

Via CFTC Portal

15 December 2017

Mrs. Parisa Abadi

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

Dear Mrs. Abadi,

Pursuant to CFTC regulation §40.6(a), LCH SA (“**LCH**”), a derivatives clearing organization registered with the Commodity Futures Trading Commission (the “**CFTC**”), is submitting for self-certification the amendments to the CDS Clearing Rule Book, Procedures and a Clearing Notice (the “**Rules**”) to make conforming and clarifying changes necessary to implement certain provisions of the Markets in Financial Instruments Regulation (“**MiFIR**”)¹ and other amendments.

The intended date of implementation is January 3rd, 2018, which corresponds to the effective date of MiFIR, subject to any relevant regulatory review or approval process and in no event, the changes will be implemented earlier than 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

1) MiFIR related amendments

The two primary rule sets from MiFIR to be implemented are those relating to indirect clearing accounts (i) and straight-through processing (ii):

- (i) each clearing member will be required to open up at least, at the level of the clearing house, one indirect net account for all of the indirect clients of its clients who do not choose gross segregation and then one indirect gross account *per* client for such client’s indirect clients that choose gross segregation. Consequently, the current indirect client account structure – that was linked to an individual account client – as provided for in the CDS Clearing Rule Book has been replaced by these new account structures;
- (ii) the clearing house is required to clear the trades within a mandatory timeframe pursuant to MiFIR. For that purpose, it has been made clear in the CDS Clearing Rule Book that the intraday

¹ Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012

process will be conducted by LCH in accordance with applicable law. Thus, where there are differences regarding the mandatory timeframe in applicable law across jurisdictions, LCH will apply the stricter standard. In addition, the scope of the backloading process has been also limited to trades that are either entered into before 3 January 2018 or that are entered into following that date but which are not subject to mandatory clearing and which were not, at the time of execution, intended by the parties to be cleared.

2) Other amendments:

We have taken the opportunity to make the following other amendments:

- clarification of the responsibilities between a non-defaulting clearing member that has appointed a representative to act in its place in the competitive bidding process and that representative notably by removing the notion of “Auction Participant” in the CDS Clearing Rule Book. A clearing member will be also able to appoint representatives from its affiliates as its representative on the CDS Default Management Committee or CDS Default Management Group;
- changes to the definition of “Member Uncovered Risk” (renamed to “Group Member Uncovered Risk”) to take into account the relevant LCH Group Risk policy which considers whether the clearing members belong to the same group for the purposes of the relevant risk calculations;
- changes made to the price contribution process in respect of the methodology with regard to using observed values for bid/ask width ;
- references to a particular time regarding the price contribution process in the CDS Clearing Rule Book have been moved to Section 5 of the Procedures; and
- amendment to the Clearing Notice listing the Approved Trade Source Systems to add Bloomberg Trade Facility Ltd.

Part II: Description of Rule Changes

The following Rules have been amended:

- (i) CDS Clearing Rule Book with respect to the adding of new definitions related to the indirect net account, description of, and transfer process for, these account structures, the clearing process to implement the straight-through processing requirement, the Group risk policy-related requirement, the price contribution process and representative appointed by a clearing member in the context of the default management process and other minor amendments for consistency purposes;
- (ii) Procedures:
 - Section 1 with respect to references to new indirect account structures being added;

- Section 2 with respect to references to new indirect account structures being added and the Group risk policy-related requirement;
 - Section 3 with respect to references to new indirect account structures being added;
 - Section 4 with respect to new eligibility requirements for the backloading transactions to take into account the straight-through processing requirement;
 - Section 5 with respect to the transfer process and relevant forms for the new indirect account structures and the price contribution process related amendments;
 - Section 6 with respect to the Group risk policy-related requirement; and
- (iii) Clearing Notice listing the Approved Trade Source Systems to add Bloomberg Trade Facility Ltd.

Another separate self-certification is submitted concurrently with respect to the new applicable fee grid.

Part III: Core Principle Compliance

LCH 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 has posted a notice of pending certifications 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 that were not incorporated into the rule.

Certification

LCH hereby certifies to the CFTC, 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: françois.faure@lch.com.

A handwritten signature in blue ink, appearing to read 'Faure', with a long horizontal stroke underneath.

Francois Faure
Chief Compliance Officer
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APPENDIX

Relevant extracts of:

- 1) CDS Clearing Rule Book
- 2) Section 1 of the Procedures
- 3) Section 2 of the Procedures
- 4) Section 3 of the Procedures
- 5) Section 4 of the Procedures
- 6) Section 5 of the Procedures
- 7) Section 6 of the Procedures
- 8) Clearing Notice on Approved Trade Source Systems