

VIA CFTC PORTAL

May 14, 2018

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

LCH Limited Self Certification: Rule Changes on the Listed Rates Minimum Default Fund Contribution

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 amendments to its rules, the effect of which is to increase the minimum default fund contribution of the Listed Rates service for Clearing Members of the combined Rates service from £0.5m to £7.5m.

Part I: Explanation and Analysis

The proposed rule changes are intended to support the development of the LCH’s Listed Rates service through broadening the resourcing of the mutualised default fund applicable to market participants trading listed rates derivatives. LCH envisions this will drive trading and clearing volumes and revenues in its Listed Rates service.

The minimum default fund contribution for members of SwapClear only will remain unchanged at £10m. Similarly, the minimum default fund contribution for Clearing Members of Listed Rates only will remain unchanged at £0.5m.

The rule changes will go live on, or after, May 30, 2018.

Part II: Description of Rule Changes

Schedule 6 (Rates Service Default Fund Supplement) section CS2 (Rates Service Amount – Allocation) sub section (g) (The Rates Service Amount – Listed Interest Rates) of the LCH Default Rules has been amended to reflect that the Listed Interest Rates component of the Rates Service default fund will be equal to the greater of the weighted rates service fund amount, a risk based weighted calculation (the “Weighted Rates Service Fund Amount”), or the Default Fund Floor, which will incorporate the new minimum default fund contribution for Listed Rates members. A new Subsection I of the same section has been inserted to clarify that, in the event that the Listed Interest Rates portion of the Rates Service Default Fund equals the Default Fund Floor, the SwapClear portion of the Rates Service

Default Fund shall be reduced by the amount by which the Default Fund Floor is greater than the Weighted Rates Service Fund Amount.

Schedule 6 Part B (Rates Service Default Fund Supplement – Listed Interest Rates) L1 has been amended to include definitions of “Default Fund Excess”, “Default Fund Floor”, “Minimum Contribution”, “Total Fund Amount”, “Weighted Contribution Amount”, “Weighted Contribution Reallocation Percentage” and “Weighted Member”.

Schedule 6 Part B (Rates Service Default Fund Supplement – Listed Interest Rates) L2(c) has been amended to reflect the methodology for determining the default fund contribution of a Listed Rates clearing member.

The texts of the rule changes are attached hereto as **Appendix I**, Default Rules.

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
Default Rules

LCH The Markets'
Partner

**LCH LIMITED
DEFAULT RULES**

SCHEDULE 6
RATES SERVICE DEFAULT FUND SUPPLEMENT

CS1. Rates Service Fund Amount

- (a) The Rates Service Default Fund is denominated in GBP, and all amounts referable to it shall be denominated, calculated, called and payable in GBP.
- (b) On each business day, the Clearing House will determine a "**Combined Loss Value**" in respect of each of the 60 preceding business days. The Combined Loss Value for a particular business day will be the sum of: (1) the largest and the second largest daily stress-testing losses incurred during the preceding 60 business days in relation to the SwapClear Contracts and Eligible Listed Interest Rates Contracts of a Rates Service Clearing Member (the "**Combined Loss Value – Limb (1)**"); plus (2) the largest and the second largest daily stress-testing losses incurred during the preceding 60 business days in relation to the Non-Eligible Listed Interest Rates Contracts of a Rates Service Clearing Member (the "**Combined Loss Value – Limb (2)**"), in respect of a given scenario.
- (c) The "**Rates Service Fund Amount**" shall be determined by the Clearing House at the close of business on the first business day of each calendar month, and otherwise in accordance with paragraph (d) below (each a "**Rates Service Determination Date**") and shall be the sum of: (1) the largest of the 60 Combined Loss Values determined under Rule CS1(b); plus (2) an amount equal to 10 per cent of the value referred to in (1); plus (3) the SwapClear Tolerance Amount. The Rates Service Fund Amount shall not be less than £1 billion pounds (the "**Rates Service Fund Floor**") and shall not be more than £5 billion pounds.
- (d) The Clearing House may recalculate the Rates Service Fund Amount on any business day if the largest of the 60 Combined Loss Values determined under paragraph (b) above on that day differs by more than 25 per cent. from the Combined Loss Value on which the previous Rates Service Contribution determination was based and, on such business day, the Clearing House shall be entitled to require those Clearing Members whose portfolios have caused the increase in the Combined Loss Value to pay an additional amount in respect of their Contributions.

CS2. Rates Service Fund Amount – Allocation

On each Rates Service Determination Date the Clearing House shall calculate:

- (a) The "**SwapClear Tolerance Amount**" which shall be the value of that portion of the Rates Service Fund Amount which relates to those default fund resources which the Clearing House determines as being required in relation to SwapClear Tolerance.
- (b) The "**Non-Tolerance Amount**" which shall be the sum of: (1) the Combined Loss Value – Limb (1); plus (2) an amount equal to 10 per cent of the Combined Loss Value – Limb (1).

- (c) The "**SwapClear Combined Loss Value**" in respect of each of the 60 preceding business days. The SwapClear Combined Loss Value in respect of a particular day will be the sum of the largest and the second largest stress-testing loss incurred on that day in relation to SwapClear Business (which includes, for the avoidance of doubt, Portfolio Margined Contracts) (for a given scenario).
- (d) The "**Listed Rate Combined Loss Value**" in respect of each of the 60 preceding business days. The Listed Interest Rates Combined Loss Value in respect of a particular day will be the sum of the STLIEOMs for the Listed Interest Rates Clearing Members which have the largest and the second largest STLIEOM on that day. For this purpose, the "STLIEOM" means, in respect of each Listed Interest Rates Clearing Member and in respect of any day, the stress-tested loss in excess of initial margin (determined for a given scenario determined by the Clearing House) which could be incurred by the Clearing House in respect of the Eligible Listed Interest Rates Contracts (excluding, for the avoidance of doubt, any Portfolio Margined Contracts) of a Listed Interest Rates Clearing Member if that Listed Interest Rates Clearing Member became a Defaulter on that day.
- (e) The "**Total Combined Loss Value**" which shall be the sum of the SwapClear Combined Loss Value and the Listed Rate Combined Loss Value.
- (f) The "**Rates Service Fund Amount - SwapClear**" which shall be calculated as follows :

$$\left(\frac{\text{SwapClear Combined Loss Value}}{\text{Total Combined Loss Value}} \times \text{Non - Tolerance Amount} \right) + \text{SwapClear Tolerance Amount}$$

(g) The "**Rates Service Fund Amount - Listed Interest Rates**" which shall be the greater of ~~calculated as follows~~ :

(i) the **Weighted Rates Service Fund Amount** which shall be the amount calculated as follows:

$$\left(\frac{\text{Listed Interest Rates Combined Loss Value}}{\text{Total Combined Loss Value}} \times \text{Non - Tolerance Amount} \right)$$

$$+ (1.1 \times \text{Combined Loss Value} - \text{Limb (2)})$$

(ii) or the Default Fund Floor (as defined in Rule L2).

(h) The "**SwapClear Tolerance**" which shall be the aggregate amount of temporary initial margin forbearance provided by the Clearing House to SwapClear Clearing Members to enable registration of SwapClear Contracts.

(i) In the event that the Rates Service Fund Amount - Listed Interest Rates equals the Default Fund Floor, then the Rates Service Fund Amount – SwapClear shall be reduced by the amount by which the Default Fund Floor is greater than the Weighted Rates Service Fund Amount.

PART B

RATES SERVICE DEFAULT FUND SUPPLEMENT – LISTED INTEREST RATES

L1. In this Part B to the Rates Service Default Fund Supplement, subject to any contrary indication or where the context otherwise requires, references to:

the "**Business**" means the Listed Interest Rates Business of a Member

a "**Contract**" means a Listed Interest Rates Contract, a contract cleared pursuant to a Service and such other listed interest rate derivative contract as the Clearing House may from time to time specify by notice to the Members

a "**Contribution**" means a Listed Interest Rates Contribution

a "**Determination Date**" means a Listed Interest Rates Determination Date

the "**Default Fund Excess**" means the amount by which the Total Fund Amount exceeds the greater of the Weighted Rates Service Fund Amount or the Default Fund Floor

the "**Default Fund Floor**" means the sum of the Minimum Contributions

the "**Excess Loss**" means the Listed Interest Rates Excess Loss

a "**Member**" means a Listed Interest Rates Clearing Member and a Clearing Member approved to clear a Specified Market

a "**Minimum Contribution**" means either (i) GBP 500,000 for a Listed Rates Clearing Member that is not a Joint Rates Service Clearing Member; or (ii) GBP 7,500,000 for a Joint Rates Service Clearing Member. ~~GBP 500,000~~

a "**Non-Defaulting Clearing Member**" means a Member that is not a Defaulter under Rule 4 of the Default Rules

"**Service**" means the listed interest rate derivatives and listed interest rate derivatives-related services provided by the Clearing House pursuant to its rules governing the clearing of the Specified Markets and includes the Listed Interest Rates Service

"**Specified Markets**" means the Rates Exchanges and any other markets from time to time specified by the Clearing House

"**Total Fund Amount**" means the sum of all Members' Contributions

"**Weighted Contributions Amount**" means the sum of all Weighted Contributions

"**Weighted Contribution Reallocation Percentage**" means for each Weighted Contribution Member, the proportion of such Member's Weighted Contribution to the Weighed Contributions Amount

a "**Weighted Member**" means a Member that is required to pay a Weighted Contribution pursuant to Rule L2 (c) below

and calculations of "**End of Day Margin Weight**", "**Peak Intra-Day Margin Weight**" and "**Weight Factor**" are carried out in accordance with this Part B of the Rates Service Default Supplement only.

Capitalised terms not otherwise defined in this Part B of the Rates Service Default Fund Supplement shall have the meanings assigned to them in the General Regulations or the Default Rules, as applicable.

L2. **Listed Interest Rates Contributions to the Rates Service Fund**

- (a) The amount of each Member's Contribution shall be determined by the Clearing House at the close of business on the first business day of each month, and otherwise in accordance with paragraph (d) below (each a "**Listed Interest Rates Determination Date**") on the basis of information available as at close of business on the immediately preceding business day and notified to such Member as soon as practicable after such determination in accordance with the Procedures. However, determinations of Contributions under the methodology of this Rule are suspended for the duration of the period (the "**Listed Interest Rates Default Period**") commencing on the date of such Default and terminating on the later to occur of the following dates:
- (i) the date which is the close of business on the day falling 30 calendar days after the Rates Service Default Management Process Completion Date in relation to such Default (or, if such day is not a business day, the next succeeding business day); and
 - (ii) where, prior to the end of the period referred to in sub-paragraph (i) above (or such period as has already been extended pursuant to this sub-paragraph (ii)) one or more subsequent Defaults (each a "Relevant Default") occur, the date which is the close of business on the day falling 30 calendar days after the Rates Service Default Management Process Completion Date in relation to a Relevant Default which falls latest in time (or, if such day is not a business day, the next succeeding business day).
- (b) A Member's Contribution shall be determined with reference to business conducted by it on the Specified Markets in Contracts as follows:
- (i) the Member's "**End of Day Margin Weight**" shall be calculated by dividing the average daily initial margin obligation at the end of each day (as calculated under the Procedures or other arrangements applicable) which has applied to the Member during the Reference Period in respect of all Contracts by the total of such average daily obligations applied to all Members other than Defaulters;
 - (ii) the Member's "**Peak Intra-Day Margin Weight**" shall be calculated by dividing the average maximum intra-day initial margin obligation arising at any point during each day during the Reference Period (as calculated under the Procedures or other arrangements applicable) which has applied to the Member in respect of all Contracts by the

total of such average maximum intra-day obligations applied to all Members other than Defaulters;

- (iii) the Member's "**Weight Factor**" shall be calculated by adding one-half of its End of Day Margin Weight to one-half of its Peak Intra-Day Margin Weight;

(c) ~~The~~ and the Member's Contribution shall be the greater of:

- (i) the amount arrived at by multiplying the **Weighted** Rates Service Fund Amount ~~—Listed Interest Rates—~~ by the Member's Weight Factor, ~~provided that if~~ (the "**Weighted Contribution**"); and
- (ii) the Member's Minimum Contribution.

PROVIDED THAT, if a Default Fund Excess would arise ~~amount~~ calculated for a particular Member pursuant to the foregoing ~~would,~~ when aggregated with the Contributions of all other Members, produce an amount that exceeds the Rates Service Fund Amount ~~—Listed Interest Rates,~~ then the such excess amount, as calculated by the Clearing House, shall recalculate each Weighted Member's Contributions by reducing each Weighted Member's Contribution by an amount equal ~~be iteratively notionally allocated~~ to each Weighted Member's Weighted Contribution Reallocation Percentage multiplied by the Default Fund Excess, **PROVIDED FURTHER THAT,** if ~~pursuant~~ ~~such Member pro rata~~ to the foregoing any Weighted Member's ~~its~~ Contribution would be less than their Minimum Contribution, then ~~as originally calculated and~~ such Weighted Member's Contribution ~~proportionate excess~~ shall be increased to ~~deducted from the amount originally calculated and~~ the Minimum Contribution. Where such increase gives rise to a Default Fund Excess, then the Clearing House ~~Member's Contribution~~ shall iteratively carry out the process described in this paragraph, with the each Weighted Contribution and the Total Fund Amount revised ~~be adjusted~~ accordingly until the Total Fund Amount is equal to either the Default Fund Floor or the Weighted Rates Service Fund Amount (as applicable).

For the purposes of these calculations:

- (i) "**Reference Period**" means the period of three calendar months immediately before the Determination Date;
- (ii) references to "**Members**" do not include references to Defaulters (apart from any Defaulter in respect of which the Clearing House permits the application of this Rule) or persons which were formerly Members but are not Members on the date on which the relevant calculation is made;
- (iii) Contributions shall be rounded upwards, if not already such a multiple, to the next integral multiple of one thousand pounds; and