

VIA CFTC PORTAL

June 22, 2018

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

**LCH Limited Self Certification: FX Options minor rule amendments**

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 rule changes related to the FX Options product cleared via the ForexClear service.

**Part I: Explanation and Analysis**

LCH proposes to make clarifying changes to the rules applicable to FX Options, a product made available to the Clearing Members of the ForexClear service in May 2018<sup>1</sup>.

The current rules establish that LCH, in its sole discretion, may determine the following limits with respect to each ForexClear Option Clearing Member and ForexClear Currency:

- the Settlement Position Limit<sup>2</sup>
- the Settlement Exposure Limit<sup>3</sup>
- the Mandatory ForexClear Swap Limit<sup>4</sup>

The proposed rules include additional wording in the General Regulation to clarify how the above limits are calculated.

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<sup>1</sup> European Plain Vanilla FX Options in eight currency pairs (through six currencies) and associated hedge trades (i.e. FX Forward, Swap and Spot trades) with a remaining maturity between 1 business day and 2 calendar years.

<sup>2</sup> This is the maximum permitted net deliverable or payable in a given currency on a given day arising from all ForexClear Option Contracts.

<sup>3</sup> This is the maximum permitted net deliverable or payable value in a given currency on any given day from all ForexClear Option Contracts that have a settlement date falling greater than two business days from a given day.

<sup>4</sup> This is the maximum amount of swap transactions in a given currency that LCH is entitled to enter into on behalf of a ForexClear Option Clearing Member i) where that Member may exceed the relevant Settlement Position Amount or ii) in a Liquidity Event.

In addition, some minor changes have been made in the Procedures Section 2I (ForexClear Clearing Service) to clarify the LCH process for the automatic exercise of a ForexClear Option Contract.

The rule changes will go live on, or after, July 9<sup>th</sup> 2018.

## **Part II: Description of Rule Changes**

The following definitions in the General Regulations include minor updates: “Settlement Exposure Limits”, “Settlement Exposure Limit Cap” and “Settlement Position Limit”.

Regulation 100 includes additional wording to clarify the Settlement Position Limit and the Mandatory ForexClear Swap Limit are aggregated with respect to all ForexClear Option Clearing Members and ForexClear Currencies; while the Settlement Exposure Limit is calculated per Clearing Members and per Currency.

Procedures Section 2I have been amended in Section 1.17 (“Automatic Exercise of ForexClear Option Contracts”). The automatic exercise of an option occurs when such a contract has not been exercised on the given expiration date and time, but will nevertheless be deemed exercised if the In-the-Money Amount equals or exceeds a certain amount (the “Amount”). The rule changes clarify that the “Amount” is calculated at or immediately prior to the Expiration Time on the Expiration Date of the given ForexClear Option Contract.

Further, a component of the “Amount” is the number of basis points applicable to any relevant ForexClear Currency Pair. The rule changes note that LCH may change the number of basis points by giving less than the expected 3 business days’ notice to the relevant Clearing Member.

Finally, a correction has been made to the time window for LCH to initiate and complete liquidity provisions in the table of Section 1.18.1 (“CLS Payment Procedures”).

The texts of the changes are attached hereto as:

- i. **Appendix I**, General Regulations
- ii. **Appendix II**, Procedures 2I

## **Part III: Core Principle Compliance**

LCH has reviewed the changes against the requirements of the Core Principles 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 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](mailto:julian.oliver@lch.com).

Yours sincerely



Julian Oliver  
Chief Compliance Officer  
LCH Limited

## Appendix I

### General Regulations



**GENERAL REGULATIONS OF  
LCH LIMITED**

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<b>"seller"</b>	means a Member (or the Clearing House where the context so requires) who is a seller under the terms of an exchange contract, a Cleared Exchange Contract, an LSE Derivatives Markets Cleared Exchange Contract, a RepoClear Transaction, a RepoClear GC Transaction, a RepoClear Contract, a RepoClear GC Contract, an EquityClear ATP Match, an EquityClear Novation Transaction, an EquityClear Contract, a Rates Exchange Match, or a Listed Interest Rates Novation Transaction, as the case may be
<b>"Service"</b>	means any one of the services made available by the Clearing House: (i) to an Exchange; (ii) under the SwapClear Regulations and under the FCM Regulations in respect of FCM SwapClear Contracts; (iii) under the RepoClear Regulations; (iv) under the EquityClear Regulations; (v) under the LSE Derivatives Markets Regulations; (vi) under the ForexClear Regulations and under the FCM Regulations in respect of FCM ForexClear Contracts; or (ix) under the Listed Interest Rates Regulations
<b>"settlement contract"</b>	means a contract between the Clearing House and a Member arising pursuant to Regulation 23(b), Regulation 76(b) or Regulation 99(a)
<b>"Settlement Cycle Failure"</b>	has the meaning assigned to it in Regulation 101(h)
<b>"Settlement Exposure Amount"</b>	has the meaning assigned to it in Regulation 100
<b>"Settlement Exposure Limit"</b>	means, with respect to a ForexClear Option Clearing Member and a given ForexClear Currency, the "Settlement Exposure Limit" determined in accordance with the Procedures and made available from time to time by the Clearing House to that ForexClear Option Clearing Member, being the maximum permitted net deliverable or payable value in such currency on any given day arising from all ForexClear Contracts (other than ForexClear NDF Contracts) that have a Settlement Date falling more than two <u>business</u> days after such day
<b>"Settlement Exposure Limit Cap"</b>	means, with respect to <del>all a given</del> ForexClear Option Clearing Members and <del>all a given</del> ForexClear <del>Currencies</del> Currency, USD5,000,000,000 (as amended from time to time in accordance with the Regulations)
<b>"Settlement Position Amount"</b>	has the meaning assigned to it in Regulation 100

**"Settlement Position Limit"**

means, with respect to a ForexClear Option Clearing Member and a given ForexClear Currency, the "Settlement Position Limit" determined in accordance with the Procedures and made available from time to time by the Clearing House to that ForexClear Option Clearing Member, being the maximum permitted net deliverable or payable value in such currency on any given day arising from all ForexClear Contracts (other than ForexClear NDF Contracts) that have a Settlement Date falling two business days after such day

**"Settlement Position Limit Cap"**

means, with respect to all ForexClear Option Clearing Members and all ForexClear Currencies, USD5,000,000,000 (as amended from time to time in accordance with the Regulations)

**"settlement price"**

means one or more prices determined and issued by an Exchange in accordance with its Exchange Rules in respect of a delivery month or prompt date

In relation to a Contract other than an exchange contract, one or more prices determined in accordance with the Regulations or the Procedures.

**"Settlement Service Provider"**

means CLS Bank International or any other entity approved by the Clearing House from time to time for the provision to the Clearing House of settlement services in connection with settlement under the ForexClear Service not taking place through the Clearing House Protected Payment System

**"SONIA"**

means the overnight rate as calculated by the Wholesale Market Broker's Association and appearing on the Reuters Screen SONIA Page (or, if such a rate is not available, such SONIA-linked rate as may be determined in light of market conditions at such time by the Clearing House and notified by the Clearing House to Clearing Members)

**"Special Member"**

means:

- (a) an organisation which has the necessary licences, authorisations and approvals to act as a clearing house or otherwise provide clearing services or an organisation which has the necessary licences, authorisations and approvals to administer a futures, options, stock or other market and also to act as a clearing house in respect of such market or markets; or
- (b) an organisation carrying on comparable activities, as the Clearing House may determine from time to time,

## REGULATION 100 FOREXCLEAR OPTION SERVICE – SETTLEMENT LIMITS, SETTLEMENT TRADE-DOWN AND SETTLEMENT EVENETS

### Settlement Limits

- (a) Subject to (c) and (d) below, the Clearing House may, in its sole and absolute discretion, determine from time to time:
- (i) the Settlement Position Limit;
  - (ii) the Settlement Exposure Limit; and
  - (iii) the Mandatory ForexClear Swap Limit,
- in respect of each ForexClear Option Clearing Member and each ForexClear Currency.
- (b) From time to time the Clearing House shall notify each ForexClear Option Clearing Member of the Settlement Position Limit, Settlement Exposure Limit and Mandatory ForexClear Swap Limit applicable to it and each ForexClear Currency in accordance with the Procedures.
- (c) Subject to (e) below, if the Clearing House wishes to increase the Settlement Position Limit, Settlement Exposure Limit or, the Mandatory ForexClear Swap Limit, which shall be applicable to all ForexClear Option Clearing Members, in relation to a given ForexClear Currency, to no more than the Settlement Position Limit Cap (where such limit is aggregated with respect to all ForexClear Option Clearing Members and ForexClear Currencies), Settlement Exposure Limit Cap or Mandatory ForexClear Swap Limit Cap applicable to that ForexClear Currency (with respect to the Mandatory ForexClear Swap Limit)(where such limit is aggregated with respect to all ForexClear Option Clearing Members) or Settlement Exposure Limit Cap or when such limit is aggregated in respect of all ForexClear Currencies (with respect to the Settlement Position Limit or Settlement Exposure Limit), as applicable, then the Clearing House may propose such amendment by giving all ForexClear Option Clearing Members no fewer than 10 business days' notice, such notice to specify the proposed new Settlement Position Limit, Settlement Exposure Limit and/or Mandatory ForexClear Swap Limit (the “**Revised Limits**”). If the Requisite ForexClear Option Clearing Members vote in favour of the Revised Limits, then the Revised Limits shall take effect following 30 calendar days' notice (or such other period as the Clearing House shall decide) from, and including, the expiration of the notice period specified above. If the Requisite ForexClear Option Clearing Members do not vote in favour of the Revised Limits then the Revised Limits shall not take effect. For the purposes of the foregoing, a ForexClear Option Clearing Member that does not communicate its vote to the Clearing House by the end of the notice period specified above shall be deemed to have voted in favour of the Revised Limits. The Clearing House shall publish the terms of the voting process on or prior to the business day on which the vote is initiated.
- (d) Subject to (e) below, if the Clearing House wishes to increase the Settlement Position Limit Cap, Settlement Exposure Limit Cap or Mandatory ForexClear Limit Cap (as applicable), then the Clearing House may propose such amendment by giving all



ForexClear Option Clearing Members no fewer than 10 business days' notice, such notice to specify the proposed new Settlement Position Limit Cap, Settlement Exposure Limit Cap and/or Mandatory ForexClear Limit Cap (the "**Revised Caps**"). If 100% of the then total number of ForexClear Option Clearing Members vote in favour of the Revised Caps then the Revised Caps shall take effect following 30 calendar days' notice (or such other period as the Clearing House shall decide) from, and including, the expiration of the notice period specified above. If less than 100% of the then total number of ForexClear Option Clearing Members vote in favour of the Revised Caps then the Revised Caps shall not take effect. For the purposes of the foregoing, a ForexClear Option Clearing Member that does not communicate its vote to the Clearing House by the end of the notice period specified above shall not be deemed to have voted in favour of the Revised Caps. The Clearing House shall publish the terms of the voting process **on or prior** to the business day on which the vote is initiated.

- (e) The Clearing House shall be entitled to increase the Settlement Position Limit, Settlement Exposure Limit, Mandatory ForexClear Swap Limit, Settlement Position Limit Cap, Settlement Exposure Limit Cap and/or Mandatory ForexClear Swap Limit Cap without the consent of any ForexClear Option Clearing Member, and without regard for the process in paragraphs (c) or (d) above if, it determines, in its sole and absolute discretion, that:
  - (i) it considers such action advisable for its own protection or the protection of the relevant market;
  - (ii) it is required to take such action to comply with any regulation, rule, official directive, request or guideline (whether or not having the force of law) of any governmental, intergovernmental or supranational body, agency, department or of any regulatory, self-regulatory or other authority or organisation;
  - (iii) except with respect to an increase to the Settlement Position Limit, Settlement Exposure Limit, ~~and/or~~ Mandatory ForexClear Swap Limit and/or Settlement Exposure Limit Cap, a new ForexClear Clearing Member has been designated as a new ForexClear Option Clearing Member, provided however that, in such circumstance, the Clearing House shall only be entitled to increase the caps referenced in (e) above without using the process in paragraph (d) above to the extent that such increase is no greater, in percentage terms, than the percentage increase in the number of ForexClear Option Clearing Members that has occurred as a result of such ForexClear Option Clearing Member being so designated;
  - (iv) solely with respect to the Settlement Position Limit and/or Settlement Position Limit Cap, it considers such action advisable where (A) the register of primary nostro account providers of ForexClear Option Clearing Members is updated in accordance with the Procedures and (B) an increase to the Settlement Position Limit occurs as the direct result of the given update to register of primary nostro account providers; or
  - (v) it considers such action advisable in connection with an operational or technical failure or delay.

**Appendix II**  
Procedures Section 2I



**LCH LIMITED**

**PROCEDURES SECTION 2I**

**FOREXCLEAR CLEARING SERVICE**

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- 1.16.2 In the event that an exercise and expiry agent is not able to facilitate or communicate the exercise of (or intent to exercise) a ForexClear Option Contract for any reason whatsoever, and the Clearing House becomes aware of such failure to facilitate or communicate, the Clearing House will notify the relevant ForexClear Clearing Members of such failure and may provide details of one or more alternative exercise methods.
- 1.16.3 Exercise and expiry agents may be designated by the Clearing House from time to time and such agents shall be published on the Clearing House's website.
- 1.16.4 Neither the Clearing House nor any other member of the LCH Group shall have any liability whatsoever to any ForexClear Clearing Member or any other person, including any Clearing Client, in contract, tort (including negligence), trust, as a fiduciary or under any other cause of action in respect of any liabilities, damages, losses, costs or expenses of whatsoever nature suffered or incurred by a ForexClear Clearing Member or any other person, including any Clearing Client, as a result of (a) any failure by the Clearing House to provide notice pursuant to Section 1.16.2 or (b) any failure of an exercise and expiry agent to communicate the exercise of (or intent to exercise) a ForexClear Option Contract to the Clearing House.

## 1.17 Automatic Exercise of ForexClear Option Contracts

- 1.17.1 In relation to a ForexClear Option Contract, if, at the Expiration Time on the Expiration Date of that ForexClear Option Contract, the ForexClear Option Contract has not been exercised by the relevant ForexClear Clearing Member or the Clearing House, as the case may be, then it will be deemed exercised as of that time if the In-the-Money Amount of that ForexClear Option Contract at the Expiration Time equals or exceeds the product of:
- (a) the number of basis points as published on the Clearing House's website from time to time as being applicable to the ForexClear Currency Pair referenced in that ForexClear Option Contract; and
  - (b) the Call Currency Amount or the Put Currency Amount, as appropriate,  
in each case as calculated at or immediately prior to the Expiration Time on the Expiration Date of the given ForexClear Option Contract.
- 1.17.2 For the purposes of Section 1.17.1, the Clearing House may change the number of basis point applicable to any ForexClear Currency Pair by giving three Business Days' prior notice to the ForexClear Option Clearing Members ~~via the Clearing House's website or published through a circular~~(or such shorter notice period as determined by the Clearing House following consultation with ForexClear Option Clearing Members).
- 1.17.3 If the Clearing House receives an instruction from a ForexClear Clearing Member, including via any third party intent agent or middleware provider, before the applicable Expiration Time on the Expiration Date such instruction will in all circumstances be acted upon notwithstanding any administrative, systems or processing delays that may affect the Clearing House immediately

taking the action required upon receipt of such instruction. If the Clearing House receives an instruction from a ForexClear Option Clearing Member at or after the applicable Expiration Time on the Expiration Date then Section 1.17.1 shall in all circumstances apply and the Clearing House shall have no regard to such instruction.

1.17.4 The "**In-the Money Amount**" in relation to a ForexClear Option Contract shall, in respect of the Exercise Date, be equal to:

- (a) in the case of a Call, the excess of the FX Spot Reference over the Strike Price, multiplied by the Call Currency Amount, where both the Strike Price and the Settlement Rate are quoted in terms of the amount of Put Currency to be paid per one unit of Call Currency; and
- (b) in the case of a Put, the excess of the Strike Price over the FX Spot Reference, multiplied by the Put Currency Amount, where both the Strike Price and the Settlement Rate are quoted in terms of the amount of Call Currency to be paid per one unit of Put Currency.

1.17.5 Capitalised terms used in this Section 1.17 and not otherwise defined shall have the meanings specified for such terms in (i) the ForexClear Option Contract Terms applicable to that ForexClear Option Contract, and, if not defined therein, (ii) the 1998 FX and Currency Options Definitions (including Annex A thereto) as published by the International Swaps and Derivatives Association, Inc., the Emerging Markets Trade Association and The Foreign Exchange Committee.

## 1.18 CLS Payment Procedures

1.18.1 In connection with ForexClear Spot Contracts, ForexClear Deliverable Forward Contracts, ForexClear Option Contracts and ForexClear Swap Contracts, where applicable, FXCCMs are required to meet the following requirements with respect to CLS:

Time	Action or Requirement
00:00 CET	Clearing House to provide FXCCMs expected CLS funding requirements.
01:30 – 02:00 CET	Clearing House to provide FXCCMs final CLS funding requirements. FXCCMs required to make such payments by 08:00 CET.
06:00 – 08:00 CET	FXCCMs required to make payments to cover all short positions in all currencies.
08:00 CET	CLS to issue payments to FXCCMs per settlement instructions for each relevant FXCCM.
<del>09:00</del> 08:00 – 10:00 CET	Clearing House to initiate and complete liquidity provisions.