

Via CFTC Portal

8th August 2019

Ms. Abigail S. Knauff and Mr. August Imholtz

Commodity Futures Trading Commission
1155 21st Street NW
Three Lafayette Centre
Washington DC 20581

Dear Ms. Abigail S. Knauff and Mr. August Imholtz,

Pursuant to CFTC regulation §40.6(a), LCH SA, a derivatives clearing organization (“**DCO**”) registered with the Commodity Futures Trading Commission (the “**CFTC**”), is submitting for self-certification the amendments to the (i) CDS Clearing Rule Book (“**Rule Book**”) and (ii) CDS Clearing Procedures (“**Procedures**”) (collectively the “**CDS Clearing Rules**”) to make conforming, clarifying, and clean-up changes intended to: (1) extend the weekly backloading process to Index Swaptions; and (2) amend the structure of the documentation in respect of the backloading process. Capitalized terms not defined or modified in this rule proposal will have the same meaning as in LCH SA's existing Rule Book or Procedures.

The intended date of implementation is September 2th, 2019, subject to any relevant regulatory review or approval process duly completed and in no event, the changes will be implemented earlier than ten (10) business days after the formal filing with the CFTC.

The submission changes made to the Rules are attached hereto as Appendix.

Part I: Explanation and Analysis

LCH SA is proposing to amend its CDS Clearing Rules to allow clearing process of Index Swaptions through the CDSClear Weekly Backloading Cycle, in addition to the CDS that are already in the scope of this process today.

Further, this proposed rule change will also amend the CDS Clearing Rules in order to review the structure of the rule book documentation in respect of the Weekly Backloading Cycle and the Daily Backloading Cycle and make consistency changes.

Part II: Description of Rule changes

The updated CDS Clearing Rules will permit Clearing Members to submit Index Swaptions to LCH SA for clearing through the Weekly Backloading Cycle. For the purpose of this extension, existing defined terms and provisions in the Rule Book and Sections 4 and 5 of the Procedures have been amended as described in paragraphs 1) and 2) below. Other amendments have been made for consistency purposes and are described in paragraph 3) below.

1) CDS Clearing Rule Book:

With respect to the Rule Book, LCH SA proposes to make amendments to the existing defined term "Weekly Backloading Transaction" contained within Title I, Chapter 1, Section 1.1.1. by adding a reference to "Index Swaption".

2) CDS Clearing Procedures

a) Section 4

Section 4 of the Procedures will be updated to make the relevant eligibility requirements applicable to Index Swaptions to be submitted to LCH SA for clearing through the Weekly Backloading Cycle where necessary.

Thus, the reference to an "Index Swaption Intraday Transaction" in Section 4.1 (c) (i) (V) will be replaced by a reference to an "Index Swaption". In addition, the reference to an "Index Swaption Intraday Transaction" in Section 4.1 (c) (iii) (C) will be replaced by a reference to an "Index Swaption that is an Index Swaption Intraday Transaction or a Weekly Backloading Transaction".

b) Section 5

LCH SA proposes to update Section 5 of the Procedures by adding a reference to "Index Swaptions" in Section 5.2 (b) so that Index Swaptions are eligible for the Weekly Backloading Cycle.

3) Technical Amendments

The amendments to the Rule Book and Procedures also contain typographical corrections and changes made for consistency purpose. Specifically, information on the Daily Backloading Cycle and the Weekly Backloading Cycle will be moved from the Rule Book and Section 5 of the Procedures to two new Clearing Notices for consistency purpose as this is operational information that does not need to be part of the CDS Clearing Rules. No amendment will be made to the content of the provisions moved to these new Clearing Notices.

Therefore, Section 5.2 (b) and (c) of the Procedures will refer to a Clearing Notice and the timetable applicable to each of the Daily Backloading Cycle and Weekly Backloading Cycle is proposed to be removed from these paragraphs. In the Rule Book, defined terms of "Eligible Weekly Backloading Transaction" and "Irrevocable Weekly Backloading Transaction" will therefore refer to a Clearing Notice instead of Section 5 of the Procedures, as well as Sections 3.1.1 and 3.1.2 of the Rule Book.

In addition, the definitions of “Weekly Backloading Start Day” and “Weekly Backloading Novation Day” in the Rule Book are proposed to be amended in order to make a general reference to a day as determined by LCH SA in accordance with Article 3.1.1.10 of the Rule Book as these days will be provided for in a new Clearing Notice. Article 3.1.1.10 will be amended to remove the publication date of this Clearing Notice as the provisional calendar, which specifies the Weekly Backloading Cycle will not change each year.

Finally, typographical corrections will be made to the definition of “Converting Clearing Member” in the Rule Book and Section 4.1 (c) (vii) (B) of the Procedures. The reference to Section 3 in Article 3.1.1.1 of the Rule Book is also proposed to be deleted as it is redundant with the provisions of the previous sentence of this Article.

Part III: Core Principle Compliance

LCH SA will continue to comply with all Core Principles following the introduction of this change and has concluded that its compliance with the Core Principles would not be adversely affected by this change.

Part IV: Public Information

LCH SA has posted a notice of pending certifications with the CFTC and a copy of the submission on LCH’s website at: <https://www.lch.com/resources/rules-and-regulations/proposed-rule-changes>

Part V: Opposing Views

There were no opposing views expressed to LCH SA by governing board or committee members, members of LCH SA that were not incorporated into the rules.

Certification

LCH SA hereby certifies to the CFTC, pursuant to the procedures set forth in the Commission regulation §40.6, that this change submission complies with the Commodity Exchange Act, as amended, and the regulations promulgated there under.

Should you have any questions please contact me at: françois.faure@lch.com

A handwritten signature in blue ink, appearing to read 'Faure', is written over a horizontal line.

Francois Faure
Chief Compliance Officer
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APPENDIX

Extracts of Draft CDS Clearing Rule Book and Procedures including the proposed rule changes for Index Swaptions Backloading.

[...]

CHAPTER 1 - DEFINITIONS AND INTERPRETATION

Section 1.1.1 Terms defined in the CDS Clearing Rule Book

[...]

Converting Clearing Member: A Clearing Member which has submitted [to](#) LCH SA a request to convert its CTM Trade Account(s) into STM Trade Account(s) according to Article 3.1.10.8.

[...]

Eligible Weekly Backloading Transaction: A Weekly Backloading Transaction which:

- (i) has passed the Eligibility Controls; and
- (ii) has been selected by each of the relevant Clearing Members to be included in the Weekly Backloading Cycle in accordance with [Section 5 of the Procedures a Clearing Notice](#).

[...]

Irrevocable Weekly Backloading Transaction: Any Eligible Weekly Backloading Transaction in respect of which the relevant Clearing Members are deemed to have given, at such time set out in [Section 5 of the Procedures a Clearing Notice](#), their irrevocable agreement for the novation by LCH SA of such Eligible Weekly Backloading Transaction.

[...]

Weekly Backloading Start Day: ~~Each Monday which is a Business Day or any other~~ [The](#) day as ~~may be~~ determined by LCH SA in accordance with ~~Article 3.1.1.10~~.

Weekly Backloading Novation Day: ~~Each Thursday which is a Business Day or any other~~ [The](#) day as ~~may be~~ determined by LCH SA in accordance with ~~Article 3.1.1.10~~.

Weekly Backloading Transaction: An existing CDS [or Index Swaption](#):

- (i) which has two House Trade Legs; and
- (ii) whose Transaction Data is contained in the Gold Records File.

[...]

CHAPTER 3 - NOVATION AND REGISTRATION

Section 3.1.1 - Weekly Backloading Cycle

Article 3.1.1.1

LCH SA performs a Weekly Backloading Cycle in accordance with Section 3.1.1, ~~and~~ [Section 5 of the Procedures and a Clearing Notice](#).

On each Weekly Backloading Start Day on which LCH SA receives the Gold Records File from DTCC in relation to one or more Weekly Backloading Transactions, LCH SA will start performing the Weekly Backloading Cycle [set out in this Section 3](#) in relation to such Weekly Backloading Transactions.

Article 3.1.1.2

On each relevant Weekly Backloading Start Day, upon receipt by LCH SA of the Gold Records File, LCH SA will extract the Transaction Data of each Weekly Backloading Transaction.

Article 3.1.1.3

Following the extraction of Transaction Data in relation to each Weekly Backloading Transaction pursuant to [Article 3.1.1.2](#), LCH SA will, on such day at such times and in such form as prescribed in [Section 5 of the Procedures](#) a Clearing Notice:

- (i) perform the Eligibility Controls;
- (ii) issue the Clearing Eligibility Report;
- (iii) request each Clearing Member to identify the Weekly Backloading Transactions which it wants to include in the Weekly Backloading Cycle;
- (iv) identify the Eligible Weekly Backloading Transactions;
- (v) notify each Clearing Member of the estimated Margin Requirements which would be required from the relevant Clearing Member if each relevant trade leg of its Eligible Weekly Backloading Transactions were included as Cleared Transactions registered in its Trade Accounts at the time the estimation is performed; and
- (vi) issue the DTCC Matching and Eligibility Report.

Article 3.1.1.4

Each Clearing Member agrees, by submitting its Weekly Backloading Transactions to LCH SA in its Clearing Eligibility Report, to be bound by the registration of such Weekly Backloading Transactions in accordance with this Section 3.1.1.

Article 3.1.1.5

An Eligible Weekly Backloading Transaction can be removed from the Weekly Backloading Cycle provided that such removal is requested in the manner set out in Section 5 of the Procedures and a Clearing Notice:

- (i) prior to becoming an Irrevocable Weekly Backloading Transaction, and
- (ii) by both the Clearing Member acting as protection buyer and the Clearing Member acting as protection seller in respect of such Eligible Weekly Backloading Transaction. Any Eligible Weekly Backloading Transaction so removed will become a Rejected Transaction.

Where not so removed, each Eligible Weekly Backloading Transaction shall become an Irrevocable Weekly Backloading Transaction at the time specified in [Section 5 of the Procedures](#) a Clearing Notice.

Article 3.1.1.6

A Weekly Backloading Cycle may be cancelled by LCH SA in accordance with ~~Section 5 of the Procedures~~ a Clearing Notice if a Clearing Member has duly notified LCH SA that there is an error in the DTCC Matching and Eligibility Report issued to such Clearing Member.

Article 3.1.1.7

Unless the Weekly Backloading Cycle is cancelled pursuant to ~~Article 3.1.1.6~~, LCH SA will, in accordance with Section 3.1.7, pre-register the positions corresponding to each Irrevocable Weekly Backloading Transaction in the relevant Clearing Member's House Account Structure at the times set out in ~~Section 5 of the Procedures~~ a Clearing Notice on the relevant Weekly Backloading Novation Day provided that:

- (i) all Eligibility Requirements of such Irrevocable Weekly Backloading Transaction are still met, and
- (ii) the Weekly Backloading Transactions have not been removed from the TIW.

If, at this time, either of the conditions set out in ~~Article 3.1.1.7~~ (i) or (ii) are no longer met in respect of any Irrevocable Weekly Backloading Transaction, such Irrevocable Weekly Backloading Transaction shall become a Rejected Transaction. For the avoidance of doubt, the characterisation of one or more Irrevocable Weekly Backloading Transactions as Rejected Transactions in accordance with this ~~Article 3.1.1.7~~ shall not impact the pre-registration of the remaining Irrevocable Weekly Backloading Transactions in the House Account Structures of the relevant Clearing Members.

Article 3.1.1.8

Any Weekly Backloading Transaction which:

- (i) has not been successfully reconciled pursuant to ~~Article 3.1.1.2~~;
- (ii) fails the Eligibility Controls on the Weekly Backloading Start Day;
- (iii) no longer meets any of the Eligibility Requirements at any time on or prior to the Weekly Backloading Novation Day;
- (iv) does not become an Eligible Weekly Backloading Transaction or an Irrevocable Weekly Backloading Transaction;
- (v) is affected by a Backloading Failure in accordance with ~~Erreur ! Source du renvoi introuvable, Article 3.1.3.1~~ and Section 5 of the Procedures; or
- (vi) is part of a Weekly Backloading Cycle cancelled pursuant to ~~Erreur ! Source du renvoi introuvable, Article 3.1.4.6~~;

will become a Rejected Transaction.

Article 3.1.1.9

Following the Morning Call on the relevant Weekly Backloading Novation Day, LCH SA shall:

- (i) novate in accordance with ~~Erreur ! Source du renvoi introuvable.~~~~Article 3.1.6.1~~ each Irrevocable Weekly Backloading Transaction that is not a Rejected Transaction at the Novation Time;
- (ii) if applicable, perform the compression of Cleared Transactions in accordance with TITLE III, Chapter 3 and Section 5 of the Procedures;
- (iii) register in the TIW, in accordance with Section 3.1.10, the Cleared Transactions arising out of the novation and, if applicable, compression process; and
- (iv) if applicable, remove from the TIW, in accordance with Section 3.1.10, the relevant Backloading Transactions and Cleared Transactions which are terminated as a result of the compression process.

Article 3.1.1.10

~~In December of each year,~~ LCH SA shall issue a Clearing Notice containing a provisional calendar which specifies the Weekly Backloading Cycle ~~and of the following year.~~ LCH SA may as required, amend such provisional calendar by issuing a Clearing Notice.

Section 3.1.2 Daily Backloading Cycle

Article 3.1.2.1

LCH SA operates a Daily Backloading Cycle in accordance with this Section 3.1.2, ~~and~~ Section 5 of the Procedures ~~and a Clearing Notice~~.

Article 3.1.2.2

On any Business Day, a Daily Backloading Transaction may be submitted to LCH SA through an Approved Trade Source System during the Real Time Session.

Upon receipt of Original Transaction Data relating to a Daily Backloading Transaction from an Approved Trade Source System, LCH SA will perform in the following order:

- (i) the Eligibility Controls; and
- (ii) the Client Transaction Checks (if applicable).

Article 3.1.2.3

A CM Backloading Transaction will become an Irrevocable Daily Backloading Transaction once it has passed the Eligibility Controls and a Client Backloading Transaction will become an Irrevocable Daily Backloading Transaction once it has passed the Eligibility Controls and the Client Transaction Checks. If any of the Eligibility Controls or the Client Transaction Checks is not successfully completed, the relevant Daily Backloading Transaction will become a Rejected Transaction.

LCH SA will, in accordance with Section 3.1.7, pre-register the positions corresponding to each Irrevocable Daily Backloading Transaction in the relevant Clearing Member's Account Structure at the times set out in ~~Section 5 of the Procedures~~ a Clearing Notice on the relevant Daily Backloading

Novation Day provided that all Eligibility Requirements of such Irrevocable Daily Backloading Transaction are still met.

Any Daily Backloading Transaction affected by a Backloading Failure in accordance with **Erreur ! Source du renvoi introuvable.**~~Article 3.1.3.1~~ and Section 5 of the Procedures shall become a Rejected Transaction.

Article 3.1.2.4

Following the Morning Call on the relevant Daily Backloading Novation Day, LCH SA shall:

- (i) novate in accordance with **Erreur ! Source du renvoi introuvable.**~~Article 3.1.6.1~~ each Irrevocable Daily Backloading Transaction that is not a Rejected Transaction at the Novation Time;
- (ii) if applicable, perform the compression of Cleared Transactions in accordance with TITLE III, Chapter 3 and Section 5 of the Procedures;
- (iii) register in the TIW, in accordance with Section 3.1.10, the Cleared Transactions arising out of the novation and, if applicable, compression process; and
- (iv) if applicable, remove from the TIW, in accordance with Section 3.1.10, the relevant Daily Backloading Transactions and Cleared Transactions which are terminated as a result of the compression process.

[...]



CDSClear

LCH SA CDS Clearing Procedures

Section 4 - Eligibility Requirements

~~20 March 2018~~ [●]

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Capitalised terms used in this Eligibility Requirements Procedure and not otherwise defined herein shall have the meaning given pursuant to the remainder of the CDS Clearing Documentation, the ISDA Credit Derivatives Definitions or the 2006 Definitions, as such terms are defined in the document entitled "CDS Clearing Rule Book" published by LCH SA, as amended from time to time.

4.1 ELIGIBILITY REQUIREMENTS

- (a) LCH SA provides CDS Clearing Services in relation to Original Transactions which comply with the requirements set out in paragraph 4.1(c) below (the "**Eligibility Requirements**").
- (b) Following receipt from DTCC of the Gold Records File on a Weekly Backloading Start Day, LCH SA will extract the Original Transaction Data in relation to the relevant Backloading Transaction. Such Backloading Transaction will then be subject to the Eligibility Controls pursuant to Article 3.1.1.3 of the CDS Clearing Rule Book.
- (c) The following criteria shall constitute the Eligibility Requirements of an Original Transaction for the purposes of Section 3.1.1 (*Weekly Backloading Cycle*), Section 3.1.2 (*Daily Backloading Cycle*) and Section 3.1.4 (*Intraday Process*) of the CDS Clearing Rule Book:
 - (i) the relevant Clearing Member is not: (I) a Clearing Member that has been suspended in accordance with Section 2.4.1 (*Suspension*) of the CDS Clearing Rule Book; (II) a Defaulting Clearing Member; (III) a Clearing Member in respect of which a Payment Failure has occurred and is continuing; (IV) a Clearing Member that is no longer permitted to introduce risk to LCH SA in accordance with Section 2.2.4 of the CDS Clearing Rule Book; or (V) in respect of an Original Transaction that is an Index Swaption ~~Intraday Transaction~~, a Clearing Member that is not registered for the Index Swaption Clearing Service;
 - (ii) LCH SA is permitted, pursuant to Applicable Law, to clear such Original Transaction for the relevant Clearing Member's own account (or for that of its Client or Affiliate, as applicable);
 - (iii) the Original Transaction is:
 - (A) subject to paragraphs 4.1(c)(iv)-(v) and paragraph 4.2 below, a CDS referencing an Index Version (as such term is defined in paragraph 4.2(a) below) provided that the following requirements, as set out in the Eligible Index Versions List (as such term is defined in paragraph 4.2(d) below) are met:
 - (1) the Index Version is an Eligible Index Version (as such term is defined in paragraph 4.2(b) below);
 - (2) the term is an Eligible Term (as such term is defined in paragraph 4.2(c) below); and
 - (3) the currency of the Original Notional Amount is eligible for clearing; or

- (B) subject to paragraphs 4.1(c)(iv)-(v) and paragraph 4.3 below, a CDS referencing a single Reference Entity (a “**Single Name CDS**”), provided that the following requirements are met:
- (1) the Reference Entity is an Eligible Reference Entity (as such term is defined in paragraph 4.3(a) below) in respect of the relevant ISDA Credit Derivatives Definitions;
 - (2) the Reference Obligation is an Eligible Reference Obligation (as such term is defined in paragraph 4.3(b)(ii) below) for such Reference Entity in respect of the relevant ISDA Credit Derivatives Definitions;
 - (3) in respect of an Original Transaction which incorporates the Credit Derivatives Physical Settlement Matrix: the Transaction Type is an Eligible Transaction Type (as such term is paragraph 4.3(b)(iv) below);
 - (4) in respect of an Original Transaction which does not incorporate the Credit Derivatives Physical Settlement Matrix: such Original Transaction is documented by a master confirmation which sets out terms which are substantially similar to those provided for in the Credit Derivatives Physical Settlement Matrix in respect of an Eligible Transaction Type;
 - (5) in respect of an Eligible Transaction Type which is “Standard North American Corporate” (as such term is defined in the Physical Settlement Matrix), “Restructuring” is not specified as “Applicable”;
 - (6) the currency of the Floating Rate Payer Calculation Amount is eligible for clearing;
 - (7) the Fixed Rate is an Eligible Fixed Rate for such Reference Entity (as such term is defined in paragraph 4.3(b)(i) below);
 - (8) the Fixed Rate Payer Payment Dates are 20 March, 20 June, 20 September and 20 December (each such date, a “**Standard Payment Date**”);
 - (9) the Scheduled Termination Date is an Eligible Scheduled Termination Date (as such term is defined in paragraph 4.3(b)(vii) below);
 - (10) no valid Credit Event Notice in relation to an M(M)R Restructuring Credit Event in respect of the Reference Entity has been delivered; and
 - (11) in respect of any House Trade Leg of the Original Transaction, the Reference Entity is neither the relevant Clearing Member nor an Affiliate of the relevant Clearing Member and in respect of any Client Trade Leg of the Original Transaction, the Reference Entity is neither the relevant Client nor an Affiliate of the Client.

The requirements mentioned in sub-paragraphs (1), (2), (6) and (8) are set out in the Eligible Reference Entities List (as such term is defined in paragraph 4.3(c) below); or

- (C) subject to paragraph 4.4 below, an Index Swaption that is an Index Swaption Intraday Transaction or a Weekly Backloading Transaction provided that the following requirements, as set out in the Eligible Index Swaptions List (as such term is defined in paragraph 4.4 (c) below), are met:
- (1) the Expiration Date is an Eligible Expiration Date (as such terms are defined in paragraph 4.4(b) below);
 - (2) the Index Version of the Underlying Index Transaction is an Eligible Underlying Index Transaction Version (as such term is defined in paragraph 4.4 (b) below);
 - (3) with respect to each Eligible Underlying Index Transaction Version:
 - (x) the term is an Eligible Term (as such term is defined in paragraph 4.4(b) below);
 - (y) the currency of the Original Notional Amount is eligible for clearing; and
 - (z) no valid Credit Event Notice in relation to an M(M)R Restructuring Credit Event in respect of a Reference Entity referenced by that Underlying Index Transaction has been delivered.

For the avoidance of doubt, the requirements set out in this sub-paragraph 4.1(c)(iii) are checked solely on the basis of the Original Transaction Data received from an Approved Trade Source System or DTCC, as applicable. LCH SA is not aware of, and does not check, the actual terms of the confirmation of the Original Transactions;

- (iv) in respect of an FCM Client, a U.S. CCM Client of a Non-U.S. CCM or a CCM Client of a U.S. CCM, the Original Transaction may not be a Single Name CDS or any other SBS identified as such in a Clearing Notice;
- (v) in respect of a Non-U.S. CCM Client, the Original Transaction may not be a Single Name CDS or any other SBS identified as such in a Clearing Notice unless such transaction is cleared through a Non-U.S. CCM;
- (vi) in respect of:
 - (A) an Original Transaction that is a CDS, that Original Transaction references an Eligible Index Version or an Eligible Reference Entity; or
 - (B) an Original Transaction that is an Index Swaption, that Original Transaction is an Eligible Index Swaption

which has a First Novation Date that has occurred on or prior to the Clearing Day on which the Original Transaction is received by LCH SA and a Novation Cut-off Date that has not occurred on or prior to such Clearing Day;

- (vii) in respect of an Intraday Transaction, the trade reference for:
 - (A) each of the protection buyer and protection seller, in respect of an Intraday Transaction that is a CDS Intraday Transaction; or
 - (B) each of the Swaption Buyer and Swaption Seller, in respect of an Intraday Transaction that is an Index Swaption Intraday Transaction, to be used when booking the trade in DTCC has been included together with the Transaction Data;
- (viii) in respect of a Daily Backloading Transaction, the Daily Backloading Novation Day does not fall on the day preceding a Standard Payment Date;
- (ix) the clearing of the Original Transaction by LCH SA will not result in a breach by a Clearing Member of its obligations under any Applicable Law; and
- (x) in respect of a Backloading Transaction that is entered into on or after 3 January 2018, that Backloading Transaction is not subject to Mandatory Clearing and the parties to that Backloading Transaction did not agree at the time of execution for the transaction to be subject to clearing.

For the purpose of the application of sub-paragraphs (iv) and (v) above, a CCM (and not LCH SA) shall be responsible for (i) determining whether each of its CCM Clients is a Non-U.S. CCM Client or a U.S. CCM Client, and (ii) informing the CDSClear Business Development & Relationship Management team of such determination when providing the Client Clearing Form (as such term is defined in Section 1 of the Procedures), or thereafter by email at cdsclearbusinessdevrm@lch.com if a change of status occurs in respect of a CCM Client. LCH SA shall not be held liable for any such determinations made by a CCM.

- (d) The Eligibility Requirements shall be deemed satisfied if the relevant Original Transaction is not rejected, pursuant to the CDS Clearing Rule Book, prior to the Novation Time.
- (e) If the Eligibility Requirements set out in paragraphs 4.1(c) above are deemed satisfied at the Novation Time in respect of an Original Transaction, pursuant to paragraph 4.1(d) above, then LCH SA shall, in accordance with Section 3.1.1 (*Weekly Backloading Cycle*), Section 3.1.2 (*Daily Backloading Cycle*) and Section 3.1.4 (*Intraday Process*) of the CDS Clearing Rule Book, as applicable, novate such Original Transaction in accordance with Section 3.1.6 (*Novation Process*) of the CDS Clearing Rule Book.
- (f) For the avoidance of doubt, Article 3.1.6.4 of the CDS Clearing Rule Book shall apply regardless of whether the Eligibility Requirements were in fact satisfied.

4.2 ELIGIBLE INDEX VERSIONS

- (a) “**Index Version**” is defined as a version of a CDS index series as issued by the Index Publisher.

- (b) LCH SA will, in consultation with the CDSClear Product Committee, identify the Index Versions which shall be considered as “**Eligible Index Versions**”.
- (c) With respect to each Eligible Index Version, LCH SA will, in consultation with the CDSClear Product Committee, determine, without limitation:
 - (i) each term which is eligible for clearing (an “**Eligible Term**”); and
 - (ii) the currency of the Original Notional Amount which is eligible for clearing.
- (d) The Eligible Index Versions identified in accordance with paragraph 4.2(b) as well as the Eligible Terms shall be set out in a table published on the Website (the “**Eligible Index Versions List**”).
- (e) LCH SA may, in consultation with the CDSClear Product Committee, amend the Eligible Index Versions List and following such amendment will inform the Clearing Members of:
 - (i) in the case of an addition of an Eligible Index Version to such list, the relevant First Novation Date; or
 - (ii) in the case of a deletion of an Eligible Index Version from such list, the relevant Novation Cut-off Date.
- (f) Notwithstanding the above:
 - (i) a Novation Cut-off Date or a First Novation Date arising as a result of the occurrence of a Credit Event or a Succession Event shall be determined in accordance with the CDS Clearing Supplement; and
 - (ii) if and for so long as any Clearing Member has one or more Open Position(s) registered in any of its Margin Accounts, such Clearing Member may submit for clearing an Original Transaction which does not meet the Eligibility Requirements set out in paragraph 4.1(c)(iv) pursuant to the CDS Clearing Documentation if such Original Transaction is a risk reducing transaction (as determined by LCH SA) in respect of the relevant Margin Account and it is not unlawful or illegal for LCH SA to accept such Original Transaction for clearing.

4.3 ELIGIBLE REFERENCE ENTITIES

- (a) LCH SA will, in consultation with the CDSClear Product Committee, identify the Reference Entities which shall be considered as “**Eligible Reference Entities**” under each of the 2003 ISDA Credit Derivatives Definitions and the 2014 ISDA Credit Derivatives Definitions.
- (b) With respect to each Eligible Reference Entity under the 2003 ISDA Credit Derivatives Definitions and/or the 2014 ISDA Credit Derivatives Definitions, LCH SA will, in consultation with the CDSClear Product Committee, determine, without limitation, the following characteristics:
 - (i) each Fixed Rate that is eligible for clearing (an “**Eligible Fixed Rate**”);

- (ii) each Reference Obligation that is eligible for clearing (an “**Eligible Reference Obligation**”);
 - (iii) the Reference Obligation under which the Cleared Transaction(s) on the Eligible Reference Entity will be registered (the “**CDSClear Preferred Reference Obligation**”) where no Standard Reference Obligation is published for this Eligible Reference Entity;
 - (iv) the Transaction Type that will be eligible for clearing with respect to each relevant Eligible Reference Entity (the “**Eligible Transaction Type**”);
 - (v) the currency(ies) of the Floating Rate Payer Calculation Amount that is, or are, eligible for clearing with respect to each relevant Eligible Reference Entity;
 - (vi) the date of publication of the Credit Derivatives Physical Settlement Matrix which the Cleared Transaction(s) on the Eligible Reference Entity will reference (the “**Relevant Physical Settlement Matrix**”); and
 - (vii) each Scheduled Termination Date that is eligible for clearing (the “**Eligible Scheduled Termination Date**”).
- (c) The Eligible Reference Entities identified in accordance with paragraph 4.3(a) above as well as the characteristics mentioned in paragraph 4.3(b) above shall be set out in a table published on the Website (the “**Eligible Reference Entities List**”).
- (d) LCH SA may, in consultation with the CDSClear Product Committee, amend the Eligible Reference Entities List by issuing a Clearing Notice. Any such Clearing Notice shall specify:
- (i) in the case of an addition of an Eligible Reference Entity to such list, the relevant First Novation Date;
 - (ii) in the case of a deletion of an Eligible Reference Entity from such list, the relevant Novation Cut-off Date; or
 - (iii) in the case of an amendment to the characteristics of any Eligible Reference Entity, the Clearing Day on which such amendment shall take effect in accordance with Article 1.2.2.8 of the CDS Clearing Rule Book.
- (e) Notwithstanding the above:
- (i) a Novation Cut-off Date or a First Novation Date arising as a result of the occurrence of a Credit Event, a Succession Event or a Rename Event shall be determined in accordance with the CDS Clearing Supplement; and
 - (ii) if and for so long as any Clearing Member has one or more Open Position(s) registered in any of its Margin Accounts, such Clearing Member may submit for clearing an Original Transaction which does not meet the Eligibility Requirements set out in paragraph 4.1(c)(iv) pursuant to the CDS Clearing Documentation if such Original Transaction is a risk reducing transaction (as determined by LCH SA) in respect of the relevant Margin Account and it is not unlawful or illegal for LCH SA to accept such Original Transaction for clearing.

4.4 ELIGIBLE INDEX SWAPTIONS

- (a) LCH SA will, in consultation with the CDSClear Product Committee, identify the Index Swaptions which shall be considered as “**Eligible Index Swaptions**”.
- (b) LCH SA will, in consultation with the CDSClear Product Committee, determine, without limitation, the following characteristics of an Eligible Index Swaption:
 - (i) each Expiration Date that is eligible for clearing (an “**Eligible Expiration Date**”);
 - (ii) each Index Version of the Underlying Index Transaction which is eligible for clearing (an “**Eligible Underlying Index Transaction Version**”) and with respect to each Eligible Underlying Index Transaction Version:
 - (A) each term which is eligible for clearing (an “**Eligible Term**”); and
 - (B) the currency of the Original Notional Amount which is eligible for clearing.
- (c) The Eligible Index Swaptions identified in accordance with paragraph 4.4(a) as well as the characteristics mentioned in paragraph 4.4(b) above shall be set out in a table published on the Website (the “**Eligible Index Swaptions List**”).
- (d) LCH SA may, in consultation with the CDSClear Product Committee, amend the Eligible Index Swaptions List and following such amendment will inform the Clearing Members of:
 - (i) in the case of an addition of an Eligible Index Swaption to such list, the relevant First Novation Date; or
 - (ii) in the case of a deletion of an Eligible Index Swaption from such list, the relevant Novation Cut-off Date.
- (e) Notwithstanding the above:
 - (i) a Novation Cut-off Date or a First Novation Date arising as a result of the occurrence of an M(M)R Restructuring Credit Event shall be determined in accordance with the CDS Clearing Supplement; and
 - (ii) if and for so long as any Clearing Member has one or more Open Position(s) registered in any of its Margin Accounts, such Clearing Member may submit for clearing an Original Transaction which does not meet the Eligibility Requirements set out in paragraph 4.1(c)(vi) pursuant to the CDS Clearing Documentation if such Original Transaction is a risk reducing transaction (as determined by LCH SA) in respect of the relevant Margin Account and it is not unlawful or illegal for LCH SA to accept such Original Transaction for clearing.

[...]

5.2. BACKLOADING TRANSACTIONS

Unless otherwise provided herein, any email required to be sent to LCH SA under this paragraph 5.2 should be sent to the Operations Department at the following email address: cdsclear.ops@lch.com.

(a) Backloading Failure

Pursuant to Article 3.1.3.1 of the CDS Clearing Rule Book, if a Backloading Failure occurs in respect of one or more Clearing Member(s), the following will be removed from the relevant Weekly Backloading Cycle and/or Daily Backloading Cycle:

(i) the trade leg of every Backloading Transaction which was due to give rise to the registration of a Cleared Transaction in the Trade Account(s) of the Failed Backloading Clearing Member(s);

(ii) the corresponding trade leg(s) for each Backloading Transaction mentioned in Paragraph 5.2(a) (i) above and which were due to give rise to the registration of Cleared Transaction(s) in any Trade Account(s) of any Clearing Member other than the Failed Backloading Clearing Member(s) (the "Counterparty Clearing Member(s)"); and

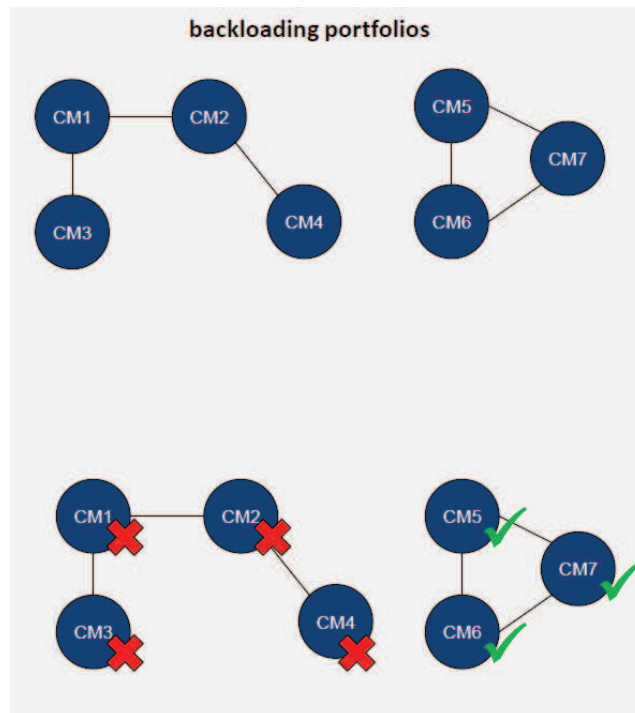
(iii) the following Backloading Transactions, which are "linked" to the Backloading Transactions referenced in Paragraph 5.2(a)(i) and (ii) above for the purposes of Article 3.1.3.1 of the CDS Clearing Rule Book, and comprise:

(a) the trade legs of any other Backloading Transactions due to give rise to the registration of a Cleared Transaction in any Trade Account of the Counterparty Clearing Member;

(b) the corresponding trade legs of each Backloading Transaction mentioned in Paragraph 5.3 (a)(iii)(a) above and which were due to give rise to the registration of Cleared Transaction(s) in any Trade Account(s) of any Clearing Members other than the Failed Backloading Clearing Member(s) and the Counterparty Clearing Member(s) (the "Indirect Counterparty Clearing Member(s)").

The provisions of Paragraph 5.3(a)(iii) shall apply *mutatis mutandis* to the Backloading Transactions to which the Indirect Counterparty Clearing Member(s) are party; accordingly, any Backloading Transaction which is "linked" to a Backloading Transaction entered into by an Indirect Counterparty Clearing Member will also be removed from the relevant Weekly Backloading Cycle and/or Daily Backloading Cycle.

The following diagram illustrates the Backloading Transactions which will be removed from the relevant Weekly Backloading Cycle and/or Daily Backloading Cycle.



In this diagram, Backloading Transactions entered into between seven Clearing Members have been considered:

- CM1 has entered into Backloading Transactions with CM2 and CM3;
- CM2 has entered into Backloading Transactions with CM1 and CM4;
- CM3 has entered into Backloading Transactions with CM1;
- CM4 has entered into Backloading Transactions with CM2; and
- CM5, CM6 and CM7 have entered into Backloading Transactions with each other.

Assuming CM1 is a Failed Backloading Clearing Member, the following Backloading Transactions will be removed from the relevant Weekly Backloading Cycle and/or Daily Backloading Cycle and shall become Rejected Transactions:

- Backloading Transactions entered into by CM1;
- Backloading Transactions entered into by CM2 and CM3, including any Backloading Transaction which has not been entered into with CM1; and
- Backloading Transactions entered into by CM4 (for the avoidance of doubt, which would also include any Backloading Transaction which was not entered into with CM2 but with other Clearing Members, should it be the case).

Only the Backloading Transactions entered into by CM5, CM6 and CM7 will be novated.

(b) Weekly Backloading Cycle

Pursuant to Section 3.1.1 of the CDS Clearing Rule Book, LCH SA operates a Weekly Backloading Cycle in accordance with the timetable set out below in a Clearing Notice. For the avoidance of doubt, only CDS or Index Swaption with two House Trade Legs can be submitted for clearing through the Weekly Backloading Cycle.

<p style="text-align: center;">PROCESSING SCHEDULE OF THE WEEKLY BACKLOADING CYCLE</p>		
No.	Time (all references below are to Continental European Time)	Action
Day 1	Monday (the Weekly Backloading Start Day): By 02:00	LCH SA receives the Gold Records File from DTCC.
	Monday: By 09:30	<p>On the basis of the Gold Records File, LCH SA prepares the Clearing Eligibility Report which it makes available to each Clearing Member via any reporting mechanism specified in a Clearing Notice.</p> <p>The Clearing Eligibility Report contains, in respect of each Clearing Member, the Weekly Backloading Transactions which have successfully passed the Eligibility Controls.</p>
Day 2	Tuesday: By 17:00	<p>Each Clearing Member shall upload on any means of access specified in a Clearing Notice an updated Clearing Eligibility Report containing only the Weekly Backloading Transactions that such Clearing Member wishes to submit for clearing to LCH SA (the "CM Clearing Eligibility Report"). A Clearing Member may provide an amended CM Clearing Eligibility Report which will replace the previous CM Clearing Eligibility Report upon receipt by LCH SA.</p> <p>If a Clearing Member does not return any CM Clearing Eligibility Report by 17:00, none of its Weekly Backloading Transactions will be included in the Weekly Backloading Cycle.</p>

Day 3	<p>Wednesday: By 08:00</p>	<p>LCH SA shall carry out the following actions:</p> <p>(i) reconcile the CM Clearing Eligibility Reports received from all Clearing Members in order to determine the Weekly Backloading Transactions for which both relevant Clearing Members have designated for clearing in their respective CM Clearing Eligibility Reports. Such matching Weekly Backloading Transactions will constitute the Eligible Weekly Backloading Transactions,</p> <p>(ii) reconcile the Eligible Weekly Backloading Transactions with the latest Gold Records File to ensure that such Eligible Weekly Backloading Transactions have not been removed from the TIW,</p> <p>(iii) provide, on the basis of the results of the reconciliations set out in (i) and (ii) above, each Clearing Member with a DTCC Matching and Eligibility Report containing those of their Eligible Weekly Backloading Transactions which have not been removed from the TIW, and</p> <p>(iv) provide each Clearing Member with the Simulation Margin Requirements Result File which is (x) prepared on the basis of the End of Day Contributed Prices provided to LCH SA on Tuesday in accordance with paragraph 5.15 below and (y) contains an estimate of the House Margin Requirement that would be required if the Eligible Weekly Backloading Transactions contained in the DTCC Matching and Eligibility Report were registered as Cleared Transactions in the Clearing Member's House Account Structure at the time of such estimate.</p>
Day 3	<p>Wednesday: By 11:00</p>	<p>An Eligible Weekly Backloading Transaction may be removed from the Weekly Backloading Cycle provided that (i) both relevant Clearing Members agree to such removal and (ii) each relevant Clearing Member sends an email to LCH SA which specifies the Transaction Data of the Eligible Weekly Backloading Transaction which should be removed from the Weekly Backloading Cycle.</p>
	<p>Wednesday: By 11:00</p>	<p>If it appears that an error has been made by LCH SA in a DTCC Matching and Eligibility Report and the Eligible Weekly Backloading Transactions included in such report are not the same as the Weekly Backloading Transactions of the relevant Clearing Members (save where there is a discrepancy owing to particular Weekly Backloading Transactions having been removed from the TIW between 19:30 on Tuesday and the issuance of the DTCC Matching and Eligibility Report), the relevant Clearing Member shall notify this error by email to LCH SA.</p>
	<p>Wednesday: By 12:00</p>	<p>If LCH SA confirms that an error has been made in a DTCC Matching and Eligibility Report, the Weekly Backloading Cycle will be cancelled and LCH SA shall inform each Clearing Member of such cancellation by 12:00.</p>

	<p>Wednesday: By 12:00</p>	<p>LCH SA will confirm to each Clearing Member whether the Weekly Backloading Cycle will proceed or not. Upon such confirmation, all Eligible Weekly Backloading Transactions (excluding any Weekly Backloading Transactions that have become Rejected Transactions) shall become Irrevocable Weekly Backloading Transactions.</p>
Day 4	<p>Thursday: (the Weekly Backloading Novation Day) 02:00 – 04:00</p>	<p>Irrevocable Weekly Backloading Transactions will be pre-registered in the House Account Structure of each relevant Clearing Member save:</p> <p>(i) Irrevocable Weekly Backloading Transactions which have been removed from the TIW, if any, and/or</p> <p>(ii) Irrevocable Weekly Backloading Transactions which no longer meet all the Eligibility Requirements, if any.</p> <p>Where an Irrevocable Weekly Backloading Transaction is not pre-registered in a Clearing Member's House Account Structure in accordance with this Section 5 of the Procedures, such Irrevocable Weekly Backloading Transaction shall become a Rejected Transaction.</p>
	<p>Thursday: (the Weekly Backloading Novation Day) As soon as technologically practicable after the Morning Call</p>	<p>Novation of the pre-registered Irrevocable Weekly Backloading Transactions which have not become Rejected Transactions will be undertaken by LCH SA.</p>

(c) Daily Backloading Cycle

Pursuant to Section 3.1.2 of the CDS Clearing Rule Book, LCH SA operates the Daily Backloading Cycle in accordance with the timetable set out ~~below~~ in a Clearing Notice. For the avoidance of

doubt, CDS having either House Trade Legs or Client Trade Legs can be submitted for clearing through the Daily Backloading Cycle.

PROCESSING SCHEDULE OF THE DAILY BACKLOADING PROCESS		
No.	Time (all references below are to Continental European Time)	Action
Day 1	<p>On any Business Day (D):</p> <p>During the Real Time Session</p>	<p>Upon receipt of Original Transaction Data relating to a Daily Backloading Transaction from an Approved Trade Source System, LCH SA will, in the following order, perform:</p> <p>(i) the Eligibility Controls, and</p> <p>(ii) in respect of Client Backloading Transactions only, the Client Transaction Checks (i.e. the process to ensure that each Nominated Clearing Member has consented to the registration of the relevant Client Trade Leg(s), in the relevant Client Trade Account(s)).</p>
	<p>D</p> <p>By 19:30</p>	<p>(i) If a Daily Backloading Transaction does not satisfy the Eligibility Controls, or</p> <p>(ii) in respect of a Client Backloading Transactions only, if either Nominated Clearing Member rejects, or fails to respond to, a Consent Request (as defined in paragraph 5.3(a) below) by 19:30,</p> <p>the relevant Daily Backloading Transaction will become a Rejected Transaction and LCH SA will inform the relevant Approved Trade Source System and each relevant Clearing Member.</p>
	<p>D</p> <p>Until 19:30</p>	<p>A Daily Backloading Transaction, which has successfully passed the Eligibility Controls and the Client Transaction Checks (if applicable), can be removed at any time prior to 19:30 from the Daily Backloading Cycle, provided that each of the relevant Clearing Members agrees to such removal and sends an email to LCH SA which specifies the Transaction Data of the Daily Backloading Transaction which should be removed from the Daily Backloading Cycle.</p>
	<p>D</p> <p>By 19:30</p>	<p>All Daily Backloading Transactions which:</p> <p>(i) have successfully passed the Eligibility Controls and Client Transaction Checks (if applicable), and</p>

		<p>(ii) have not been removed from the relevant Daily Backloading Cycle by 19:30 by the relevant Clearing Members,</p> <p>will become Irrevocable Daily Backloading Transactions.</p>
Day 2	<p>D+1 (provided that it is a Clearing Day): 02:00 – 04:00</p>	<p>Irrevocable Daily Backloading Transactions will be pre-registered in the relevant Client Account Structures of each Clearing Member save:</p> <p>(i) Irrevocable Daily Backloading Transactions which have been removed from the TIW (where LCH SA is able to ascertain such fact), if any, and/or</p> <p>(ii) Irrevocable Daily Backloading Transactions which no longer meet all the Eligibility Requirements, if any.</p> <p>It is anticipated that LCH SA will be able to ascertain the fact mentioned in (i) above only in respect of House Trade Legs because it is unlikely that Clients will authorise DTCC to provide LCH SA with the details of their entire CDS portfolio.</p> <p>Where an Irrevocable Daily Backloading Transaction is not pre-registered in a Clearing Member's Client Account Structure in accordance with this Section 5 of the Procedures, such Irrevocable Daily Backloading Transaction shall become a Rejected Transaction.</p>
	<p>D+1 (provided that it is a Clearing Day): As soon as technologically practicable after the Morning Call</p>	<p>Novation of the pre-registered Irrevocable Daily Backloading Transactions which have not become Rejected Transactions shall be undertaken by LCH SA.</p>

[...]