November 21, 2013

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

RE: Changes to LCH.Clearnet LLC's Rules and Regulations –Backloading

Dear Ms. Jurgens:

Pursuant to §40.6(a) of the Commission Regulations, LCH.Clearnet LLC ("LCH.Clearnet"), a Derivatives Clearing Organization registered with the Commodity Futures Trading Commission ("CFTC"), hereby submits proposed changes to its rules pursuant to Commission Regulation §40.6. As detailed more fully below, LCH.Clearnet proposes to implement the changes to its rulebook.

LCH.Clearnet's SwapClear service is planning to implement changes to the registration process of backloaded trades with effect from December 9, 2013.

Part I: Explanation and Rationale for the Amendments

    (i)   Backloading

Since its launch, LCH.Clearnet, has registered backloaded trades (i.e. trades executed more than ten days in the past) in the same manner as new trades for the purposes of CFTC Regulation 39.12(b)(7), i.e., to accept or reject them within 60 seconds.

On or before December 9, 2013, LCH.Clearnet is planning to process backloaded trades as a batch, which means that backloaded trades will continue to be accepted or rejected within 60 seconds of the trade submission, however, backloaded trades will only be deemed submitted once funded.

In summary, backloaded trades will be processed intra-day in one backload trade run. Initially one run is proposed which will begin approximately at 15:00 UK time. Trades submitted by the trade source after the initiation of the backload trade run will be held over and included in the next run the following business day, subject to the eligibility criteria.

Part II: Amendments to the Rules & Regulations of LCH.Clearnet

The changes described above are reflected in changes each of the following Rulebook Sections:

- Section 2A of the Clearing House Procedures at Appendix A-1
- General Regulations at Appendix A-2

The rule changes can be summarised as follows:

Section 2A.3.5.1 of the Clearing House Procedures has been updated to state that backloaded trades are treated differently from new trades.

At Section 2A.3.5.2 new procedures have been added to address how backloaded trades are cleared:

- Post Clearing Member acceptance of a SwapClear Transaction, LCH.Clearnet will calculate the incremental margin increase and notify Clearing Members of the increase.
- LCH.Clearnet then calls this from the Clearing Members participating in the Backload Registration Cycle. SwapClear Tolerance, MER Cover and other excess collateral is not available to cover this margin call unless excess is lodged solely for that purpose (as described below).
- Once cover has been delivered, LCH.Clearnet will make an additional margin call to cover any SwapClear Tolerance usage since the original margin call described above was issued (although such usage is unrelated to the registration of the Backloaded trades).
- The third paragraph provides that where a Clearing Member determines that the VM payments associated with a portfolio of backloaded trades will be in excess of a published threshold then the Clearing Member must notify LCH.Clearnet. Where such a notification is not received, and a VM payment is excess of the published amount is called' then LCH.Clearnet may exclude the relevant Clearing Member from the Backload registration cycle. Where a Clearing Member does notify LCH.Clearnet, instructions will be given to pre-fund the cover in respect of the change in NPV.
- Where the aggregate change in total margin required associated with all trades that form part of the Backload registration cycle is in excess of a pre-published amount then LCH.Clearnet may cancel the Backload registration cycle.
- Cover must be received from all members involved in a Backload registration cycle in order for the associated trades to register.

The General Regulations have been updated with the insertion of new definitions (backload trade and backload registration cycle).

In addition to these changes, LCH.Clearnet intends to issue a SwapClear circular with the following information to SwapClear Clearing Members:

(i)   Dates on which LCH.Clearnet will not process backload requests;
(ii)   The "Aggregate Backload Margin Threshold" will be set at $500m or equivalent;
(iii)   The "Individual Backload Value Threshold" will be set at $100m or equivalent.

The draft circular is attached at Appendix A-3.

Part III: Certification by LCH.Clearnet

LCH.Clearnet certifies to the CFTC, in accordance with CFTC Regulation §40.6, that the planned changes comply with the Commodity Exchange Act and the CFTC Regulations promulgated thereunder. LCH.Clearnet further certifies that, upon the submission of this material, in compliance with §39.21 of the Commission's regulations, LCH.Clearnet will post a notice of pending certification with the CFTC and a copy of the submission on LCH.Clearnet's website at

http://lchclearnet.com/rules_and_regulations/llc/proposed_rules.asp

Part IV: Compliance with Core Principles

The rule amendments and other changes described above relate primarily to LCH.Clearnet's compliance with Core Principles D (Risk Management), and E (Settlement Procedures). LCH.Clearnet has concluded that its compliance with Core Principles would not be adversely affected by these changes. The changes reflected herein will ensure continued compliance with the Core Principles.

Specifically, the introduction of the Backloading proposal for LCH.Clearnet's SwapClear service complies with CFTC Regulation 39.12(b)(7).

Part V: Opposing Views

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

Certification

LCH.Clearnet LLC hereby certifies to the Commodity Futures Trading Commission, pursuant to the procedures set forth in 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 laurian.cristea@lchclearnet.com.

LCH.CLEARNET

Yours sincerely,

Laurian Cristea
Senior Vice President, Compliance & Regulation
US Contact: +1 212.513.5610

Exhibit A-1
Section 2A of the Clearing House Procedures

CLEARING HOUSE MAKES NO WARRANTY (AND WILL ACCEPT NO LIABILITY) AS TO THE EFFECTIVENESS, EFFICIENCY, PERFORMANCE OR ANY OTHER ASPECT OF THE SERVICES PROVIDED BY ANY APPROVED TRADE SOURCE SYSTEM OR THE TIMELINESS OR OTHERWISE OF THE DELIVERY OF ANY SWAPCLEAR TRANSACTION DETAILS BY THAT APPROVED TRADE SOURCE SYSTEM TO THE CLEARING HOUSE. SUCH MATTERS FORM PART OF THE RELATIONSHIP BETWEEN THE CLEARING MEMBERS AND THAT APPROVED TRADE SOURCE SYSTEM.

The Clearing House will process any SwapClear Transaction reported to it by an Approved Trade Source System on an "as is" basis and, subject to the Regulations and these Procedures, will register any such SwapClear Transaction on the basis of the data provided to it by the Approved Trade Source System and approved by the relevant Clearing Member. The Clearing House has no obligation to verify that the details received properly reflect the trade entered into by the relevant Executing Parties.

THE CLEARING HOUSE ACCEPTS NO LIABILITY FOR ANY ERROR WITHIN OR CORRUPTION OF ANY DATA SENT BY AN APPROVED TRADE SOURCE SYSTEM TO THE CLEARING HOUSE OR TO A CLEARING MEMBER OR ANY DELAY IN OR FAILURE OF THE TRANSMISSION OF SUCH DATA TO THE CLEARING HOUSE. IN THE EVENT THAT THE CLEARING HOUSE REGISTERS ANY SWAPCLEAR CONTRACT ON THE BASIS OF INCORRECT OR CORRUPTED DATA SENT TO IT BY AN APPROVED TRADE SOURCE SYSTEM AND ACCEPTED (WHETHER AUTOMATICALLY OR MANUALLY, AS APPLICABLE) BY A CLEARING MEMBER, THE CLEARING MEMBER CONCERNED SHALL BE BOUND BY THE TERMS OF SUCH SWAPCLEAR CONTRACT. THE CLEARING HOUSE SHALL USE ITS REASONABLE BEST EFFORTS TO ASSIST THE RELEVANT CLEARING MEMBER(S) IN RE-REGISTERING THE TRADE ON THE CORRECT BASIS BUT THE CLEARING HOUSE SHALL NOT BE LIABLE TO A CLEARING MEMBER OR TO ANY OTHER PARTY WITH REGARD TO THE REGISTRATION (OR LACK OF REGISTRATION OR RE-REGISTRATION) OF ANY SUCH SWAPCLEAR CONTRACT.

Clearing Members shall ensure that Necessary Consents are provided by appropriately authorized personnel. Apart from in respect of Necessary Consents, the Clearing House is not able to, and will not, verify the authorization of the source of any details of any transaction reported to it for registration by any Approved Trade Source System. THE CLEARING HOUSE SHALL HAVE NO LIABILITY IN THE EVENT THAT ANY CLEARING MEMBER SUFFERS ANY LOSS THROUGH THE UNAUTHORIZED GRANTING OF A NECESSARY CONSENT.

2A.3.5   Registration of New Trades and Backloaded Trades

2A.3.5.1 **New Trades**:

The following section does not apply to Backloaded Trades, which are dealt with in Section 2A.3.5.2 below.

As a precondition of registering a SwapClear Contract resulting from a SwapClear Transaction that is a Block IRS Trade, the Clearing House may require the Clearing Member in whose name such SwapClear Contract is to be registered to provide no later than the Clearing House's receipt of the relevant Acceptance (and thereafter maintain) sufficient Margin in respect of such SwapClear Contract. In determining whether sufficient Margin for registration is available, the Clearing House will take into account any available Buffer, MER and SwapClear Tolerance. Available Buffer or MER will always be applied prior to taking into account any available SwapClear Tolerance. In respect of a SwapClear Contract resulting from a SwapClear Transaction that is not a Block IRS Trade, the Clearing Member in whose name such SwapClear Contract is registered shall furnish the Clearing House with sufficient Margin in respect of such SwapClear Contract at such time after the registration of such SwapClear Contract as the Clearing House shall require.

Notwithstanding the foregoing (i) if the Clearing House registers a Block IRS Trade where one or both of the relevant Clearing Members has not furnished sufficient Margin prior to registration, the Clearing Members shall be bound by the terms of the SwapClear Contract relating thereto arising under Regulation 401 (and in particular by paragraph (e) thereof) and any other applicable provision of the Rulebook; and (ii) if the Clearing House rejects a SwapClear Transaction that is not a Block IRS Trade for insufficient Margin, the Clearing House shall use its reasonable endeavors to assist the relevant Clearing Members in re-registering the SwapClear Transaction on the correct basis but the Clearing House shall not be liable to any Clearing Member or anyone else with regard to the registration (or lack of registration or re-registration) of any such SwapClear Transaction.

Upon a SwapClear Transaction being submitted to the Clearing House for registration and the conditions to registration specified in Regulation 401 having been satisfied in respect of the related SwapClear Contracts, the SwapClear clearing system will respond, after processing, with a message confirming the registration. The registration notification message will be sent using the clearing member reporting system (including by way of the originating Approved Trade Source System). The definitive report of a registered SwapClear Contract will be shown within the clearing member reporting system (see Section 2C.1.3) on the SwapClear clearing member reporting account.

2A.3.5.2 **Backloaded Trades:**

A SwapClear Transaction that has a Trade Date of greater than ten calendar days prior to the date of submission is considered a backloaded tradeBackloaded Trade by the Clearing House (a "**backloaded tradeBackloaded Trade**"). Due to the nature of backloaded tradesBackloaded Trades, Clearing Members should note that a relatively large amount of Margin is required in order to register such trades. The Clearing House provides the facility for Clearing Members to load such eligible existing SwapClear Transactions through an Approved Trade Source System. Where the Clearing House approves additional Approved Trade Source Systems for these purposes, it will notify Clearing Members via a member circular. Backloading requires bilateral agreement between the relevant Executing Parties and the granting

of acceptance by the Clearing Member(s) of the full particulars required by the Clearing House for each such SwapClear Transaction. ~~Following acceptance, the backloaded trade shall be deemed to have been submitted by the Clearing Member(s) for registration by the Clearing House.~~

~~It is a precondition for registration of any backloaded trades that sufficient Margin be furnished to the Clearing House. In determining whether sufficient Margin for registration is available, the Clearing House will take into account any available Buffer, MER and SwapClear Tolerance. Available Buffer or MER will always be applied prior to taking into account any available SwapClear Tolerance.~~

At least once every Business Day, the Clearing House will carry out a process for the registration of Backloaded Trades (each a "**Backload Registration Cycle**") which have been presented for clearing or with respect to which the Clearing House has received the one or more Necessary Consents, if any. Following each Backload Registration Cycle, the Clearing House will calculate the increase in incremental cover required to register the Backloaded Trade(s) and will notify each relevant SwapClear Clearing Member (the "**Backload Margin Call**").The Backload Margin Call will be for the entire amount of incremental cover required in connection with the Backloaded Trade(s), and the Backload Margin Call cannot be satisfied by and will not take into account SwapClear Tolerance (i.e., SwapClear Tolerance is not available for this purpose), or any available MER Cover or any form of excess cover (other than that which has been expressly allocated for that purpose, as described in the paragraph below). In connection with a Backload Margin Call, following the time that a SwapClear Clearing Member is required to deliver to the Clearing House the cover associated with such Backload Margin Call (the "**Backload Margin Call Deadline**"), the Clearing House will issue such SwapClear Clearing Member a subsequent margin call to deliver cover in respect of any increase in SwapClear Tolerance utilisation as of the time of the Backload Margin Call Deadline (if any).

Where an individual SwapClear Clearing Member determines that the Backloaded Trade(s) that it is submitting for registration will lead to an aggregate change (be it either an increase or decrease) in the net present value of its portfolio of SwapClear Contracts in excess of a threshold amount (the "**Individual Backload Value Threshold**") as published by the Clearing House from time to time, it shall notify the Clearing House before the end of the Business Day preceding the Backload Registration Cycle. In the event that the Clearing House does not receive such notification and the change in net present value of the SwapClear Clearing Member's portfolio of SwapClear Contracts is in excess of the Individual Backload Value Threshold the Clearing House may, in its sole discretion, exclude that SwapClear Clearing Member from the entire Backload Registration Cycle or postpone or cancel the entire Backload Registration Cycle.

Where a SwapClear Clearing Member notifies the Clearing House of a change in net present value in excess of the Individual Backload Value Threshold, the Clearing House shall inform the SwapClear Clearing Member whether it will be required to pre-fund the Backload Margin Call and, if so, how it should be delivered such that it will be made available for a Backload Registration Cycle.

In the event that the aggregate Backload Margin Call required from all SwapClear Clearing Members participating in a Backload Registration Cycle is in excess of a

pre-determined threshold amount (the "**Aggregate Backload Margin Threshold**") as published by the Clearing House from time to time, the Clearing House may postpone or cancel the relevant Backload Registration Cycle.

Where the Clearing House postpones or cancels a Backload Registration Cycle it shall notify those SwapClear Clearing Members that were intending to participate in the Backload Registration Cycle.

Backloaded Trades received by the Clearing House in advance of a Backload Registration Cycle will be 'parked' until the next Backload Registration Cycle (whether that Backload Registration Cycle is on the same Business Day or the following Business Day).

In order for the registration of the Backloaded Trades included in a Backload Registration Cycle to complete, cover for margin from each SwapClear Clearing Member (and each FCM Clearing Member, if applicable) which is party to a Backloaded Trade within that Backload Registration Cycle must be provided as required to the Clearing House in advance.

A Backloaded Trade which has been presented for clearing (or with respect to which the Clearing House has received the one or more Necessary Consents, if any) shall be deemed to have been submitted by the SwapClear Clearing Member(s) or the SwapClear Clearing Member and the FCM Clearing Member (as the case may be) for registration by the Clearing House at such time that the Clearing House determines that sufficient cover has been provided to register that Backloaded Trade.

For any SwapClear Transaction which is a Backloaded Trade, where one leg is to be registered as an FCM SwapClear Contract, the FCM Rulebook will apply with respect to such registration of an FCM SwapClear Contract.

The Clearing House shall publish the following via member circular:

  i.   times of Backload Registration Cycles;

  ii.   the Individual Backload Value Threshold; and

  iii.   the Aggregate Backload Margin Threshold.

2A.3.6   **Notification**

The Clearing House will send to the originating Approved Trade Source System notification of registration or rejection, as the case may be, and the Clearing Members will be notified by the Approved Trade Source System or the SwapClear API or otherwise of the registration or rejection of SwapClear Transactions, or contracts purported as such.

2A.3.7   **Rejected Trades**

Trades submitted for registration that do not meet the product or other eligibility criteria prescribed from time to time by the Clearing House or which contain invalid or incomplete message data, or with respect to which the Clearing House has not received sufficient Margin (taking into account available SwapClear Tolerance, if

Exhibit A-2
General Regulations

Definitions and Interpretation

I. Definitions:

In the LCH.Clearnet LLC Rulebook (referred to herein as the "**Rulebook**") the following words and expressions shall have the following meanings, except as the context may otherwise require:

"**Account Manager Executing Party**" means an Executing Party that is eligible under the CEA and the CFTC Regulations to execute Unallocated SwapClear Transactions.

"**Affiliate**" means, with respect to a Clearing Member, any entity that controls, is controlled by or is under common control with such Clearing Member, and the account of which, when carried by the Clearing Member, would be considered a proprietary account pursuant to CFTC Regulation 1.3(y) (or any such successor or replacement regulation).

"**AIP**" has the meaning assigned to it in Regulation 204(b)(iv)(A).

"**Allocation Notice**" has the meaning assigned to it in Regulation 401(m)(iii).

"**Amendment**" has meaning assigned to it in Regulation 321(a).

"**Approved Trade Source System**" means a system or facility, such as an exchange, a clearing house, a swap execution facility, a designated contract market or other similar venue, approved by the Clearing House for executing Transactions and/or presenting such Transactions to the Clearing House. For the avoidance of doubt, the "SwapClear API" is not an Approved Trade Source System.

"**Auction**" means the process of bidding by Clearing Members for an Auction Portfolio prescribed by the Clearing House following consultation with the DMG from time to time in accordance with Regulation 204(b)(iii).

"**Auction Currency**" means in relation to an Auction, the currency of an Auction Portfolio which is the subject of that Auction.

"**Auction Losses**" has the meaning assigned to it in Regulation 204(b)(v)(B).

"**Auction Portfolio**" means (i) a Portfolio; or (ii) a group of Contracts resulting from the splitting of a Portfolio pursuant to Regulation 204(b) including any connected hedging trades concluded by the Clearing House through Risk Neutralization.

"**Automatic Early Termination Event**" means any event set forth in Regulation 203(h) to Regulation 203(o) which satisfies certain criteria (including but not limited to the jurisdiction of incorporation of a Clearing Member) that may from time to time be published by the Clearing House in a circular to Clearing Members.

"**Backload Registration Cycle**" has the meaning assigned to such term in the Procedures.

"**Backloaded Trade**" has the meaning assigned to such term in the Procedures.

"**Bankruptcy Code**" means the U.S. Bankruptcy Code.

Exhibit A-3
Circular

Company Circular No:	LCH.Clearnet LLC Circular No [ ]
Date:	[ ] November 2013
To:	All LCH.Clearnet LLC Members

Backloading of SwapClear Transactions

LCH.Clearnet LLC currently treats Backloaded Trades in the same manner as any other new SwapClear Transaction. With effect from 9 December 2013, LCH.Clearnet LLC will commence Backload Registration Cycles for the registration and clearing of Backloaded Trades. Under the revised model, Backloaded Trades that are presented to the Clearing House for clearing will be 'parked' until the next Backload Registration Cycle.

A Backloaded Trade is a SwapClear Transaction that has a trade date of greater than ten calendar prior to the date of presentation for clearing.

Backload Registration Cycles will normally be carried out at or around 10:00 (New York time) on each day that the SwapClear US service is open. However, in addition Backload Registration Cycles will not be carried out on the following dates:

- o Tuesday, December 24, 2013
- o Tuesday, December 31, 2013
- o Monday, January 20, 2014
- o Monday, February 17, 2014
- o Thursday, April 17, 2014
- o Friday, May 23, 2014
- o Monday, May 26, 2014
- o Friday, July 4, 2014
- o Monday, September 1, 2014
- o Monday, October 13, 2014
- o Thursday, November 27, 2014
- o Friday, November 28, 2014
- o Wednesday, December 24, 2014
- o Wednesday, December 31, 2014

The Clearing House reserves the right not to carry out a Backload Registration Cycle in the event of market instability or where it otherwise determines that it is prudent not to do so.

The clearing of Backloaded Trades is governed by section 2A.3.5.2 of the Procedures.

Until further notice and in connection with a Backload Registration Cycle:

(i) the Individual Backload Value Threshold shall be $100 million (or equivalent); and
(ii) the Aggregate Backload Margin Threshold shall be $500 million (or equivalent).

Where a SwapClear Clearing Member determines that the registration of Backloaded Trade(s) in a Backload Registration Cycle will lead to a margin call in excess of the Individual Backload Value Threshold it is required to notify the Clearing House. Such notification must be in the form of the template available on the LCH.Clearnet secure website:

http://www.lchclearnet.com/secure_area/secure/document.asp?file=13213.

The template is available in the following folder:

http://www.lchclearnet.com/secure_area/secure/document.asp?file=13213

Terms used in this circular and not defined herein shall have the meaning assigned in the Clearing House Rulebook.

Further information

If you have any queries or require access to the secure website please contact Client Services at swapclearclientservices@lchclearnet.com