the "other amounts" noted above exclude those amounts transferred by way of a security interest or transferred in respect of the respective default fund.

The text of the changes is attached hereto as **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 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
FCM Regulations



FCM REGULATIONS OF THE CLEARING HOUSE

LCH LIMITED

REGULATION 47 DAILY SETTLEMENT OF FCM SWAPCLEAR CONTRACTS AND FCM FOREXCLEAR CONTRACTS

- (a) The Clearing House shall, at least once per Business Day, determine (i) the change in the net present value, if any, of each FCM SwapClear Contract and FCM ForexClear Contract and (ii) the Price Alignment Amount, if any, payable on such Business Day in respect of each such Swap Product, in each case in such manner and at such times as may be provided in the FCM Procedures. Except as prescribed in the FCM Procedures, such determinations may in no circumstances be called in question. The time at which the Clearing House determines the change in the net present value and Price Alignment Amount, if any, in respect of a Swap Product is referred to herein as the “**NPV Determination Time**”.
- (b) At least once per Business Day and in accordance with the FCM Procedures, the Clearing House shall, unless there has not been a change in the net present value of the applicable Swap Product, pay a settlement payment to, or require a settlement payment from, an FCM Clearing Member in respect of each FCM SwapClear Contract and FCM ForexClear Contract registered in such FCM Clearing Member's name (each, a “**Variation Settlement**”). Each Variation Settlement shall be an amount of cash equal to the change from the preceding NPV Determination Time (or in the event that no NPV Determination Time has occurred in respect of a Swap Product, the change from the time of registration of such Swap Product) in the net present value of the applicable FCM SwapClear Contract or FCM ForexClear Contract.
- (c) The Clearing House shall also pay to, or receive from, each applicable FCM Clearing Member the Price Alignment Amount, if any, in respect of the Cumulative Variation Settlement of each FCM SwapClear Contract and FCM ForexClear Contract registered in such FCM Clearing Member’s name, in accordance with the FCM Procedures.
- (d) In respect of the FCM SwapClear Contracts and FCM ForexClear Contracts registered in an FCM Clearing Member's name, on every Business Day, the Clearing House shall aggregate the amounts in item (i) below and (separately) the amounts in item (ii) below, in each case to the extent payable in the same currency and as provided below:
- (i) the Variation Settlements, Price Alignment Amounts, any coupon payments and other amounts not [transferred by way of a security interest or transferred](#) in respect of ~~Collateral~~ [a default fund](#) payable by the FCM Clearing Member to the Clearing House on such date; and
 - (ii) the Variation Settlements, Price Alignment Amounts, any coupon payments and other amounts not [transferred by way of a security interest or transferred](#) in respect of ~~Collateral~~ [a default fund](#) payable by the Clearing House to the FCM Clearing Member on such date,

and, in respect of each currency, if the aggregate amount that would otherwise have been payable by one party exceeds the aggregate amount that would otherwise have been payable by the other party, then the obligations of each party under this FCM Regulation 47 shall be automatically satisfied and discharged on payment by the party