

VIA CFTC PORTAL

18 September 2019

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

**LCH Limited Self-Certification: Rule Change allowing ForexClear Clearing Members to set their respective Settlement Position Limits**

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 change to its rules affecting Clearing Members clearing FX Option Contracts. The rules will allow such Clearing Members to set their respective Settlement Position Limits ("SPLs"), under certain conditions.

**Part I: Explanation and Analysis**

LCH Clearing Members clearing FX Option Contracts are required to comply with prescribed SPLs to ensure that settlement exposures are appropriately managed within ForexClear. The clearing service has measures in place to address cases where Clearing Members are in breach of such limits two days ahead of settlement. These are the settlement reduction processes ("SRPs"), whereby Clearing Members enter into Mandatory Settlement ForexClear Swap Contracts to trade down their settlement exposure<sup>1</sup>.

Separately, ForexClear Clearing Members are required to comply with credit limits set by their respective nostro banks and must, therefore, ensure they never settle more than such limit in the CCP session at CLS Bank<sup>2</sup>. For this reason, LCH proposes to change its rules to allow ForexClear Clearing Members to request that their respective SPL per currency is set to a given amount that is lower than the settlement limit calculated by LCH. LCH may accept the request at its discretion. The settlement limit for all other Clearing Members will remain as set by LCH.

The rule changes will go live on, or after, October 3, 2019.

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<sup>1</sup> ForexClear has in place an optional voluntary SRP intraday and a mandatory SRP at end of day. Two days ahead of settlement, Clearing Members may reduce their exposure within the required limit via the voluntary process. If unsuccessful, the mandatory SRP will address any remaining excess.

<sup>2</sup> CLS Bank International, the global utility for eliminating settlement risk in FX transactions.

## **Part II: Description of Rule Changes**

### *Procedures Section 2I ("ForexClear Clearing Service")*

Section 1.19 of the Procedures ("Settlement Limits for ForexClear Option Clearing Members") notes that LCH determines the applicable SPLs per currency and each FX Option Clearing Member ("LCH Defined Limits").

The section includes new sub-paragraph 1.19.2 that sets out the process whereby an FX Option Clearing Member may request, and LCH may agree, to reduce the SPL for a given currency to an amount lower than that set by LCH ("Revised Limits"). Further, the rules clarify that LCH reserves the right to increase or decrease such Revised Limits, in its sole discretion, for risk, legal or regulatory considerations (sub-paragraph 1.19.3).

### *General Regulations*

Under the current Regulation 100 ("ForexClear Option Service – Settlement Limits, Settlement Trade-Down and Settlement Events"), LCH is required to ask ForexClear Clearing Members to vote in favour or against a LCH proposal to increase the LCH Defined Limits. The ballot period is 10 business days and, if successful, the new limits would take effect after 30 calendar days (paragraph c). Regulation 100 also notes that LCH shall be entitled, upon notice, to increase the LCH Defined Limits without the consent of any ForexClear Clearing Member (paragraph e).

Paragraphs c) and e) have been amended to specify that they do not apply when there is an increase to the Revised Limits, in accordance with clause 1.19.2 of the Procedures, referred to above.

The text of the changes to the General Regulations and the ForexClear Procedures are attached hereto as **Appendices I and II**, respectively.

## **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**

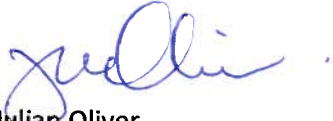
There were no opposing views expressed to LCH by governing board or committee members, members of LCH or market participants that were not incorporated into the rule.

## **Certification**

LCH hereby certifies to the Commodity Futures Trading Commission, pursuant to the procedures set forth in the Commission regulation § 40.6, that the attached rule submission complies with the Commodity Exchange Act, as amended, and the regulations promulgated thereunder.

Should you have any questions, please contact me at [julian.oliver@lch.com](mailto:julian.oliver@lch.com).

Yours sincerely,



Julian Oliver  
Chief Compliance Officer  
LCH Limited

**Appendix I**  
General Regulations



**GENERAL REGULATIONS OF  
LCH LIMITED**

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## REGULATION 100 FOREXCLEAR OPTION SERVICE – SETTLEMENT LIMITS, SETTLEMENT TRADE-DOWN AND SETTLEMENT EVENTS

### Settlement Limits

- (a) Subject to (c) and (d) below and the Procedures, the Clearing House may, in its sole and absolute discretion, determine from time to time:
- (i) the Settlement Position Limit;
  - (ii) the Settlement Exposure Limit; and
  - (iii) the Mandatory ForexClear Swap Limit,

in respect of each ForexClear Option Clearing Member and each ForexClear Currency.

- (b) From time to time the Clearing House shall notify each ForexClear Option Clearing Member of the Settlement Position Limit, Settlement Exposure Limit and Mandatory ForexClear Swap Limit applicable to it and each ForexClear Currency in accordance with the Procedures.

- (c) Subject to (e) below, if the Clearing House wishes to increase the Settlement Position Limit, Settlement Exposure Limit or, the Mandatory ForexClear Swap Limit, ~~which shall be applicable to all ForexClear Option Clearing Members,~~ in relation to a given ForexClear Currency, to no more than the Settlement Position Limit Cap (where such limit is aggregated with respect to all ForexClear Option Clearing Members and ForexClear Currencies), Mandatory ForexClear Swap Limit Cap (where such limit is aggregated with respect to all ForexClear Option Clearing Members) or Settlement Exposure Cap, as applicable, then the Clearing House may propose such amendment by giving all ForexClear Option Clearing Members no fewer than 10 business days' notice, such notice to specify the proposed new Settlement Position Limit, Settlement Exposure Limit and/or Mandatory ForexClear Swap Limit (the "**Revised Limits**"). If the Requisite ForexClear Option Clearing Members vote in favour of the Revised Limits then the Revised Limits shall take effect following 30 calendar days' notice (or such other period as the Clearing House shall decide) from, and including, the expiration of the notice period specified above. If the Requisite ForexClear Option Clearing Members do not vote in favour of the Revised Limits, then the Revised Limits shall not take effect. For the purposes of the foregoing, a ForexClear Option Clearing Member that does not communicate its vote to the Clearing House by the end of the notice period specified above shall be deemed to have voted in favour of the Revised Limits. The Clearing House shall publish the terms of the voting process on or prior to the business day on which the vote is initiated. Notwithstanding the foregoing, this paragraph (b) shall not apply in the event of an increase to a Settlement Position Limit in accordance with Section 1.19.2 of the Procedures

- (d) Subject to (e) below, if the Clearing House wishes to increase the Settlement Position Limit Cap, Settlement Exposure Limit Cap or Mandatory ForexClear Limit Cap (as applicable), then the Clearing House may propose such amendment by giving all ForexClear Option Clearing Members no fewer than 10 business days' notice, such notice to specify the proposed new Settlement Position Limit Cap, Settlement Exposure Limit Cap and/or Mandatory ForexClear Limit Cap (the "**Revised Caps**"). If 100% of

the then total number of ForexClear Option Clearing Members vote in favour of the Revised Caps then the Revised Caps shall take effect following 30 calendar days' notice (or such other period as the Clearing House shall decide) from, and including, the expiration of the notice period specified above. If less than 100% of the then total number of ForexClear Option Clearing Members vote in favour of the Revised Caps then the Revised Caps shall not take effect. For the purposes of the foregoing, a ForexClear Option Clearing Member that does not communicate its vote to the Clearing House by the end of the notice period specified above shall not be deemed to have voted in favour of the Revised Caps. The Clearing House shall publish the terms of the voting process **on or prior** to the business day on which the vote is initiated.

- (e) The Clearing House shall be entitled to increase the Settlement Position Limit, Settlement Exposure Limit, Mandatory ForexClear Swap Limit, Settlement Position Limit Cap and/or Settlement Exposure Limit Cap without the consent of any ForexClear Option Clearing Member, and without regard for the process in paragraphs (c) or (d) above if, it determines, in its sole and absolute discretion, that:
- (i) it considers such action advisable for its own protection or the protection of the relevant market;
  - (ii) it is required to take such action to comply with any regulation, rule, official directive, request or guideline (whether or not having the force of law) of any governmental, intergovernmental or supranational body, agency, department or of any regulatory, self-regulatory or other authority or organisation;
  - (iii) except with respect to an increase to the Settlement Position Limit, Settlement Exposure Limit, Mandatory ForexClear Swap Limit and/or Settlement Exposure Limit Cap, a new ForexClear Clearing Member has been designated as a new ForexClear Option Clearing Member, provided however that, in such circumstance, the Clearing House shall only be entitled to increase the caps referenced in (e) above without using the process in paragraph (d) above to the extent that such increase is no greater, in percentage terms, than the percentage increase in the number of ForexClear Option Clearing Members that has occurred as a result of such ForexClear Option Clearing Member being so designated;
  - (iv) solely with respect to the Settlement Position Limit and/or Settlement Position Limit Cap, it considers such action advisable where (A) the register of primary nostro account providers of ForexClear Option Clearing Members is updated in accordance with the Procedures and (B) an increase to the Settlement Position Limit occurs as the direct result of the given update to register of primary nostro account providers; or
  - (v) it considers such action advisable in connection with an operational or technical failure or delay,

**provided, however**, that in no event shall the Clearing House be entitled to increase the Mandatory ForexClear Swap Limit for any ForexClear Option Clearing Member to an amount that, when aggregated with the Mandatory ForexClear Swap Limits of all the other ForexClear Option Clearing Members, exceeds above the Mandatory ForexClear Swap Limit Cap.

The Clearing House shall provide ForexClear Option Clearing Members with no fewer than 10 business days' prior notice of any increase to the Settlement Position Limit or Settlement Position Limit Cap pursuant to paragraph (iv) above.

Notwithstanding the foregoing, this paragraph (e) shall not apply in the event of an increase to a Settlement Position Limit in accordance with Section 1.19.2 of the Procedures

### **Settlement Position Limit and Settlement Trade-Down**

- (f) At 10:00 AM Eastern Standard Time on each day the Clearing House shall compare:
- (i) the Settlement Position Limit on that day with respect to a given ForexClear Option Clearing Member and a given ForexClear Currency; and
  - (ii) the value of the Settlement Position Amount on that day with respect to that ForexClear Option Clearing Member and that ForexClear Currency.

The "**Settlement Position Amount**" means, with respect to a given day, a given ForexClear Option Clearing Member and a given ForexClear Currency, the net amount of that ForexClear Currency that is or will be payable by that ForexClear Option Clearing Member under all ForexClear Contracts (other than ForexClear NDF Contracts) to which it is a party that have a Settlement Date (as defined in the applicable ForexClear Contract Terms) falling two days after such day.

- (g) If, at 10:00 AM Eastern Standard Time on any day, (f)(ii) exceeds (f)(i) with respect to a ForexClear Option Clearing Member and a given ForexClear Currency, then a ForexClear Settlement Event shall immediately occur with respect to that ForexClear Option Clearing Member (such ForexClear Option Clearing Member, the "**Impacted ForexClear Option Clearing Member**") and that ForexClear Currency.
- (h) The Clearing House shall, immediately upon the occurrence of a ForexClear Settlement Event, give notice in writing (which may be given by electronic messaging system or email) to the Impacted ForexClear Option Clearing Member specifying that a ForexClear Settlement Event has occurred with respect to it. A failure by the Clearing House to deliver, or any delay in the delivery of, the notice required by this paragraph (h) shall not affect the Clearing House's ability to exercise any of its rights under this Regulation 100.
- (i) From the occurrence of the ForexClear Settlement Event to (but excluding) 5:00 PM Eastern Standard Time on the same day, the Impacted ForexClear Option Clearing Member shall be entitled to enter into, and submit for registration by the Clearing House, one or more ForexClear Spot Transactions, *provided however that*, the Clearing House may only register the related ForexClear Spot Contracts arising out of such ForexClear Spot Transaction(s) if:
- (i) such ForexClear Spot Transaction(s) are for the purpose, and will have the effect, of reducing the Impacted ForexClear Option Clearing Member's Settlement Position Amount for that ForexClear Currency, so that immediately after registration of the related ForexClear Spot Contracts, the Settlement Position Amount with respect to that Impacted ForexClear Option Clearing



**Appendix II**  
Procedures Section 2I  
(ForexClear Clearing Service)



**LCH LIMITED**

**PROCEDURES SECTION 2I**

**FOREXCLEAR CLEARING SERVICE**

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- (a) Initial Exchange Amounts, Final Exchange Amounts and amounts owed under the Economic Terms of ForexClear Spot Contracts and ForexClear Deliverable Forward Contracts; and
  - (b) Premiums under ForexClear Option Contracts,
- 1.18.2 in each case net of any return of aggregate variation margin or NPV Payments denominated in the same currency and due on the same day.
- 1.18.3 Each ForexClear Option Clearing Member warrants that the Relevant FX Liabilities that are paid to CLS pursuant to Section 1.18.2 are transferred free from any proprietary, equitable or other similar interest of any person.
- 1.18.4 Each ForexClear Option Clearing Member shall at all times maintain complete and accurate written records of all Payment Transfer Orders given by it (or on its behalf) to its Member Settlement Bank(s) in respect of all amounts under all of the ForexClear Contracts (other than ForexClear NDF Contracts) registered in its name from time to time. Upon demand by the Clearing House, a ForexClear Option Clearing Member shall immediately provide all such records to the Clearing House.

1.19 **Settlement Limits ~~for ForexClear Option Contracts, ForexClear Deliverable Forward Contracts, ForexClear Spot Contracts and ForexClear Swap for ForexClear Option Clearing Members Contracts~~**

1.19.1 Subject to the Regulations and Section 1.19.2, the Clearing House shall from time to time determine the (i) Settlement Position Limit and (ii) Settlement Exposure Limit in respect of each ForexClear Currency and each ForexClear Option Clearing Member.

1.19.2 A ForexClear Option Clearing Member may request, in such form and manner as the Clearing House prescribes from time to time, that the Clearing House set a Settlement Position Limit for a given ForexClear Currency below the limit determined pursuant to paragraph (a) above, provided that such requested limit meets the Clearing House's risk tolerance, as determined by the Clearing House in its sole discretion. Upon the Clearing House notifying the ForexClear Option Clearing Member that such requested limit is approved, including the time at which such limit shall take effect, such limit shall be considered the "Settlement Position Limit" for the given ForexClear Currency for the relevant ForexClear Option Clearing Member.

1.19.3 Notwithstanding the acceptance by the Clearing House of a revised Settlement Position Limit pursuant to Section 1.19.2, the Clearing House may increase or decrease such revised limit, in its sole discretion and upon reasonable notice to the given ForexClear Option Clearing Member, for risk, legal or regulatory considerations, provided that in no event shall an increased limit exceed the Settlement Position Limit determined by the Clearing House pursuant to Section 1.19.1 or the Regulations.

~~1.19.1 Subject to the Regulations, the Clearing House shall, in its sole and absolute discretion, determine from time to time the Settlement Position Limit and~~

~~Settlement Exposure Limit in respect of each ForexClear Clearing Member and each ForexClear Currency. The Clearing House shall notify each ForexClear Clearing Member of the Settlement Position Limit and Settlement Exposure Limit applicable to it via the ForexClear Service Portal.~~

1.19.4 Subject to Section 1.19.2, the Clearing House shall notify ForexClear Option Clearing Members of Settlement Position Limits and Settlement Exposure Limits via the ForexClear Service Portal or member circular.

~~1.19.2~~1.19.5 If, on a given day, at 10:00AM Eastern Standard Time, the Settlement Position Limit of a ForexClear Clearing Member and a given ForexClear Currency Pair is exceeded by the Settlement Position Amount on that day with respect to that ForexClear Clearing Member and that ForexClear Currency Pair, the Clearing House may take the actions specified in Regulation 100 or such other actions as it deems necessary, including requesting that ForexClear Clearing Member to transfer extra Collateral in respect of Initial Margin.

## 1.20 Mandatory ForexClear Swap Limit

1.20.1 Subject to the Regulations, the Clearing House shall, in its sole and absolute discretion, determine from time to time the Mandatory ForexClear Swap Limit in respect of each ForexClear Clearing Member and each ForexClear Currency. The Clearing House shall notify each ForexClear Clearing Member of the Mandatory ForexClear Swap Limits applicable to it via the ForexClear Service Portal.

## 1.21 ForexClear STM Contracts – Conversions

1.21.1 If a ForexClear Clearing Member wishes to make a conversion pursuant to Regulation 106A, it must complete and deliver to the Clearing House such documentation (if any) as the Clearing House determines, in its sole discretion, from time to time.

## 1.22 ForexClear Settlement Reduction Service

1.22.1 The Clearing House offers an optional “ForexClear Settlement Reduction Service” to ForexClear Option Clearing Members to facilitate the registration of ForexClear Transactions in connection with a ForexClear Settlement Event.

1.22.2 ForexClear Option Clearing Members who wish to opt-in to the ForexClear Settlement Reduction Service must provide notice to the Clearing House (the form and manner of such notice shall be prescribed by the Clearing House from time to time). The Clearing House may accept a request to join the ForexClear Settlement Reduction Service in its sole discretion.

1.22.3 From the occurrence of a ForexClear Settlement Event to (but excluding) 5:00PM Eastern Standard Time on the same day, the Clearing House may bind and conclude one or more Mandatory Settlement ForexClear Swap Contracts between the Impacted ForexClear Option Clearing Member or any other ForexClear Option Clearing Member who has opted-in to the ForexClear Settlement Reduction Service on the one hand, and the Clearing House on the