

VIA CFTC PORTAL

13 December 2017

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

**LCH Limited Self Certification: amendments to the rules regarding use of FCM Buffer as variation settlement**

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 regarding the payment of USD denominated variation settlement by Futures Commission Merchants of its SwapClear service (thereafter “FCM Clearing Members”).

**Part I: Explanation and Analysis**

LCH has recently implemented rules to allow FCM Clearing Members to opt to use available buffer collateral to cover USD variation settlement requirements, in respect of the losses generated by their Customers’ accounts (thereafter the “service”). The service is optional and requires FCMs to contact LCH to elect to use the service or to cancel it. The proposed rules include a correction to the previously advised timings by which FCMs can request and election or a cancellation and the contact details which such a request can be submitted to.

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

**Part II: Description of Rule Changes**

Section 4.9 (“Treatment of Unallocated Excess and Return of FCM Buffer”) in Part 4 (“Collateral”) of the FCM Procedures notes the Client Services’ email address to contact to opt in or out of the service. In addition the section clarifies the cut off times for requests to be submitted to LCH on a given Business Day.

The text of the changes to the FCM Procedures is attached hereto as **Appendix I**.

**Part III: Core Principle Compliance**

LCH has reviewed the changes against the requirements of the Core Principles and finds that they will continue to comply with all the requirements and standards therein.

#### Part IV: Public Information

LCH has posted a notice of pending certification with the CFTC and a copy of the submission on LCH's website at:

<http://www.lch.com/rules-regulations/proposed-rules-changes>

#### Part V: Opposing Views

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

#### Certification

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

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

Yours sincerely



Julian Oliver  
Chief Compliance Officer  
LCH Limited

Appendix I  
FCM Procedures



**FCM PROCEDURES OF THE CLEARING HOUSE**

**LCH LIMITED**

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An FCM Clearing Member that wishes to make an election to have Eligible FCM Buffer applied in accordance with this Section 4.9.2 or to cancel a previous election to do so should contact the Clearing House's ~~Collateral Operations Client~~ Services team (~~collateral.operations@lch.com~~ ratesclientservices@lch.com) and provide any other information reasonably requested by the Clearing House. Elections and cancellations in accordance with this Section 4.9.2 become effective upon the FCM Clearing Member receiving confirmation in writing of the election or cancellation from the Clearing House. Elections and cancellations received by the Clearing House (a) prior to 12:00 pm EST 16:00 London time on a Business Day are typically processed ~~on the following~~ that Business Day and (b) after 16:00 London time on a Business Day are typically processed the following Business Day.

Through making an election or cancellation in accordance with this Section 4.9.2, an FCM Clearing Member is deemed to represent and warrant that (a) it is not a Defaulter and (b) the individual making the request on behalf of the relevant FCM Clearing Member is appropriately authorized to do so.

For the purposes of this Section 4.9.2 and with respect to an FCM Clearing Member, "Eligible FCM Buffer" means, on the relevant Business Day, the lesser of: (i) its FCM Buffer that is not Encumbered FCM Buffer at the end of such Business Day; and (ii) the total USD cash held by the Clearing House in the LCH Swaps Client Segregated Depository Account at the end of such Business Day.

For the purposes of this Section 4.9, references to FCM Clearing Member shall mean an FCM Clearing Member who provides FCM SwapClear Clearing Services.

#### 4.10 Collateral Value Reports

In accordance with FCM Regulation 15(d) (*Margining of Swap Product Client Accounts*), an FCM Clearing Member that has elected to adopt the LSOC With Excess Model is required to provide the Clearing House with an eligible CVR (Collateral Value Report as defined in the FCM Regulations) at least once per Business Day.

##### 4.10.1 *Contents of the Collateral Value Report*

The CVR should contain details of the following:

- (a) **FCM Client Sub-Account Balance:** The value of Margin delivered for and on behalf of each FCM Client and its respective FCM Client Sub-Account.
- (b) **FCM Buffer:** The value of FCM Buffer lodged in the FCM Buffer Sub-Account.

All values provided in a CVR must be the post haircut value in USD (or such other currency as agreed in writing by the Clearing House).

Where the CVR does not contain information for all of the FCM Clients of an FCM Clearing Member, the Clearing House will assume that the FCM Client