

VIA CFTC Portal

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

9 December 2016

Subject: Weekly Notification of Rule Amendments for the Week of 5 December 2016

Dear Mr Kirkpatrick:

Please accept this notification pursuant to CFTC regulation § 40.6(d) of the below-described changes to the LCH.Clearnet Limited ("LCH") Rulebook effective from today, Friday 9 December 2016.

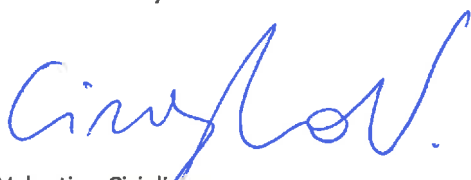
Certain references in the Default Rules, which form part of the Rulebook, have been corrected in the sections and paragraphs noted below:

- Schedule 2 Rates Service DMP Annex - 2.6 Loss Attribution Related to OTC Auction Portfolios (c) (2)
- Schedule 5 ForexClear Default Fund Supplement - Rule F7 (b)
- Schedule 6 Rates Service Default Fund Supplement - CS6. Rates Service Closure (f)

The text of the changes to the Default Rules is attached hereto as **Appendix I**.

Should you have any questions regarding this submission please contact me at valentina.cirigliano@lch.com.

Yours sincerely



Valentina Cirigliano
Regulatory Advisor, Compliance Department

Appendix I
Default Rules



LCH.CLEARNET LIMITED
DEFAULT RULES

allocated to the AIPs related to such OTC Auction Portfolios in accordance with Rule 2.5 of this Annex. Where there are no Auction Losses in respect of an OTC Auction Portfolio or the Auction Losses in respect of an OTC Auction Portfolio do not require the full amount of the resources referred to in sub-paragraphs (i) and (iii) of Rule 2.5(b) of this Annex allocated to the AIP related to the relevant OTC Auction Portfolio (the "**Initial Resources**") to be fully utilised, the relevant surplus Initial Resources will be allocated *pro rata* between those AIPs relating to OTC Auction Portfolios in respect of which there are Auction Losses requiring the utilisation of resources beyond the Initial Resources available in the relevant AIP in accordance with Rules 15(a), 15(b) and 15(c) until such time as all Initial Resources have been fully utilised.

- (c) In the case of each Auction for which there are Auction Losses in respect of which the Non-Defaulters' SwapClear Contributions must be utilised, those Non-Defaulter's SwapClear Contributions, not including, for these purposes, any part of such Non-Defaulters' SwapClear Contributions that reflects any SwapClear Unfunded Contributions deposited with the Clearing House pursuant to the Default in respect of which the relevant Auction was held (the "**Original SwapClear Contributions**") and that have been allocated to the AIP relating to the relevant OTC Auction Portfolio (the "**Relevant Original SwapClear Contributions**") will be used first in the following order:
- (i) the Auction Losses will be attributed to the Relevant Original SwapClear Contributions of those Non-Defaulting SCMs who are Expected Auction Participants in respect of the relevant OTC Auction Portfolio and who did not bid in the relevant Auction. Auction Losses will be attributed to the Relevant Original SwapClear Contribution of an individual SCM pursuant to this sub-paragraph (i) based upon the proportion that: (a) the value of the Relevant Original SwapClear Contribution of such SCM bears to (b) the total value of the Relevant Original SwapClear Contributions of all Non-Defaulting SCMs who are Expected Auction Participants in respect of the relevant OTC Auction Portfolio and who did not bid in the relevant Auction;
 - (ii) if and to the extent that there are Auction Losses outstanding after the attribution process referred to in sub-paragraph (i) above, those Auction Losses will be attributed to the Relevant Original SwapClear Contributions of the SwapClear Short Bidders. For the purposes of this sub-paragraph (ii) and sub-paragraph (ii) of Rule 2.6(e) of this Annex the term "**SwapClear Short Bidder**" means any Non-Defaulting SCM who is an Expected Auction Participant and who submitted an unsuccessful bid in the relevant Auction, save for any SCM who submitted either (a) in respect of an OTC Auction Portfolio that was of positive ("in the money") value to the Clearing House, a higher bid in an Auction than the bid accepted by the Clearing House in accordance with Rule 2.3(d) of this Annex; or (b) in respect of an OTC Auction Portfolio that was of negative ("out of the money") value to the Clearing House, a lower bid in an Auction than the bid accepted by the Clearing House in accordance with Rule 2.3(d) of this Annex

- F4. Without prejudice to any other requirements which the Clearing House may impose, the amount of the ForexClear Contribution of a New Member shall be the sum of (a) the Minimum ForexClear Contribution and (b) any supplementary sum determined by the Clearing House in its discretion and notified to the New Member. The Clearing House shall determine the amount of such supplementary sum by reference to the actual or expected level of clearing activity of the New Member.
- F5. Upon determination of the amount of a ForexClear Contribution in accordance with Rule F2:
- (a) if the amount of the ForexClear Contribution of an FXCCM immediately before close of business on the relevant ForexClear Determination Date exceeds the amount of the FXCCM's ForexClear Contribution determined under Rule F2 as at close of business on that day, the excess shall be paid by the Clearing House to such FXCCM in USD in accordance with the Procedures;
 - (b) if the amount of the ForexClear Contribution of an FXCCM immediately before close of business on the relevant ForexClear Determination Date is the same as the amount of the FXCCM's ForexClear Contribution as so determined under Rule F2 as at close of business on that day, no sum shall then be payable by or to such FXCCM in respect of its Contribution; and
 - (c) if the amount of the ForexClear Contribution of an FXCCM immediately before close of business on the relevant ForexClear Determination Date is less than the amount of the FXCCM's ForexClear Contribution as so determined under Rule F2 as at close of business on that day, the shortfall shall be paid by such FXCCM to the Clearing House in USD in accordance with the Procedures.

The provisions of this Rule do not apply to a Defaulting FXCCM, unless the Clearing House so permits in any particular case.

- F6. On any day, interest shall accrue on the amount of each ForexClear Contribution held by the Clearing House, to the extent that it has not been applied under Rule 19 or Rule 21 of the Default Rules, at such rate and in such manner as provided by the Procedures, **provided that** the rate of interest for any particular day shall not be less than the Fed Funds Rate published on that day (or, in relation to any day for which the Fed Funds Rate is not available, the Fed Funds Rate most recently published before such day). Interest shall be payable in arrears and shall be paid on the date or dates specified by the Procedures. In these Default Rules, any interest which has accrued under this Rule shall not be regarded as being part of the ForexClear Contribution.

- F7.
- (a) After a Default, unless and until the Clearing House has repaid a Defaulter's ForexClear Contribution (or the remaining part thereof, as applicable), the ForexClear Fund Amount shall be treated as having been reduced by the amount of the Defaulter's ForexClear Contribution (if any), regardless of whether the Clearing House has applied part or all of that ForexClear Contribution under Rule 28 of the Default Rules.

- (b) Where, after a Default, the Clearing House has applied part or all of the ForexClear Contributions of the Non-Defaulting FXCCMs under Rule 21 of the Default Rules, the ForexClear Fund Amount shall be reduced forthwith by the deduction of (i) the amount of the Defaulter's ForexClear Contribution (if any) in accordance with paragraph (a) of this Rule F7; and (ii) the aggregate amount of the ForexClear Contributions or parts of ForexClear Contributions of the Non-Defaulting FXCCMs so applied, and the amount of the ForexClear Contribution that each Non-Defaulting FXCCM must maintain with the Clearing House shall be reduced by the amount of its ForexClear Contribution which has been so applied, subject to (where applicable) the requirement under paragraph (c) of this Rule ~~F7~~.
 - (c) Following the completion of a ForexClear Default Management Process, the Clearing House will deliver a notice to the FXCCMs confirming that the relevant ForexClear Default Management Process Completion Date has occurred. If, following the issuance of such notice, the value of the ForexClear Fund Amount determined in accordance with paragraph (b) of this Rule F7 is less than the ForexClear Fund Floor, the Clearing House may notify each Non-Defaulting FXCCM that it is required to make a Supplementary Contribution, based on the proportion that the value of its ForexClear Contribution as at the last ForexClear Determination Date prior to the date when the relevant Default occurred bears to the value of the aggregate ForexClear Contributions of all Non-Defaulting FXCCMs as at such date, so as to reinstate the ForexClear Fund Amount to a value which is no less than the ForexClear Fund Floor. Supplementary Contributions required hereunder shall be paid within two business days after notification and in accordance with the Procedures.
- F8. Where, after a Default, the Clearing House determines that (i) by reason of a reduction in accordance with Rule F7, the value of the ForexClear Fund Amount has been reduced by at least 25 per cent.; or (ii) by the time of the ForexClear Default Management Process Completion Date in relation to the relevant Default, the value of the ForexClear Fund Amount will be reduced by at least 25 per cent., the Clearing House may, by notice in writing (the "**ForexClear Unfunded Contribution Notice**"), require each Non-Defaulting FXCCM to deposit and maintain an amount (each a "**ForexClear Unfunded Contribution**") in accordance with the following provisions:
- (a) ForexClear Unfunded Contributions will only be payable in circumstances where the relevant ForexClear Unfunded Contribution Notice is delivered by the Clearing House to FXCCMs prior to the ForexClear Default Management Process Completion Date in relation to the relevant Default;
 - (b) the value of the ForexClear Unfunded Contribution payable by each individual FXCCM shall be the product of (i) the percentage by which the value of the ForexClear Fund Amount has been reduced and (ii) the value of the ForexClear Contribution of such FXCCM as determined by the Clearing House at the last ForexClear Determination Date prior to the date when the relevant Default occurred;
 - (c) the Clearing House may, by the delivery of one or more further ForexClear Unfunded Contribution Notices, require each Non-Defaulting FXCCM to pay

foregoing shall be limited to a *pro rata* share of the assets available to the Clearing House to satisfy those amounts.

- (d) For each Rates Service Clearing Member, the amount due to it or due from it as determined pursuant to (b) above shall be aggregated with its claim determined pursuant to (c) above and only the net sum shall be payable. Where the result of such calculations is that a Rates Service Clearing Member owes an amount to the Clearing House, that Rates Service Clearing Member shall pay that amount to the Clearing House immediately. Where the result of such calculations is that a Rates Service Clearing Member is owed an amount by the Clearing House, the Clearing House shall pay that amount to the Rates Service Clearing Member immediately, subject to (f) below.
- (e) The payment of such amount to a Rates Service Clearing Member pursuant to (d) above, subject to any re-calculations performed pursuant to (f) below, shall constitute the full and final payment in respect of the Rates Service and such Rates Service Clearing Member shall not be permitted to make any further claims on the Clearing House in respect of amounts relating to the Service nor shall it be permitted to notify the Clearing House of a Termination Date pursuant to Regulation 45 (*Netting*) for a failure to pay any amounts in relation to the Rates Service.
- (f) The Clearing House may make the payments due under (d) above in one or more instalments to the Rates Service Clearing Members in proportion to the value of their claims on the Clearing House under paragraph (b) above if some but not all of the amounts due under (d) above or Rules 15(a) to 15(g) of the Default Rules have not yet been received. The Clearing House shall take reasonable steps to recover such amounts and may deduct therefrom reasonable administration costs for such recovery. To the extent that the Clearing House determines that any such amounts will not in fact be recoverable, it shall re-determine the amounts due to Rates Service Clearing Members in accordance with this Rule.
- (g) This Rule shall not be applied in the event that a Termination Date has been specified in relation to the Clearing House in accordance with Regulation 45 (*Netting*).
- (h) Nothing in the foregoing shall override the obligation of the Clearing House to return non-cash Collateral provided by a Rates Service Clearing Member in respect of its initial margin obligations pursuant to the Regulations and Procedures.

CS7. Supplementary Contributions to the Rates Service Default Fund

Following the completion of a Rates Service Default Management Process, the Clearing House will deliver a notice to all Non-Defaulting Rates Service Clearing Members that the relevant Rates Service Default Management Completion Date has occurred. If, following the issuance of such notice, the Clearing House determines (in its sole discretion) that the value of the Rates Service Default Fund is less than the Rates Service Fund Floor, the Clearing House may notify each Non-Defaulting Rates Service Clearing Member that it is required to make a Supplementary Contribution to