

VIA CFTC PORTAL

7 November 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 Treatment of Variation Margin for ForexClear Clearing Members

Dear Mr Kirkpatrick

Pursuant to CFTC regulation §40.6(a), LCH Limited ("LCH"), a derivatives clearing organization registered with the Commodity Futures Trading Commission (the "CFTC"), is submitting for self-certification changes to its rules to allow ForexClear Clearing Members to treat variation margin payments arising from cleared Contracts as settlement payments, as opposed to collateral transfers. The changes do not apply to Futures Commission Merchants or US-incorporated Clearing Members (thereafter "US FXCCM Clearing Members"), which must treat variation margin as settlement payment in all cases, in line with the CFTC regulatory guidance¹.

Part I: Explanation and Analysis

The ForexClear service treats variation margin payments in respect to Contracts registered for non-US FXCCM as transfer of collateral. Such Contracts are referred to as "Collateralised-to-Market" or "CTM Contracts".

LCH proposes to make changes to its rules to provide the option to non-US FXCCM Clearing Members to treat variation margin payments as settlement payments. Such contracts are referred to as "Settled-to-Market Contracts" or "STM Contracts". For STM Contracts, upon payment of amounts due in respect of such variation margin, the outstanding exposure of the relevant Contracts will be discharged.

The relevant Clearing Member has to make a request to LCH and meet certain conditions, as set out in Regulation 106A of the General Regulations, in order to convert its open Contracts from CTM to STM Contracts from a given date (the "ForexClear STM Conversion Date").

The rule changes will go live on, or after, November 26, 2018.

¹ <http://www.cftc.gov/idc/groups/public/@llettergeneral/documents/letter/17-51.pdf>

Part II: Description of Rule Changes

General Regulations

The majority of the changes are included in Regulation 91, 100, 101 and 106A to clarify that ForexClear Contracts may be registered as STM or CTM Contracts, as applicable, in the following contexts: novation; contract transfers; settlement of ForexClear Option Contracts; and ForexClear Liquidity Event. The details are as follows:

- i) In Regulation 91 ("Registration of ForexClear Contracts") the changes have been made to paragraphs c) ii) which clarify that LCH shall register ForexClear Contracts entered into by a non-US FXCCM Clearing Members as STM or CTM Contracts, as applicable. Further, paragraph n) states that the same applies in the context of transfer of open contracts, which may take effect in accordance with the applicable LCH rules. As a result, Contracts being transferred to a non-US FXCCM Clearing Members shall be registered as STM Contracts or CTM Contracts, as applicable.
- ii) In Regulation 100 ("ForexClear Option Service") paragraphs l) ix and x) have been added to note that in the case of a Settlement Event, whereby a Mandatory Settlement ForexClear Swap Contract arises between LCH and a FX Options Clearing Member, that Contract will be registered as a STM contract in the case of a US Clearing Member and as a STM or CTM, as applicable, in the case of a non-US FXCCM Clearing Member.
- iii) The changes in the Regulation 101 ("ForexClear Option Service – Liquidity Event") clarify that the Mandatory ForexClear Swap Contracts arising in a Liquidity Event, as defined under paragraph a), or following a Settlement Cycle Failure, as defined under paragraph h), shall be registered as STM or CTM Contracts, as applicable. The changes have been made to paragraph d) v) l) and paragraphs f) F) and G), respectively.
- iv) Regulation 106A ("Settlement-to-market or ForexClear STM Contracts") clarify the process whereby i) a non-US FXCCM Clearing Member may request LCH to convert its open Contracts from CTM to STM Contracts and ii) LCH gives effect to such request, subject to certain conditions.

Generally, certain definitions have been added supporting the option of non-US FXCCM Clearing Members to convert open Contracts from CTM to STM Contracts; and certain cross-references have been updated.

Procedures Section 2I (ForexClear Clearing Service)

A new paragraph 1.21 ("ForexClear STM Contracts –Conversions") has been added to note that a relevant Clearing Member wishing to convert open Contracts from CTM to STM Contracts must provide the necessary documentation to LCH to enable the request to take effect.

The texts of the changes are attached hereto as:

- **Appendix I**, General Regulations
- **Appendix II**, Procedures Section 2I (ForexClear Clearing Service)

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.

Yours sincerely,



Julian Oliver

Chief Compliance Officer
LCH Limited

Appendix I
General Regulations

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**GENERAL REGULATIONS OF
LCH LIMITED**

"confirmed contract"	means an original exchange contract which has been confirmed to the Clearing House by or on behalf of a buyer and a seller pursuant to Regulation 13 or 14 and the Procedures, save that where one or more allocations of an original exchange contract have taken place in accordance with Regulation 14 and the Procedures a "confirmed contract" shall only arise when the last allocation of such original exchange contract has been made and confirmed by a Member pursuant to Regulation 14 and the Procedures
"Continuing Member "	has the meaning as described in Default Rule 26
"Contract"	means (i) a contract subject to the Regulations entered into by the Clearing House with a Member for the purposes of or in connection with the provision of clearing services including, without limitation, an open contract, settlement contract, re-opening contract or closing-out contract; and also (ii) in the case of the Default Rules (including the Rates Service DMP Annex, RepoClear DMP Annex and ForexClear DMP Annex), the FCM Default Fund Agreement, and any other document, rule or procedure as specified by the Clearing House from time to time, an FCM Contract and an ATS Contract
"contract for differences"	means a Cleared Exchange Contract, an LSE Derivatives Markets Cleared Exchange Contract, an OTC Contract, or a Listed Interest Rates Contract which is to be performed by cash settlement only
"Contribution"	means the contribution of a Clearing Member to a default fund of the Clearing House and includes, in each case in relation to the relevant Service, an Equities Contribution, a ForexClear Contribution, a RepoClear Contribution and, in relation to the Rates Service, a Listed Interest Rates Contribution and a SwapClear Contribution
<u>"Converting ForexClear Clearing Member"</u>	<u>has the meaning assigned to it in Regulation 106A(n)</u>
"Converting SwapClear Clearing Member"	has the meaning assigned to it in Regulation 57A
"Co-operating Clearing House"	means a clearing house party to an agreement with the Clearing House in respect of the co-clearing of an Exchange pursuant to which such organisation co-clears specific types of Contract and agrees to be bound by these Regulations as a Member to the extent and subject to any variations agreed in such agreement

“ForexClear Spot STM Terms”

means the part of the ForexClear Spot Contract Terms designated as the ForexClear Spot STM Terms by the Clearing House from time to time

"ForexClear Spot Transaction"

means a contract, meeting the applicable ForexClear Eligibility Criteria for registration as a ForexClear Spot Contract, entered into between two ForexClear Participants, of which particulars are presented to the Clearing House for registration in the name of ForexClear Clearing Members in accordance with the Regulations.

"ForexClear STM Contract"

means:

- (a) a ForexClear Deliverable Forward STM Contract;
- (b) a ForexClear NDF STM Contract;
- (c) a ForexClear Option STM Contract;
- (d) a ForexClear Spot STM Contract; or
- (e) a ForexClear Swap STM Contract

"ForexClear STM Conversion Date"

has the meaning assigned to it in Regulation 106A(o)

"ForexClear STM Conversion Request"

has the meaning assigned to it in Regulation 106A(n)

"ForexClear STM Terms"

means:

- (f) the ForexClear Deliverable Forward STM Terms;
- (g) the ForexClear NDF STM Terms;
- (h) the ForexClear Option STM Terms;
- (i) the ForexClear Spot STM Terms; or
- (j) the ForexClear Swap STM Terms

"ForexClear Swap Contract"

means a Contract entered into by the Clearing House with a ForexClear Clearing Member on the ForexClear Swap Contract Terms which includes, in the case of the Default Rules (including the ForexClear DMP Annex but excluding, for the avoidance of doubt, the Client Clearing Annex), the FCM Default Fund Agreement and any other document, rule or procedure as specified by the Clearing House from time to time

"Treasury Account"	means any accounting process under which an amount due under a Treasury Contract from a member to the Clearing House is set off against any amount due from the Clearing House to that Member
"Treasury Contract"	means any contract, including a contract of deposit, entered into by the Clearing House with that Member for purposes of, in connection with or otherwise in the course of its treasury management activities (and excluding, for the avoidance of doubt, ATS Contracts)
"Unallocated FCM Swap Clear Contract"	has the meaning assigned to it in the FCM Regulations
"Unallocated Excess"	has the meaning assigned to it in the FCM Regulations
"Unallocated Excess Sub-Account"	has the meaning assigned to it in the FCM Regulations
"Undertaking to Pay and Deliver"	has the meaning ascribed to such term in Regulation 11(c)
"Unfunded Contribution"	means the unfunded Contribution of a Clearing Member referable to a specific Service provided by the Clearing House
"US Forex Clear STM Conversion Date"	has the meaning assigned to it in Regulation 91(e)
"US FXCCM"	means a Forex Clear Clearing Member incorporated under the laws of any state of the United States or under the federal laws of the United States
"variation margin"	means an amount determined by the Clearing House in accordance with these Regulations and/or the Procedures in respect of original contracts or open contracts (as the case may be)

For the purpose of a ballot under clause 9.4(c) of the Clearing Membership Agreement, **"Quarter Day"** shall be construed as referring to a Determination Date.

Any reference in these Regulations or the Procedures to statutes or statutory instruments or provisions thereof shall be to such statutes or statutory instruments or provisions thereof as amended, modified or replaced from time to time.

Reference to writing contained in these Regulations or the Procedures shall include typing, printing, lithography, photography or any other mode of representing or reproducing words in a visible form.

Words importing the singular shall, where the context permits, include the plural and vice-versa.

Any reference to time contained in these Regulations or the Procedures shall, unless otherwise stated, be to London time. Times are shown using the twenty four hour clock.

CHAPTER XXI – FOREXCLEAR REGULATIONS

REGULATION 90 APPLICATION OF FOREXCLEAR REGULATIONS

- (a) The Clearing House shall provide the ForexClear Service subject to and in accordance with the terms of these ForexClear Regulations and the Procedures.
- (b) ForexClear Clearing Members shall be bound by these ForexClear Regulations. Applications to become a ForexClear Clearing Member shall be made in accordance with Regulation 90(d) and (e). Other than as expressly specified in this Regulation 90, the remainder of the Regulations shall not apply to the ForexClear Service. A summary table of those Regulations which apply to the ForexClear Service as described in Regulation 90(a) to (p) is provided at Regulation 90(q).
- (c) Regulations 2 and 3 of the Regulations apply to the ForexClear Service.

ForexClear Clearing Membership

- (d) A Clearing Member may apply to become a ForexClear Clearing Member in accordance with the Procedures.
- (e) Regulation 4 applies to membership of the ForexClear Service and applications for such membership.
- (f) Regulation 5 applies to a ForexClear Clearing Member.

Accounts

- (g) Regulation 10 applies to the opening and operation of accounts with respect to a ForexClear Clearing Member. Such accounts shall be designated in accordance with Regulation 15.

Client Clearing

- (h) Regulation 11 applies to those ForexClear Clearing Members who provide (or wish to provide) Client Clearing Services.

Formation, registration and transfers of ForexClear Contracts

- (i) Regulation 16(b), (c), (e), (f), (g), (h), (j), (k) and (l), Regulation 17 and Regulation 91 govern the registration and formation of a ForexClear Contract.
- (j) Regulation 90 to Regulation 94 apply to the ForexClear Service.
- (k) Regulation 18 (and, insofar as relevant, Regulation 12(b)) apply to a ForexClear Contract that is an open contract.

Margin and Collateral

- (l) Regulation 20 applies to a ForexClear Clearing Member.

Reference prices and Revaluation

- (m) Regulation 22 and Regulation 93 apply to open ForexClear Contracts.

Other Applicable Regulations

- (n) Regulations 37 to 46A inclusive apply to ForexClear Clearing Members and ForexClear Contracts.

Default Rules

- (o) The Default Rules (including the ForexClear DMP Annex) apply to ForexClear Clearing Members and ForexClear Contracts.

Clearing House Settlement Finality Regulations

- (p) The Clearing House Settlement Finality Regulations apply in relation to ForexClear Clearing Members and ForexClear Contracts.

Summary table of Regulations which apply to the ForexClear Service

- (q) The Regulations listed in this Regulation 90(q) apply to the ForexClear Service as described under Regulation 90(a) to (p).

Regulation	Title
Regulation 2	Obligation to the Clearing House to each Member
Regulation 3	Performance by the Clearing House of its Obligations under the Terms of an Open Contract
Regulation 4	Clearing Member Status of the Clearing House
Regulation 5	Resigning and Retiring Members
Regulation 8	Dealer Status
Regulation 9	Service Withdrawal
Regulation 10	Accounts
Regulation 11	Client Clearing Business
Regulation 12(b)	Novation
Regulation 15	Designation
Regulation 16 (except Regulation 16(a), (d), (i) and (m))	Registration
Regulation 17	Trading Information

Regulation	Title
Regulation 18	Transfer
Regulation 20	Margin and Collateral
Regulation 22	Official Quotations and Reference Price
Regulation 37	Market Disorders, Impossibility of Performance, Trade Emergency
Regulation 38	Force Majeure
Regulation 39	Invoicing Back
Regulation 40	Currency Conversion
Regulation 41	Disclosure and Reporting
Regulation 42	Fees and Other Charges
Regulation 43	Records
Regulation 44	Alteration of Regulations and the Procedures
Regulation 45 and Regulation 46	Netting and Distribution of Assets
Regulation 46A	Solvency Threatening Treasury Default Loss
Regulation 47	Procedures
Regulation 48	Interpretation of these Regulations
Regulation 49	Waiver
Regulation 50(a)	Validity of Regulations and Action
Regulation 51(a) and (c) to (e)	Governing Law and Jurisdiction
Regulation 52	Exclusion of Liability
Regulation 90 to Regulation 94	ForexClear Regulations
<u>Regulation 106A</u>	<u>Settlement-to-Market of ForexClear STM Contracts</u>
Default Rules	Default Rules (including ForexClear DMP Annex)
Settlement Finality Regulations	Settlement Finality Regulations

REGULATION 91 REGISTRATION OF FOREXCLEAR CONTRACTS

- (a) A ForexClear Transaction may be presented for registration as two ForexClear Contracts, or one ForexClear Contract and one FCM ForexClear Contract, in accordance with the provisions of the Rulebook.
- (b) Once a ForexClear Transaction has been presented to the Clearing House, the Clearing House shall (where applicable in accordance with paragraph (c) below and Procedure 2I (*ForexClear Clearing Service*)) request the consent of the relevant ForexClear Clearing Member with whom a ForexClear Contract shall be registered as a result thereof to such registration. Upon the ForexClear Clearing Member providing its consent, such ForexClear Transaction shall be deemed to have been submitted (as such term is defined in the Procedures) by such ForexClear Clearing Member to the Clearing House for registration. Any such consent shall be provided in accordance with the Procedures.
- (c) Each ForexClear Contract shall be registered by the Clearing House either as a ForexClear CTM Contract or a ForexClear STM Contract, and a ForexClear Transaction may be registered as two ForexClear STM Contracts, two ForexClear CTM Contracts, one ForexClear CTM Contract and one ForexClear STM Contract, a ForexClear STM Contract and an FCM ForexClear Contract or a ForexClear CTM Contract and an FCM ForexClear Contract (in accordance with the other provisions of the Rulebook). The registration of a ForexClear Contract as a ForexClear CTM Contract or a ForexClear STM Contract shall be determined by the Clearing House as follows:
- (i) if the ForexClear Clearing Member in whose name the ForexClear Contract is to be registered is a US FXCCM, the Clearing House shall, subject to the Rulebook, ~~from and including a business day nominated by it (such day, the US ForexClear STM Conversion Date)~~ register such ForexClear Contract as a ForexClear STM Contract; and
- (ii) if the ForexClear Clearing Member in whose name the ForexClear Contract is to be registered is not a US FXCCM, the Clearing House shall, subject to the Rulebook, on or after the occurrence of a ForexClear STM Conversion Date in respect of that ForexClear Clearing Member, register such ForexClear Contract as a ForexClear STM Contract, or, if no such date has occurred, as a ForexClear CTM Contract.
- (d) At the point the Clearing House registers a ForexClear Contract as a ForexClear STM Contract in accordance with the Procedures, the ForexClear Contract Terms applicable to that ForexClear Contract will automatically, and without any further action by either party, include the ForexClear STM Terms applicable to that type of ForexClear Contract.
- (e) A ForexClear Clearing Member which has been nominated to clear the ForexClear Contract arising from the registration of a ForexClear Transaction on behalf of a third party Executing Party other than a ForexClear Dealer will (only where such ForexClear Transaction is not a Trading Venue Transaction) be notified by the Clearing House of the relevant ForexClear Transaction and shall choose whether to

have no liability whatsoever to any person arising out of or in respect of the registration by it in error or otherwise of an FCM ForexClear Contract.

- (m) Upon the exercise of a ForexClear Option Contract by or on behalf of a ForexClear Clearing Member or, as the case may be, by the Clearing House or upon the deemed exercise of such option pursuant to these Regulations or the Procedures, the ForexClear Option Contract shall immediately terminate and in its place a ForexClear Spot Transaction or a ForexClear Deliverable Forward Transaction shall automatically and immediately come into existence, and the related ForexClear Spot Contracts and ForexClear Deliverable Forward Contracts shall immediately be deemed to be registered by the Clearing House, on the terms specified in the applicable ForexClear Option Contract Terms, these Regulations and/or the Procedures. Notwithstanding the foregoing and in accordance with the Procedures, the Clearing House may, in its sole discretion, postpone or delay the registration of a ForexClear Spot Transaction or ForexClear Deliverable Forward Transaction resulting from the exercise of a ForexClear Option Contract in the event of an administrative, system or processing delay that affects the Clearing House's ability to register such ForexClear Spot Transaction or ForexClear Deliverable Forward Transaction. For the avoidance of doubt, a postponement or delay pursuant to this Regulation 91(m) shall not (a) impact a ForexClear Option Clearing Member's ability to exercise a ForexClear Option Contract (or the deemed exercise of such ForexClear Option Contract pursuant to these Regulations or the Procedures), which exercise shall be irrevocable or (b) prevent the related ForexClear Spot Contracts or ForexClear Deliverable Forward Contracts, as applicable, from coming into existence. Where the Clearing House postpones or delays registration pursuant to this Regulation 91(m) with respect to a ForexClear Option Clearing Member, such ForexClear Option Clearing Member cannot be considered a Defaulter, and a Liquidity Event cannot be considered to have occurred with respect to such ForexClear Option Clearing Member, as a result of a failure by such ForexClear Option Clearing Member to make a payment under an unregistered ForexClear Spot Contract or ForexClear Deliverable Forward Contract, as applicable. The Clearing House shall, upon registration of a postponed or delayed ForexClear Spot Transaction or ForexClear Deliverable Forward Transaction, as applicable, request such payments from the ForexClear Option Clearing Member, or make such payments to the ForexClear Option Clearing Member, in each case as are necessary to put the Clearing House and such ForexClear Option Clearing Member in the position they would have been if the ForexClear Spot Transaction or ForexClear Deliverable Forward Transaction, as applicable, had been registered immediately upon exercise (or deemed exercise) of the related ForexClear Option Contract.
- (n) Where a transfer of an open contract (the "**Original Contract**") which is a ForexClear Contract takes place pursuant to Regulation 12(b), the Clearing House may, subject to any conditions stipulated by it, register the new open contract (i) if the ForexClear Clearing Member in whose name the new open contract is to be registered is a US FXCCM, as a ForexClear STM Contract or (ii) if the ForexClear Clearing Member in whose name the new open contract is to be registered is not a US FXCCM, on or after the occurrence of a ForexClear STM Conversion Date in respect of that ForexClear Clearing Member, as a ForexClear STM Contract, or, if no such date has occurred, as a ForexClear CTM Contract, in each case notwithstanding that

the Original Contract was registered as a ForexClear STM Contract or a ForexClear CTM Contract (as applicable). For the avoidance of doubt, the transfer of an Original Contract (including a transfer that is made pursuant to the Default Rules) shall be effected by that Original Contract being closed-out and a new ForexClear Contract being established, and the applicable provisions of this Regulation 91 shall apply to the registration of such new ForexClear Contract.

Position Amount with respect to that Impacted ForexClear Option Clearing Member and that ForexClear Currency immediately prior to registration of such ForexClear Spot Contracts; and

- (ii) the ForexClear Spot Transaction(s) meet the applicable ForexClear Eligibility Criteria in effect on such date.

For the avoidance of doubt, the Clearing House shall be entitled (in accordance with Regulation 16(c)) to refuse to register any new ForexClear Spot Contract notwithstanding that it may satisfy (i) and (ii) above if it considers such action advisable for its own protection or the protection of the relevant market.

- (j) Each time a ForexClear Option Clearing Member submits a ForexClear Spot Transaction to the Clearing House for registration pursuant to (i) above, it hereby represents and warrants to the Clearing House that such ForexClear Spot Transaction (either individually or when taken together with other ForexClear Spot Transactions submitted pursuant to (i) above) satisfies the condition in (i)(i) above.
- (k) If, at 5:00 PM Eastern Standard Time on the day on which the ForexClear Settlement Event has occurred, the ForexClear Settlement Event is continuing, the Clearing House shall be entitled to conclude and bind (i) the Impacted ForexClear Option Clearing Member and (ii) in accordance with the applicable allocation provisions in Regulation 103, any other ForexClear Option Clearing Member(s), to one or more Mandatory Settlement ForexClear Swap Contracts. The Clearing House shall be entitled to levy fees in addition to clearing fees on an Impacted ForexClear Option Clearing Member in connection with a ForexClear Settlement Event (with such fees being determined in respect of the excess of such Impacted ForexClear Option Clearing Member's Settlement Position Amount over the Settlement Position Limit).
- (l) Each Mandatory Settlement ForexClear Swap Contract shall:
 - (i) be between the Impacted ForexClear Option Clearing Member or another ForexClear Option Clearing Member on the one hand, and the Clearing House on the other hand;
 - (ii) be concluded only with a view to either (A) reducing the Settlement Position Amount with respect to the Impacted ForexClear Clearing Member and a given ForexClear Currency, or (B) creating corresponding positions for the Clearing House vis a vis the other ForexClear Option Clearing Member(s);
 - (iii) be subject to immediate registration with the Clearing House in the name of the relevant ForexClear Option Clearing Member;
 - (iv) have an Initial Exchange Date (as defined in the ForexClear Swap Contract Terms) that is the day falling two business days (for the applicable Currency Pair (as defined in the ForexClear Swap Contract Terms)) after the date on which the ForexClear Settlement Event occurred;
 - (v) have a Final Exchange Date (as defined in the ForexClear Swap Contract Terms) that is the business day (for the applicable Currency Pair (as defined in

the ForexClear Swap Contract Terms)) immediately following the Initial Exchange Date;

- (vi) be executed at the mid-price (as determined by the Clearing House) that is prevailing at 5:00 PM Eastern Standard Time on the day on which the ForexClear Settlement Event has occurred;
- (vii) meet the Product Eligibility Criteria for a ForexClear Swap Transaction; ~~and~~
- ~~(viii)~~ be allocated by the Clearing House to (A) the Impacted ForexClear Option Clearing Member in accordance with this Regulation 100, or (B) the other ForexClear Option Clearing Members in accordance with Regulation 103;
- ~~(ix)~~ each Mandatory Settlement ForexClear Swap Contract arising between the Clearing House and a ForexClear Option Clearing Member shall be a ForexClear Swap STM Contract if that ForexClear Option Clearing Member is a US FXCCM; and
- ~~(viii)~~~~(x)~~ each Mandatory Settlement ForexClear Swap Contract arising between the Clearing House and a ForexClear Option Clearing Member that is not a US FXCCM shall, on or after the occurrence of a ForexClear STM Conversion Date in respect of that ForexClear Option Clearing Member, be registered as as a ForexClear Swap STM Contract, or, if no such date has occurred, be registered as a ForexClear CTM Contract.-
- (m) The Clearing House shall determine the mid-price of a Mandatory Settlement ForexClear Swap Contract under (l)(vi) above in its sole and absolute discretion.
- (n) A Mandatory Settlement ForexClear Swap Contract shall not be concluded with, and entered into on behalf of, a Non-Impacted ForexClear Option Clearing Member which has the effect, immediately upon registration of the related ForexClear Swap Contract, that the relevant Settlement Position Limit would be exceeded by the Settlement Position Amount applicable to any ForexClear Currency and that Non-Impacted ForexClear Option Clearing Member.
- (o) At the time and in the manner specified in the Procedures, the Clearing House shall notify each Non-Impacted ForexClear Option Clearing Member and the Impacted ForexClear Option Clearing Member of the Mandatory Settlement ForexClear Swap Contracts (if any) that it has entered into for and on its behalf.
- (p) Each ForexClear Option Clearing Member agrees and acknowledges that the Mandatory Settlement ForexClear Swap Contract entered into on its behalf by the Clearing House shall constitute part of that ForexClear Clearing Member's ForexClear Clearing House Business and shall be recorded in that ForexClear Clearing Member's Proprietary Account. In no circumstance shall a Mandatory Settlement ForexClear Swap Contract be recorded in a ForexClear Clearing Member's Client Account.
- (q) For as long as a ForexClear Settlement Event is continuing with respect to a ForexClear Option Clearing Member and a given ForexClear Currency, the Clearing House shall be entitled, in its sole and absolute discretion, to refuse to register any

- (ii) to satisfy and deem performed the payment obligation of the Affected ForexClear Option Clearing Member to the Clearing House under some or all of the Relevant FX Liabilities, subject always to a corresponding reimbursement obligation arising between the Affected ForexClear Option Clearing Member and the Clearing House pursuant to Regulation 102(i);
- (iii) to charge to the Affected ForexClear Option Clearing Member's account the amount (or, if the amount is not finally known, the estimated amount) of any expenses, liabilities, costs, or reimbursement obligations incurred by the Clearing House with regard to or in consequence of the circumstances in (a) or the steps which are or may be taken under this Regulation 101;
- (iv) to immediately suspend the performance of any payment obligation (denominated in any ForexClear Currency) that it owes to the Affected ForexClear Option Clearing Member on the day of the ForexClear Liquidity Event under any ForexClear Option Contract, ForexClear Swap Contract, ForexClear Deliverable Forward Contract and/or ForexClear Spot Contract, where such payment obligation is owed on the day of the ForexClear Liquidity Event, to the extent that, and for so long as, such Affected ForexClear Option Clearing Member has not paid the amount owed to the Clearing House under Regulation 102(i). If the Affected ForexClear Option Clearing Member does not pay the amount owed to the Clearing House under Regulation 102(i) when due, the Clearing House shall have the right to apply any amounts (denominated in any ForexClear Currency) that it would have owed to the Affected ForexClear Option Clearing Member but for the suspension referred to above, to the extent necessary to fully discharge that Affected ForexClear Option Clearing Member's obligation to the Clearing House under Regulation 102(i) and the Clearing House shall be entitled, pursuant to Regulation 101(d)(iii) above, to charge the Affected Clearing Member for any costs it incurs in converting any amounts pursuant to this paragraph (iv); and/or

Mandatory ForexClear Swap Contracts

- (v) to conclude, and bind the Affected ForexClear Option Clearing Member or another ForexClear Option Clearing Member on the one hand, and the Clearing House on the other hand to, one or more Mandatory ForexClear Swap Contracts on such terms as the Clearing House may determine in its sole and absolute discretion, provided always that:
 - (A) any Mandatory ForexClear Swap Contract shall be concluded only with a view to either, once registered with the Clearing House, (A) reducing or extinguishing some or all of the Relevant FX Liabilities of the Affected ForexClear Option Clearing Member in any ForexClear Currency on that day, or (B) creating corresponding positions for the Clearing House vis a vis the other ForexClear Option Clearing Member(s);
 - (B) no Mandatory ForexClear Swap Contract shall be concluded with a Non-Affected ForexClear Option Clearing Member which would (i) have the effect, immediately upon registration, that the relevant Settlement Position Limit applicable to the relevant ForexClear

Currency and that Non-Affected ForexClear Option Clearing Member would be exceeded by the Settlement Position Amount applicable to the relevant ForexClear Currency and that Non-Affected ForexClear Option Clearing Member, or (ii) exceed the Mandatory ForexClear Swap Limit applicable to that Non-Affected ForexClear Option Clearing Member and the relevant ForexClear Currency;

- (C) the Initial Exchange Date (as defined in the ForexClear Swap Contract Terms) for the Mandatory ForexClear Swap Contract shall be the date on which the ForexClear Liquidity Event has occurred;
 - (D) the Final Exchange Date (as defined in the ForexClear Swap Contract Terms) for the Mandatory ForexClear Swap Contract may be any date from (but excluding) the date on which the ForexClear Liquidity Event has occurred to (and including) the date that is fourteen days after the date on which the ForexClear Liquidity Event has occurred;
 - (E) the Mandatory ForexClear Swap Contract must otherwise meet the conditions that the Clearing House, in its sole and absolute discretion, deems necessary from time to time;
 - (F) the Mandatory ForexClear Swap Contract shall be concluded on terms that it is subject to immediate registration with the Clearing House in the name of the relevant ForexClear Option Clearing Member;
 - (G) the Mandatory ForexClear Swap Contracts arising between the Clearing House and the ForexClear Option Clearing Members other than the Affected ForexClear Option Clearing Member shall be allocated by the Clearing House in accordance with the applicable allocation provisions in Regulation 103;
 - (H) ~~from, and including, the US ForexClear STM Conversion Date,~~ each Mandatory ForexClear Swap Contract arising between the Clearing House and a ForexClear Option Clearing Member shall be a ForexClear Swap STM Contract if that ForexClear Option Clearing Member is a US FXCCM; and
 - (I) each Mandatory ForexClear Swap Contract arising between the Clearing House and a ForexClear Option Clearing Member that is not a US FXCCM shall ~~be registered as a ForexClear Swap CTM Contract, on or after the occurrence of a ForexClear STM Conversion Date in respect of that ForexClear Option Clearing Member, be registered as a ForexClear Swap STM Contract, or, if no such date has occurred, be registered as a ForexClear CTM Contract.-~~
- (e) At the time and in the manner specified in the Procedures, the Clearing House shall notify each Non-Affected ForexClear Option Clearing Member and the Affected ForexClear Option Clearing Member of the Mandatory ForexClear Swap Contracts (if any) that it has entered into for and on its behalf.

- (f) Each ForexClear Option Clearing Member agrees and acknowledges that the Mandatory ForexClear Swap Contracts entered into on its behalf by the Clearing House shall constitute part of that ForexClear Clearing Member's ForexClear Clearing House Business and shall be recorded in that ForexClear Clearing Member's Proprietary Account. In no circumstance shall a Mandatory ForexClear Swap Contract be recorded in a ForexClear Clearing Member's Client Account.
- (g) Nothing in this Regulation 101 requires the Clearing House to take any of the steps described, or to take any of those steps in any particular priority, order or amount except as expressly set out in these Regulations.
- (h) In the event that the Clearing House determines, in its sole and absolute discretion, that, for any reason whatsoever, the daily settlement cycle will not complete, or is not reasonably likely to complete, before the Daily CLS Cut-Off Time specified in the Procedures (a "**Settlement Cycle Failure**"), the Clearing House may conclude, and bind one or more ForexClear Option Clearing Members on the one hand, and the Clearing House on the other hand, to one or more Mandatory ForexClear Swap Contracts on such terms as the Clearing House may determine in its sole and absolute discretion, provided always that:
- (A) any Mandatory ForexClear Swap Contract shall be concluded only with a view to, once registered with the Clearing House, (I) reducing or extinguishing the Relevant FX Liabilities or Relevant FX Amounts of some or all of the ForexClear Option Clearing Members on that day or (II) creating corresponding positions for the Clearing House vis-à-vis other ForexClear Option Clearing Member(s);
 - (B) the Initial Exchange Date (as defined in the ForexClear Swap Contract Terms) for the Mandatory ForexClear Swap Contract shall be the date on which the Settlement Cycle Failure has occurred;
 - (C) the Final Exchange Date (as defined in the ForexClear Swap Contract Terms) for the Mandatory ForexClear Swap Contract shall be the business day (for the applicable Currency Pair (as defined in the ForexClear Swap Contract Terms)) immediately following the date on which the Settlement Cycle Failure has occurred;
 - (D) the Mandatory ForexClear Swap Contract must otherwise meet the conditions that the Clearing House, in its sole and absolute discretion, deems necessary from time to time; ~~and~~
 - (E) the Mandatory ForexClear Swap Contract shall be concluded on terms that it is subject to immediate registration with the Clearing House in the name of the relevant ForexClear Option Clearing Member;
 - (F) each Mandatory ForexClear Swap Contract arising between the Clearing House and a ForexClear Option Clearing Member shall be a ForexClear Swap STM Contract if that ForexClear Option Clearing Member is a US FXCCM; and

~~(E)~~(G) each Mandatory ForexClear Swap Contract arising between the Clearing House and a ForexClear Option Clearing Member that is not a US FXCCM shall, on or after the occurrence of a ForexClear STM Conversion Date in respect of that ForexClear Option Clearing Member, be registered as a ForexClear Swap STM Contract, or, if no such date has occurred, be registered as as a ForexClear CTM Contract.-

- (i) This Regulation 101 is without prejudice to the Clearing House's rights and obligations under the Default Rules and nothing in this Regulation 101 shall require the Clearing House to take any action contemplated herein prior to taking action under the Default Rules.

(m) The Clearing House and the ForexClear Clearing Member agree that satisfaction of the payment obligation arising under the ForexClear STM Terms of a ForexClear STM Contract by the applicable party shall discharge such obligation for the purpose of settling the then outstanding exposure under that ForexClear STM Contract.

~~(n) From, and including, the US ForexClear STM Conversion Date, all (but not less than all) of the ForexClear Contracts registered in the name of each US FXCCM shall, subject to the satisfaction of the conditions specified in (o) below, cease to be registered as ForexClear CTM Contracts and immediately and automatically become registered as ForexClear STM Contracts which are subject to this Regulation 106A and the applicable ForexClear STM Terms. For the avoidance of doubt, if the Clearing House determines that it shall convert a ForexClear CTM Contract into a ForexClear STM Contract, such conversion shall be effected through the Clearing House and the US FXCCM agreeing to a modification of the terms of the relevant ForexClear Contract to include the relevant ForexClear STM Terms, and each US FXCCM hereby agrees to such modification. Such conversion shall not be effected through the Clearing House and the US FXCCM terminating the relevant ForexClear CTM Contract and entering into a new ForexClear STM Contract.~~

(n) A ForexClear Clearing Member that is not a US FXCCM may submit a request in accordance with the Procedures (a “**ForexClear STM Conversion Request**”) to the Clearing House requesting that the Clearing House convert all of its open ForexClear CTM Contracts to ForexClear STM Contracts and register all of its future ForexClear Contracts as ForexClear STM Contracts (such ForexClear Clearing Member, a “**Converting ForexClear Clearing Member**”).

(o) Following the Clearing House’s receipt of a ForexClear STM Conversion Request, the Clearing House may, in its sole and absolute discretion, nominate a business day (such day, a “**ForexClear STM Conversion Date**”) from, and including which, all of such ForexClear Clearing Member’s ForexClear CTM Contracts shall cease to be registered as ForexClear CTM Contracts and shall immediately and automatically become registered as ForexClear STM Contracts, which are subject to this Regulation 106A and the ForexClear STM Terms. For the avoidance of doubt, if the Clearing House determines that it shall convert a ForexClear CTM Contract into a ForexClear STM Contract, such conversion shall be effected through the Clearing House and the Converting ForexClear Clearing Member agreeing to a modification of the terms of the relevant ForexClear CTM Contract to include the ForexClear STM Terms, and each Converting ForexClear Clearing Member hereby agrees to such modification. Such conversion shall not be effected through the Clearing House and the Converting ForexClear Clearing Member terminating the relevant ForexClear CTM Contract and entering into a new ForexClear STM Contract.

~~(p)~~ (p) A conversion of a Converting ForexClear Clearing Member’s ForexClear Contracts pursuant to paragraph (o) above shall be subject to the following conditions precedent. A US ForexClear STM Conversion Date shall only occur in respect of a US FXCCM if the following conditions are satisfied in relation to that US FXCCM:

(i) the Converting ForexClear Clearing Member the US FXCCM is not a Defaulter;

- (ii) the conversion of the Converting ForexClear Clearing Member's ~~that ForexClear Clearing Member's~~ ForexClear Contracts to ForexClear STM Contracts would not violate or result in the violation of any Applicable Law;
- (iii) the Converting ForexClear Clearing Member ~~US FXCCM~~ has satisfied all of its obligations to meet any margin calls made by the Clearing House with respect to its ForexClear Contracts up to, but excluding, the US ~~US~~-ForexClear STM Conversion Date. The Converting ForexClear Clearing Member ~~US FXCCM~~ shall satisfy such margin calls in accordance with the Procedures and/or applicable Regulations, as would ordinarily be the case;
- (iv) the Converting ForexClear Clearing Member ~~US FXCCM~~ has paid to the Clearing House, or the Clearing House has paid to the Converting ForexClear Clearing Member ~~US FXCCM~~ (as applicable), any cash settlement amount that the Clearing House determines (in its sole and absolute discretion) must be paid to ensure that the net present value of each ForexClear Contract to be converted shall be equal to zero on the ForexClear STM Conversion Date. Such amounts shall be determined and paid by the relevant party in accordance with the Procedures. The Converting ForexClear Clearing Member ~~US FXCCM~~ and the Clearing House agree that the Clearing House may, in its sole and absolute discretion, apply any Collateral held by it in respect of the ForexClear Contracts of the Converting ForexClear Clearing Member ~~US FXCCM~~ to satisfy (in whole or in part) the Converting ForexClear Clearing Member's ~~US FXCCM's~~ obligation to pay the amount (if any) required under this Regulation 106A(~~p~~)(iv). The Converting ForexClear Clearing Member ~~US FXCCM~~ and the Clearing House agree that any Collateral held by the Converting ForexClear Clearing Member ~~US FXCCM~~ in respect of each ForexClear Contract registered in the name of the Converting ForexClear Clearing Member ~~US FXCCM~~ shall be applied to satisfy (in whole or in part) the Clearing House's obligation to pay the amount (if any) required under this Regulation 106A(~~o~~)(iv) in relation to such ForexClear Contracts; and
- (v) all other conditions stipulated by the Clearing House have been complied with in a manner satisfactory to it.

~~(p)~~(q) Upon the occurrence of ~~the a~~ US ~~US~~-ForexClear STM Conversion Date, ~~each~~ the given Converting ForexClear Clearing Member ~~US FXCCM~~ agrees and acknowledges for the benefit of the Clearing House that the ForexClear Contracts registered in its name cannot, in any circumstance, be re-converted into ForexClear CTM Contracts.

~~(q)~~(r) For the purposes of this Regulation 106A;

- (i) **"Cumulative Net Present Value"** means:
 - (A) in respect of a ForexClear STM Contract that is not a ForexClear Option Contract and a business day (as such term is defined in the ForexClear STM Terms relating to that ForexClear STM Contract) falling after the Trade Date, a hypothetical value, determined by the Clearing House acting in its sole and absolute discretion, equal to:

- (1) the aggregate of the amounts (if any) payable by the ForexClear Clearing Member to the Clearing House (expressed as a positive number) under Section 4.1 (or Section 10.1, if the ForexClear STM Contract is a ForexClear NDF STM Contract) of the applicable ForexClear STM Terms from, and including, the Trade Date to, but excluding, that business day; plus
 - (2) if such ForexClear STM Contract has been converted from a ForexClear CTM Contract, the aggregate of the amounts (if any) of variation margin determined to be payable by the ForexClear Clearing Member to the Clearing House (expressed as a positive number) from, and including, the Trade Date, to, and including, the ~~US~~ ForexClear STM Conversion Date relating to such ForexClear STM Contract; plus
 - (3) the aggregate of the amounts (if any) payable by the Clearing House to the ForexClear Clearing Member (expressed as a negative number) under Section 4.1 (or Section 10.1, if the ForexClear STM Contract is a ForexClear NDF STM Contract) of the ForexClear STM Terms from, and including, the Trade Date, to, but excluding, that business day; plus
 - (4) if such ForexClear STM Contract has been converted from a ForexClear CTM Contract, the aggregate of the amounts (if any) of variation margin determined to be payable by the Clearing House to the ForexClear Clearing Member (expressed as a negative number) from, and including, the Trade Date, to, and including, the ~~US~~-ForexClear STM Conversion Date relating to the ForexClear STM Contract.
- (B) in respect of a ForexClear STM Contract that is a ForexClear Option Contract, the sum of the Premium Cumulative Net Present Value and the Option Cumulative Net Present Value.
- (ii) "**NPV Reset**" means, in relation to a ForexClear STM Contract, the point in time when ~~LCH~~the Clearing House makes its determination of the net present value in relation to that ForexClear STM Contract, and immediately following which the provisions of Regulation 106A(c) and (d) shall apply.
 - (iii) "**Option Cumulative Net Present Value**" means in relation to all obligations under a ForexClear Option STM Contract other than the obligation to pay "Premium" and a business day falling after the Trade Date, a hypothetical value, determined by the Clearing House acting in its sole and absolute discretion, equal to:
 - (1) the aggregate of the amounts (if any) payable by the ForexClear Clearing Member to the Clearing House

(expressed as a positive number) under Section 4.1(b)(ii) of the applicable ForexClear STM Terms from, and including, the Trade Date to, but excluding, that business day; plus

- (2) if such ForexClear STM Contract has been converted from a ForexClear CTM Contract, the aggregate of the amounts (if any) of variation margin in respect of such obligations determined to be payable by the ForexClear Clearing Member to the Clearing House (expressed as a positive number) from, and including, the Trade Date, to, and including, the ~~US~~-ForexClear STM Conversion Date relating to such ForexClear STM Contract; plus
 - (3) the aggregate of the amounts (if any) payable by the Clearing House to the ForexClear Clearing Member (expressed as a negative number) under Section 4.1(b)(ii) of the ForexClear STM Terms from, and including, the Trade Date, to, but excluding, that business day; plus
 - (4) if such ForexClear STM Contract has been converted from a ForexClear CTM Contract, the aggregate of the amounts (if any) of variation margin in respect of such obligations determined to be payable by the Clearing House to the ForexClear Clearing Member (expressed as a negative number) from, and including, the Trade Date, to, and including, the ~~US~~-ForexClear STM Conversion Date relating to the ForexClear STM Contract.
- (iv) **"Option Price Alignment Amount"** means, in relation to all obligations under a ForexClear Option STM Contract other than the obligation to pay "Premium" and a business day falling after the Trade Date of that ForexClear STM Contract, the product of:
- (A) the absolute value of the Option Cumulative Net Present Value on such business day;
 - (B) the applicable Price Alignment Amount Rate on such business day; and
 - (C) the day count fraction determined by the Clearing House as being applicable to the ForexClear Margin or Settlement Currency (as defined in Procedures 2I) of that ForexClear STM Contract.
- (v) **"Premium Cumulative Net Present Value"** means in relation to the obligation under a ForexClear Option STM Contract to pay "Premium" and a business day falling after the Trade Date, a hypothetical value, determined by the Clearing House acting in its sole and absolute discretion, equal to:

- (A) the aggregate of the amounts (if any) payable by the ForexClear Clearing Member to the Clearing House (expressed as a positive number) under Section 4.1(b)(i) of the applicable ForexClear STM Terms from, and including, the Trade Date to, but excluding, that business day; plus
 - (B) if such ForexClear STM Contract has been converted from a ForexClear CTM Contract, the aggregate of the amounts (if any) of variation margin in respect of such obligation determined to be payable by the ForexClear Clearing Member to the Clearing House (expressed as a positive number) from, and including, the Trade Date, to, and including, the ~~US~~ ForexClear STM Conversion Date relating to such ForexClear STM Contract; plus
 - (C) the aggregate of the amounts (if any) payable by the Clearing House to the ForexClear Clearing Member (expressed as a negative number) under Section 4.1(b)(i) of the ForexClear STM Terms from, and including, the Trade Date, to, but excluding, that business day; plus
 - (D) if such ForexClear STM Contract has been converted from a ForexClear CTM Contract, the aggregate of the amounts (if any) of variation margin in respect of such obligation determined to be payable by the Clearing House to the ForexClear Clearing Member (expressed as a negative number) from, and including, the Trade Date, to, and including, the ~~US~~ ForexClear STM Conversion Date relating to the ForexClear STM Contract.
- (vi) **"Premium Price Alignment Amount"** means, in relation to the obligation to pay "Premium" under a ForexClear Option Contract and a business day falling after the Trade Date of that ForexClear STM Contract, the product of:
- (A) the absolute value of the Premium Cumulative Net Present Value on such business day;
 - (B) the applicable Price Alignment Amount Rate on such business day; and
 - (C) the day count fraction determined by the Clearing House as being applicable to the ForexClear Margin or Settlement Currency (as defined in Procedures 2I) of that ForexClear STM Contract.
- (vii) **"Price Alignment Amount"** means:
- (A) in relation to a ForexClear STM Contract that is not a ForexClear Option Contract and a business day falling after the Trade Date of that ForexClear STM Contract, the product of:

Appendix II

Procedures Section 21 (ForexClear Clearing Service)



LCH LIMITED

PROCEDURES SECTION 2I

FOREXCLEAR CLEARING SERVICE

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.