

VIA CFTC PORTAL

10 August 2017

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

LCH Limited Self Certification: Allocation of SwapClear Contracts

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 enable SwapClear Clearing Members (“SCMs”) to register SwapClear Contracts subject to post-registration allocation, subject to certain conditions. Equivalent rules are already in place for Futures Commission Merchant (“FCM”) Clearing Members.

Part I: Explanation and Analysis

The proposed rule changes would allow a SCM to register with LCH a SwapClear Contract subject to post-registration allocation to certain accounts. Ahead of allocation, such Contract is defined as an “Unallocated SCM SwapClear Contract” and is registered in an SCM suspense sub-account opened at the request of the allocating SCM Clearing Member. This process allows asset managers to execute and submit to the Clearing House single bunched transactions in a first stage and allocate such transactions to one or more Clients in a second stage.

The above offering is already available to FCM Clearing Members, which can register contracts with LCH subject to post-registration allocation to Clients of both FCM Clearing Members and SCMs, as specified in Regulation 46 (o) of the FCM Regulations. Therefore, the proposed amendments enhance the current offering by allowing asset managers to open suspense sub-accounts with LCH under the SCM model.

The rule changes will go live on, or after, August 28, 2017.

Part II: Description of Rule Changes

Regulation 56 (u) of the General Regulations has been amended to clarify that the registration and allocation process of Unallocated SCM SwapClear Contracts is subject to the Applicable Law and all relevant provisions in the Rulebook. For example, both the registration and the allocation of the contracts are dependent on the provisions of adequate margin by the relevant Clearing Member. In

addition, the rule changes outline the steps and the conditions for the registration and allocation of the contracts to take effect. These changes are summarised below:

- SCMs must request that LCH opens a suspense account on behalf of an executing party (the asset manager) in order for it to register Unallocated SCM SwapClear Contract; the beneficial owners of such contract will be unidentified clients on whose behalf the contract was executed.
- LCH must receive one or more Allocation Notices from the SCM or the executing party for LCH to allocate the above contract to certain accounts. The Allocation Notices must meet certain conditions for them to be eligible.
- The Allocation is carried out by closing out the Unallocated SCM SwapClear Contract in the suspense accounts and simultaneously registering two or more SwapClear Contracts with the same economic terms but with a lower notional value as requested in the Allocation Notices. The newly registered contracts can then be transferred to Client accounts of the same or different SCMs, to the SCM Proprietary account, or an FCM Clearing Member account (Client or Proprietary Account).
- In cases where LCH is requested to allocate the entire notional of the Unallocated SCM SwapClear Contracts to a single account, a transfer is directly executed to any of the above accounts.
- Once effected the allocations are irrevocable and any remaining contracts in the suspense account will continued to be treated as Unallocated SCM SwapClear Contracts
- The rules set out the steps to be followed when a Contract has been erroneously allocated from a suspense account to a Client account.

The text of the changes to the General Regulations is attached hereto as **Appendix I**.

Part III: Core Principle Compliance

LCH has reviewed the changes against the requirements of the Core Principles, in particular Core Principles F and G, 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.Clearnet 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.

Yours sincerely



Julian Oliver
Chief Compliance Officer
LCH Limited

Appendix I
General Regulations



**GENERAL REGULATIONS OF
LCH LIMITED**

SwapClear Clearing Clients) may agree between themselves in accordance with relevant Compression Documentation or otherwise.

- (p) Without prejudice to any other provisions of these Regulations, in particular Regulation 45, or any Compression Documentation, neither the Clearing House, nor any other member of LCH.Clearnet Group shall have any liability whatsoever to any Compression Clearing Member or to any other person (including any SwapClear Clearing Client) in contract, tort (including, without limitation, negligence), trust, as a fiduciary or under any other cause of action in respect of any damages, losses, costs or expenses of whatsoever nature suffered or incurred by a Compression Clearing Member or any other person (including any SwapClear Clearing Client), as the case may be:
- (i) as a result of any action the Clearing House takes under this Regulation 56, whether in accordance with a Compression Proposal, in reliance on information provided by Compression Clearing Members or any ACSP or otherwise;
 - (ii) in relation to an ACSP Compression Cycle, as a result of any action or omission of an ACSP, including, without limitation, any error or omission in the terms of any Compression Proposal; or
 - (iii) in relation to any Multilateral Compression Cycle, as a result of any action or omission of a participating Compression Clearing Member, including, without limitation, any error or omission in the terms of any Compression Proposal.
- (q) An ACSP's liability in respect of its acts or omissions is subject to the relevant terms of the applicable Compression Documentation.
- (r) Any notification or communication required in connection with a Multilateral Compression Cycle shall be made in accordance with the Compression Documentation (if any) or, if not specified in the Compression Documentation, the Procedures or such other guidance as the Clearing House may provide from time to time.
- (s) Notwithstanding any other provision of these Regulations or the terms of the SwapClear Contracts, the Clearing House may disclose details of any Compression Proposal and related details of Compression Clearing Members including (with respect to their Proprietary Accounts and Client Accounts) to any ACSP or otherwise as the Clearing House considers appropriate in order to facilitate a Multilateral Compression Cycle.
- (t) Where a Clearing Member is a Rejecting Compression Clearing Member with respect to a Multilateral Compression Cycle and acting with respect to one or more of its Client Accounts, the Clearing House may, in its sole discretion, prevent such Clearing Member from participating in future Multilateral Compression Cycles with respect to its Client Account unless or until the Clearing House considers such Client Account operationally capable of doing so, in its sole discretion.
- (u) Unallocated SCM SwapClear Transactions. In accordance with all other applicable provisions of the Rulebook, a SwapClear Clearing Member may register a**

SwapClear Contract subject to post-registration allocation on behalf of a Pre-Allocation Executing Party in accordance with the following provisions:

- (i) In order for a SwapClear Transaction executed by a Pre-Allocation Executing Party to be subject to post-registration allocation (such transaction, an “Unallocated SCM SwapClear Transaction”), the SwapClear Clearing Member that will be registering the Unallocated SCM SwapClear Transaction (such SwapClear Clearing Member, a “Pre-Allocation SwapClear Clearing Member”) must have notified the Clearing House that it wishes to establish an SCM SwapClear Suspension Sub-Account with respect to that Pre-Allocation Executing Party and the Clearing House shall have opened such SCM SwapClear Suspension Sub-Account for the SwapClear Clearing Member.
- (ii) The SwapClear Contract registered on behalf of a Pre-Allocation Executing Party that results from an Unallocated SCM SwapClear Transaction (an “Unallocated SCM SwapClear Contract”) shall be registered in the SCM SwapClear Suspension Sub-Account. The beneficial owner of the Unallocated SCM SwapClear Contract shall be the unidentified SwapClear Clearing Client on whose behalf the Unallocated SCM SwapClear Transaction was executed.
- (iii) In order to allocate an Unallocated SCM SwapClear Transaction, a Pre-Allocation Executing Party or Pre-Allocation SwapClear Clearing Member must provide the Clearing House with one or more Allocation Notices. Each Allocation Notice shall be delivered to the Clearing House via an Approved Trade Source System, the SwapClear API or such other means as notified by the Clearing House. Where the foregoing delivery methods are unavailable, or in such other circumstances that the Clearing House deems appropriate, the Pre-Allocation Executing Party or Pre-Allocation SwapClear Clearing Member as the case may be may provide the Allocation Notice in the form of a direct written request, subject that the processing of an Allocation Notice received as a direct written request may take the Clearing House up to five (5) Business Days.
- (iv) Where an Allocation Notice: (i) contains instructions that would result in the allocation of a notional value that is greater than the notional value of the Unallocated SCM SwapClear Contract to which such Allocation Notice relates; or (ii) does not relate to an Unallocated SCM SwapClear Contract; or (iii) seeks to allocate part of all of an Unallocated SCM SwapClear Contract to a Proprietary Account of a SwapClear Clearing Member other than the Pre-Allocation SwapClear Clearing Member, then such Allocation Notice shall be ineligible and shall be rejected by the Clearing House. For the avoidance of doubt, the Post-Allocation Clearing Member(s) need not be the same as the Pre-Allocation SwapClear Clearing Member. Unless or until the Clearing House receives an eligible Allocation Notice, the Unallocated SCM SwapClear Contract shall remain in the Pre-Allocation SwapClear Clearing Member’s SCM SwapClear Suspension Sub-Account and subject to the rules of the Clearing House.
- (v) Following receipt of an eligible Allocation Notice, the Clearing House shall (following acceptance from the relevant Post-Allocation Clearing Member(s)

and the Pre-Allocation SwapClear Clearing Member, in the same manner as a new SwapClear Transaction is accepted in accordance with the Procedures):

- (A) close out the outstanding Unallocated SCM SwapClear Contract and simultaneously register two or more (as applicable) SwapClear Contracts to the same SCM SwapClear Suspension Sub-Account, and these newly registered SwapClear Contracts shall have the same Economic Terms as the Unallocated SCM SwapClear Contract except that they shall have lower notional values corresponding to the allocation instructions provided in the Allocation Notice (which notional values shall, in the aggregate, equal the notional value of the Unallocated SCM SwapClear Contract) – for the purpose of the foregoing, if the Allocation Notice has not allocated the full notional value of the Unallocated SCM SwapClear Contract, one of the SwapClear Contracts so registered by the Clearing House shall be a new Unallocated SCM SwapClear Contract with a notional value equal to that portion of the Unallocated SCM SwapClear Contract that has not been allocated; and
- (B) following the actions described in paragraph (A) above, transfer one or more of the newly registered SwapClear Contracts resulting from the cancellation of the Unallocated SCM SwapClear Contract to the applicable Client Segregated Sub-Accounts, Client Account or Proprietary Account in accordance with the Allocation Notice. Following the transfer of one or more of the newly registered SwapClear Contracts, any remaining SwapClear Contract that has not been transferred shall thereafter be the Unallocated SCM SwapClear Contract.

Where an Allocation Notice directs the entire notional amount of an Unallocated SCM SwapClear Contract to be allocated to a single Client Segregated Sub-Account, Client Account or the Proprietary Account, then the Clearing House shall not take the steps described in sub-paragraphs (A) and (B) above and shall instead transfer the Unallocated SCM SwapClear Contract to the applicable Client Segregated Sub-Account, Client Account or Proprietary Account following receipt of the Allocation Notice.

Where the transfer is from an SCM SwapClear Suspension Sub-Account to a Client Segregated Sub-Account, the relevant SwapClear Contract shall be converted to an FCM SwapClear Contract.

By a Pre-Allocation SwapClear Clearing Member delivering an eligible Allocation Notice to the Clearing House, that Pre-Allocation SwapClear Clearing Member shall be deemed to represent and warrant that it has been properly authorized by the Pre-Allocation Executing Party to allocate the relevant Unallocated SCM SwapClear Contract or, where the allocation is to such Pre-Allocation SwapClear Clearing Member's Proprietary Account, in accordance with paragraph (vii) below. Where the Clearing House receives an ineligible Allocation Notice, the Unallocated SCM SwapClear Transaction to which it relates shall remain in the SCM SwapClear Suspension Sub-Account.

- (vi) Subject to paragraph (viii) below, the transfer of an Unallocated SCM SwapClear Contract from the SCM SwapClear Suspension Sub-Account to a Client Segregated Sub-Account, Client Account or Proprietary Account shall be final. In no event can Unallocated SCM SwapClear Contracts be further allocated once they are transferred from the SCM SwapClear Suspension Sub-Account.
- (vii) Where an Unallocated SCM SwapClear Contract has been registered to an SCM SwapClear Suspension Sub-Account and is not allocated by the Pre-Execution Allocating Party or in such other circumstances that the Clearing House considers appropriate, the Pre-Allocation SwapClear Clearing Member may submit an Allocation Notice to the Clearing House requesting the transfer of the relevant Unallocated SCM SwapClear Contract to that SwapClear Clearing Member's Proprietary Account. A SwapClear Clearing Member, through requesting such transfer, shall be deemed to represent that such transfer is in accordance with Applicable Law and regulation and the SwapClear Clearing Member's contractual rights against the Pre-Allocation Executing Party or, if applicable, the Pre-Allocation Executing Party's underlying customer(s).
- (viii) Where an Unallocated SCM SwapClear Contract has been erroneously allocated to a Client Segregated Sub-Account or Client Account the Clearing House will, in response to a written request from a Post-Allocation Clearing Member and subject to acceptance of the transfer by the relevant Pre-Allocation SwapClear Clearing Member, transfer a SwapClear Contract or FCM SwapClear Contract (as applicable) to the SCM SwapClear Suspension Sub-Account from which that SwapClear Contract was allocated. Following such transfer, the SwapClear Contract shall be treated as an Unallocated SCM SwapClear Contract except that the provisions of FCM Regulation 46(o)(iv) shall not apply to it, such that an over-allocation will not be ineligible and will result in the allocation of the notional amount prescribed in an Allocation Notice. Any transfer pursuant to this FCM Regulation 65(u)(viii) must be requested within three Business Days of the original allocation to the relevant Client Segregated Sub-Account or Client Account. Through requesting a transfer pursuant to this paragraph (viii), the Post-Allocation Clearing Member shall be deemed to represent and warrant that the transfer is in accordance with Applicable Law.
- (ix) The registration and allocation of Unallocated SCM SwapClear Contracts as set forth above is subject to all other applicable provisions of the Rulebook including, where applicable, and to the same extent as if an Unallocated SCM SwapClear Transaction or Allocation Notice were a new SwapClear Transaction with respect to the relevant account: (A) the provision by the Pre-Allocation SwapClear Clearing Member of adequate Margin in the SCM SwapClear Suspension Sub-Account at the time of registration of the Unallocated SCM SwapClear Contract; (B) the provision by the applicable Post-Allocation Clearing Member(s) of adequate Margin, at the time of the transfer of the relevant Unallocated SCM SwapClear Contract, in respect of each of the applicable Client Segregated Sub-Accounts, Client Accounts or Proprietary Account to which an Unallocated SCM SwapClear Contract is to

be allocated. If adequate Margin is not so provided in respect of each Proprietary Account, Client Account, Client Segregated Sub-Account and Omnibus Client Swaps Account with LCH, the Clearing House may in its sole discretion, delay or reject the allocation and transfer all or any portions of the Unallocated SwapClear SCM Contract, and may take any other actions permitted under the Rulebook.

- (x) Each Pre-Allocation SwapClear Clearing Member and Post-Allocation SwapClear Clearing Member must comply with Applicable Law, and shall be responsible for ensuring that Pre-Allocation Executing Parties clearing through it are in compliance with Applicable Law.