



**VIA EMAIL TO: SUBMISSIONS@CFTC.GOV**

February 4, 2014

Ms. Melissa Jurgens  
Commodity Futures Trading Commission  
1155 21<sup>st</sup> Street NW  
Three Lafayette Centre  
Washington DC 20581

Dear Ms. Jurgens,

Pursuant to CFTC regulation §40.6(a), LCH.Clearnet Limited ("LCH.Clearnet"), a derivatives clearing organization registered with the Commodity Futures Trading Commission (the "CFTC"), is submitting for self-certification changes to its rulebook for EnClear Procedure 2E enabling Clearing Members to set-up multiple Client accounts. These rulebook changes will be implemented and effective on February 21, 2014.

Please find attached as appendices the Submission Cover Sheet and the relevant changes to the LCH.Clearnet rulebook.

**Part I: Explanation and Analysis**

Ahead of the introduction of Individually Segregated Accounts ("ISAs") and Omnibus Segregated Accounts ("OSAs"), as defined under the European Market Infrastructure Regulation ("EMIR"), LCH.Clearnet is supporting Clearing Member migration by offering multiple Client accounts. These accounts will enable Clearing Members to segregate their activity ahead of the introduction of ISAs and OSAs thereby minimising the operational risk associated with a large number of position and collateral transfers being executed in a truncated timeframe.

**Part II: Description of Rule Changes**

The implementation of these changes requires amendments to the EnClear Procedure (2E), specifically 1.10.2, 1.14.6, 1.14.7, 1.15.1, 1.15.4, 1.15.5, 1.15.6 and 6.1.5. The relevant pages of the rulebook are attached at Appendix II.

No changes are required to the FCM Rulebook.

**Part III: Core Principle Compliance**

The rule change submitted herein ensures continued compliance with a DCO's Treatment of Funds requirement found Core Principle F. LCH.Clearnet will continue to comply with all Core Principles

**LCH.Clearnet Limited Aldgate House, 33 Aldgate High Street, London EC3N 1EA**  
Tel: +44 (0)20 7426 7000 Fax: +44 (0)20 7426 7001 [www.lchclearnet.com](http://www.lchclearnet.com)  
LCH.Clearnet Group Limited | LCH.Clearnet Limited | LCH.Clearnet SA | LCH.Clearnet LLC



following the introduction of these changes and has concluded that its compliance with the Core Principles will not be adversely affected by these changes.

**Part IV: Public Information**

LCH.Clearnet has posted a notice of pending certification with the CFTC and a copy of the submission on LCH.Clearnet's website at: [[http://www.lchclearnet.com/rules\\_and\\_regulations/ltd/default.asp](http://www.lchclearnet.com/rules_and_regulations/ltd/default.asp)].

**Part V: Opposing Views**

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

**Certification**

LCH.Clearnet Limited 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 [jay.iyer@lchclearnet.com](mailto:jay.iyer@lchclearnet.com) or Vikesh Patel at [vikesh.patel@lchclearnet.com](mailto:vikesh.patel@lchclearnet.com)

Yours sincerely,

A handwritten signature in black ink, appearing to read "Jay Iyer", written over a horizontal line.

Jay Iyer, Chief Compliance Officer,  
LCH.Clearnet Limited

**SECTION 2E**

**CONTENTS**

2E.	LCH ENCLEAR OTC SERVICES .....	2
2E.1	GENERAL MATTERS .....	2
2E.2	FREIGHT DIVISION .....	18
2E.3	ENERGY DIVISION .....	21
2E.4	PRECIOUS METALS DIVISION.....	23
2E.5	Option Exercise and Expiry .....	26
2E.6	EMISSIONS DELIVERY PROCEDURES .....	28
2E.7	PRECIOUS METALS: DELIVERY PROCEDURES.....	48
APPENDICES 2E.A.....		<del>55</del> 56
	Emissions deliveries.....	<del>55</del> 56
APPENDICES 2E.B.....		<del>56</del> 57
	Seller's EUA Forward Contracts Delivery Confirmation Form .....	<del>56</del> 57
APPENDICES 2E.C.....		<del>57</del> 58
	Seller's CER Forward Contracts Delivery Confirmation Form .....	<del>57</del> 58
APPENDICES 2E.D.....		<del>58</del> 59
	BUYER'S EUA Forward Contracts Delivery Confirmation Form.....	<del>58</del> 59
APPENDICES 2E.E.....		<del>59</del> 60
	BUYER'S CER Forward Contracts Delivery Confirmation Form .....	<del>59</del> 60

Eligible OTC Precious Metal transactions which are not held in the pending queue will be registered upon acceptance in Synapse. Trades held in the pending queue will be registered upon release from the pending queue.

Eligible OTC trades can be submitted on any London business day.

#### **2E.1.10.1 Risk Pending Trades**

The traded price and lot size of all trades presented to the Clearing House for registration are validated against a price range and lots limit file.

For each value date the price range above and below the previous day's closing price is calculated each day by reference to a pre-determined price limit for each Precious Metal (refer to 2E4.5).

The price limit is normally set to be identical to the prevailing scanning range for each contract; however, during periods of high price volatility this may temporarily be increased to avoid the suspension of trades which are within the day's trading range. Lot and price limits may be changed, by member circular, from time-to-time.

Trades input, where either the price range or the lot size limit is exceeded, will be matched in the usual manner, but will be written to a separate 'matched trade file' for subsequent acceptance or rejection by the Clearing House.

The Clearing House may alter the price and lots limits to cater for volatile price conditions. This will allow trades transacted at 'current' market prices to be input, matched and presented to the Clearing House for registration without requiring acceptance.

#### **2E.1.10.2 Conditions for Acceptance of Risk Trades**

Registration of trades held in the Risk Pending Queue is conditional on the provision of margin cover. The Clearing House will first consider any surplus cover held, surplus credit variation margin, and any net credit variation margin for the account in which the trade is to be registered in respect of new business, before requesting additional cover from a Clearing Member. Margin in this case is net debit variation margin in respect of the pending trades, calculated automatically by the system with reference to the previous day's closing price.

If the Clearing House decides that additional cover is necessary it will advise the Clearing Member as soon as possible. The Member so advised should contact the counterparty to the pending trade in order to notify them that there may be some delay prior to acceptance of the trade. At the same time, the currency and method of funds transfer, or type of collateral to be provided, will be agreed between the Clearing House and the Clearing Member. Only when the Clearing House has received collateral or confirmation from the transferring PPS bank that the funds have been transferred will it accept the pending trades.

The Clearing House will carry out the process of accepting pending trades on an hourly basis throughout the day, or more frequently where possible. The acceptance process will apply to both sides of a trade at the same time.

2E.1.14.3 **Basis of Position Keeping for the Freight and Energy Divisions**

Position Accounts can be held net or gross, as required by the GCM. GCMs must notify the Clearing House of their requirements in this regard.

2E.1.14.4 **Basis of Position Keeping for the Precious Metals Divisions**

Positions within a GCM's House account are held net.

2E.1.14.5 **Position Settlement (Gross Accounts) for Freight and Energy Divisions**

Where a position account is held gross, the GCM may, if it so wishes, carry out a closeout by the manual settlement of open positions, using the position adjustment facility in the ECS system.

2E.1.14.6 **Financial Accounts**

Position accounts have financial accounts associated with them. These are, inter alia, used to record cash balances, securities/documentary credits and non-realised margin.

~~Where appropriate, GCMs' financial accounts are identified by a single character code: "C" for segregated client business; "H" for house business, "H" or "C" for non-segregated business and "C" or individual "O" (+ 3 alpha/numeric) accounts for segregated client accounts.~~

~~Position accounts will map to either a GCM's "C" account or "H" account or any "O" account, as specified by that Member. There shall be no offset of collateral between financial accounts, save as permitted by Default Rule 8(d) (where the Clearing House may apply any balance on the Proprietary Account(s) to meet any shortfall on the client account(s)).~~

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For the Precious Metals Division GCMs' House accounts will map to "H" financial account.

At the Clearing House's discretion, further financial accounts, used only to record financial balances, may be opened as follows:

	Code
Buffer account (House), used for holding additional cash in relation to House business	B
Buffer account (Client), used for holding additional cash in relation to Client business	E

2E.1.14.7 **Default Fund (DF) Account**

~~Each Clearing Member's Default Fund Contribution is held in a separate financial account. In accordance with the Default Fund Rules this account attracts a higher rate of interest at 3-month LIBOR + 1%. The Default Fund account code is "F".~~

2E.1.15 **Margins**

**2E.1.15.1 Initial Margins**

Separate initial margin calculations are performed for a GCM's House "H", and Client "C" and Client "O" accounts. No offset between these accounts is allowed. Accounts are margined net, meaning that if long and short positions are held in the same delivery month, initial margin is charged on the net position.

**2E.1.15.2 Initial Margins Parameters**

Initial margin parameters are set by the Clearing House. However, in accordance with the Regulations, the Clearing House retains the right at its discretion to vary the rates for the whole market or for an individual GCM's house and/or client accounts.

GCMs will be notified by the Clearing House of alterations to initial margin parameters no later than the day before calls are made based on the new rates.

**2E.1.15.3 Calculation of Initial Margins****London SPAN**

Initial margins are re-calculated at the close of each business day using the London SPAN algorithm, which is an adaptation of the SPAN method developed by the Chicago Mercantile Exchange<sup>1</sup>.

For full details of how London SPAN calculates margins, reference should be made to the SPAN technical information package available from the Clearing House Service Desk +44 (0)20 7426 7200. Technical questions should be directed to the Clearing House Risk Management department on +44 (0)20 7426 7620.

**2E.1.15.4 Realised Variation Margin**

The majority of LCH EnClear OTC Contracts are settled to market daily by the Clearing House in accordance with the relevant LCH EnClear OTC Contract Terms. Profits or losses are either credited to or debited from GCMs' relevant financial accounts (realised margin).

Realised margin is the calculated profit or loss arising from a comparison between the values of open positions at the relevant Reference Price with the value of positions recorded i.e. the Fixed Price for new trades and the previous day's Reference Price for other positions.

Separate variation margin calculations are performed for a GCM's House 'H', Client 'C' and each Client 'O' financial account. No offset between accounts is allowed.

**2E.1.15.5 Contingent Variation Margin**

<sup>1</sup> The Chicago Mercantile Exchange (CME) permitted the Clearing House to adapt the CME specifications for SPAN to produce London SPAN, which meets the particular requirements of the London futures and options markets. 'SPAN [TM] ®' is a registered trademark of the CME. The CME assumes no liability in connection with the use of SPAN or London SPAN by any person or entity.

Certain types of LCH EnClear OTC Contracts (World Scale Wet Freight) are marked to market daily by the Clearing House in accordance with the relevant LCH EnClear OTC Contract Terms. Un-realised margin is the calculated contingent profit or loss arising from a comparison between the values of open positions at the relevant Reference Price with the value of positions recorded i.e. the original traded price.

Separate contingent variation margin calculations are performed for a Clearing Member's House 'H', Client 'C' and each Client 'O' financial account. No offset between accounts is allowed.

#### 2E.1.15.6 **Option Variation Margin**

As premium is paid up front, option variation margin is the value of unexpired option, calculated with reference to the official quotation. Bought and sold options generate credit and debit NLV (Net Liquidation Value) margin respectively.

Separate NLV calculations are performed for a Clearing Member's House 'H', Client 'C' and each Client 'O' financial account. No offset between accounts is allowed.

#### 2E.1.15.7 **Intra Day Margin Calls**

In accordance with the Regulations the Clearing House is entitled to make additional margin calls for payment the same day (intra-day margin calls) where it considers it necessary. Intra-day margin calls will be made through the Protected Payments System in London or the USA (USD).

#### 2E.1.16 **Trade Management for the Freight and Energy Divisions**

##### 2E.1.16.1 **Trade Entry**

Eligible OTC Trades for the Freight and Energy Divisions may be submitted for clearing either directly by the GCM or by an Approved Broker via ClearWay, or through an OTP. A list of Approved Brokers is available from the Clearing House.

BEDT trades will be submitted via the Baltex screen, which is linked directly to ClearWay. Cleartrade trades may be entered via the Cleartrade screen, which is linked directly to ECS, or manually (by Cleartrade staff) via ClearWay.

The following particulars of Eligible OTC Trades must be entered in ClearWay via its Ticket Entry screen:

- Product
- Series (Spot, Month, Quarter, Season or Calendar)
- Contract Type (Forward, Call or Put)

**2E.6 EMISSIONS DELIVERY PROCEDURES**

**2E.6.1 General Information**

**2E.6.1.1 Additional Definitions**

Additional definitions relevant to the LCH EnClear OTC Services: Energy Division are set out at Section 3.3C of the Schedule to the EnClear OTC Regulations.

**2E.6.1.2 Delivery of Documentation to the Clearing House**

Clearing Members must submit the required delivery documentation by email to [LCHOperations-Commodities@lchclearnet.com](mailto:LCHOperations-Commodities@lchclearnet.com) or by hand to LCH.Clearnet Limited, Aldgate House, 33 Aldgate High Street, London EC3N 1EA, United Kingdom in both cases marked "**Urgent, for the attention of Operations and Client Servicing**".

**2E.6.1.3 Authorised Signatories**

Prior to making or taking any delivery, Clearing Members must submit a list of authorised signatories to the Clearing House (Appendices 2E.A). It is the Clearing Member's responsibility to ensure that details of authorised signatories held at the Clearing House are updated as appropriate.

**2E.6.1.4 "Buyers" and "Sellers"**

Throughout these delivery procedures the term "Buyer" or "buyer" is used to refer to the buying Clearing Member and "Seller" or "seller" to the selling Clearing Member.

**2E.6.1.5 Member Accounts**

No offset is allowed for either physical delivery or financial settlement between Clearing Members' "H", "ouse and client" "C" or "O" accounts.

**2E.6.1.6 Clearing House Account**

The Clearing House shall maintain Accounts in the Registry for the purposes of making and taking delivery under LCH EnClear OTC Contracts. Deliveries to the Clearing House must be made to the Clearing House's Account as follows:

Account Number: EU-100-5016892-0-62

**2E.6.2 OTC Emissions Delivery for Forward Contracts**

**2E.6.2.1 Introduction**

This Section 2E.6.2 (plus Appendices 2E.A-E) applies to deliveries under Forward EUA and CER Emissions Contracts within the OTC Emissions Service of the LCH EnClear OTC Services (Energy Division). The following terms shall have the following meanings for the purposes of the same provisions.

<b>Authorised</b>	A natural person authorised for the purposes of the
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- (e) Without prejudice to (b) above, the Buyer shall indemnify the Clearing House against all costs and expenses incurred the Clearing House in taking steps to mitigate the losses, charges, expenses or penalties which would otherwise be incurred as a result of the Buyer's failure to comply with its obligations under a Contract.

**2E.6.3.6.2 The Clearing House shall under no circumstances be liable for any indirect or consequential loss or loss of profits.**

**2E.6.3.7 Buying-In**

**2E.6.3.7.1 Buying-in notice**

After 14:30 on the Delivery Day the Clearing House will issue a notice (a "Buying-in Notice") to the Selling Member who has failed to deliver informing it that buying-in will be instigated by 11:00 on the day following the Delivery Day (D+1) if the Selling Member does not transfer the necessary Instruments to the Trading Account of the Clearing House prior to this time.

**2E.6.3.8 Buying-in Process**

11:00 Delivery Day + 1

If the Selling Clearing member fails to transfer the necessary Instruments to the Trading Account of the Clearing House by 11:00 on D+1 as stated on the relevant Buying-in Notice the Clearing House will execute Buying-in and use its reasonable endeavours to obtain the relevant Instruments by 11:00 on Delivery Day +2. Once the Clearing House has placed an order with its Buying in agent, the Clearing House will not accept any Instruments from the failed Selling Clearing member.

If the Clearing House is unable or for any reason fails to buy-in the full amount of relevant Instruments by 11:00 on D+2, the Clearing House will "Cash Settle" the relevant Spot Emissions Contract/s pursuant to Section ~~2E.6.3.9~~ **2E.6.3.9**.

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Timetable of Events (in UK Times)

Functions	Timescales
Buying In initiated by the Clearing House by issuing the notice to the Selling Clearing Member	14:30 hours on Delivery Day
Buying In executed by the Clearing House	If failing selling member fails transfer allowances by 11:00 hours on the Delivery Day + 1,
Close of Buying-in period	11:00 on the Delivery Day + 2
Cash Settlement Occurs	By 09:00 on the Delivery Day + 3 if buying in fails