

**VIA EMAIL TO: [SECRETARY@CFTC.GOV](mailto:SECRETARY@CFTC.GOV)**

26 April 2013

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 rule amendments which clarify LCH.Clearnet’s right to eject cleared contracts that result from the registration of ineligible transactions. The rulebook changes will be implemented on 13 May 2013.

The submission cover sheet and rulebook changes are attached hereto as appendices.

#### **Part I: Explanation and Analysis**

The rule changes clarify that LCH.Clearnet’s right to eject a cleared contract that results from the registration of an ineligible transaction being presented for clearing and subsequently being accepted by the Clearing House in error, arises only where such transaction was ineligible as it did not meet certain clearly published eligibility criteria as set out in the General Regulations and FCM Regulations (as applicable). LCH.Clearnet cannot eject a cleared contract under General Regulation 47(f) or FCM Regulation 30(f) as a result of a clearing member not meeting a membership requirement or an alternative registration condition not being met but being applicable at the time the transaction was presented.

#### **Part II: Description of rule changes**

The General Regulations are modified with the insertion of a definition, and clarifying language in Regulation 47(f); and Sections 1, 1.1, and 3 of Part B of the Schedule to the SwapClear Regulations.

The FCM Regulations are modified with the insertion of a definition, and clarifying language in Regulation 30(f); and Sections 1, 1.1, and 3 of Part B of Schedule A.

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

This rule change complies with the requirement of Core Principle D (Risk Management) and the principle of clearing certainty.

#### **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/proposed\\_rules.asp](http://www.lchclearnet.com/rules_and_regulations/ltd/proposed_rules.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 [laurian.cristea@lchclearnet.com](mailto:laurian.cristea@lchclearnet.com).

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'Laurian Cristea', enclosed within a blue oval scribble.

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

**Appendix I**

**Appendix II**

*Entitlement*

- SwapClear Clearing End-User Notice* - Means the SwapClear Clearing End-User Notice as specified by the Clearing House from time to time.
- SwapClear Clearing House Business* - Means SwapClear Contracts entered into by a SwapClear Clearing Member with the Clearing House on a proprietary basis and for its own account.
- SwapClear Clearing Member (SCM)* - A Member who is designated by the Clearing House as a SwapClear Clearing Member eligible to clear SwapClear Contracts which includes, in the case of the Default Rules, the Default Fund Rules (including the SwapClear DMP Annex), the FCM Default Fund Agreement and any other document, rule or procedure as specified by the Clearing House from time to time, an FCM Clearing Member.
- SwapClear Clearing Services* - Means the entering into of SwapClear Contracts by a SwapClear Clearing Member in respect of its Individual Segregated Account Clearing Clients and its Omnibus Net Segregated Clearing Clients.
- SwapClear Clearing Client Entitlement* - Has the meaning assigned to it General Regulation 52B.
- SwapClear Contract* - A Contract entered into by the Clearing House with a SwapClear Clearing Member on the SwapClear Contract Terms which includes, in the case of the Default Rules (including the SwapClear DMP Annex), the Default Fund Rules, the FCM Default Fund Agreement and any other document, rule or procedure as specified by the Clearing House from time to time, an FCM SwapClear Contract.
- SwapClear Contract Terms* - The terms applicable to each SwapClear Contract as set out from time to time in the Schedule to the SwapClear Regulations or the Procedures.
- SwapClear Dealer (SD)* - A person admitted by the Clearing House to the Register of SwapClear Dealers and who has not been removed from the Register.
- SwapClear Dealer Clearing Agreement* - A written agreement, in the form and on the terms prescribed by the Clearing House between a SwapClear Dealer, a SwapClear Clearing Member and the Clearing House which has the function, amongst other things, of setting out the terms on which the SwapClear Clearing Member agrees to clear SwapClear Transactions for the SwapClear Dealer.
- SwapClear DMG* - Has the meaning assigned to it in the Default Rules;
- SwapClear DMP* - Has the meaning assigned to it in the Default Rules;
- SwapClear Product Eligibility Criteria* - Means the product eligibility criteria set out in paragraphs 1.1(a), 1.1(b) or 1.1(c) and 3 of Part B of Schedule A to the SwapClear Regulations.

Contract or the FCM SwapClear Contract (as the case may be) deriving from the relevant SwapClear Transaction have been satisfied.

(vi) From the time of registration by the Clearing House of two SwapClear Contracts or one SwapClear Contract and one FCM SwapClear Contract (as the case may be) (the "Registration Time") in respect of a SwapClear Transaction in accordance with the Procedures:

(A) where both of the Executing Parties in respect of such SwapClear Transaction are SwapClear Member(s) and/or SwapClear Dealer(s), those Executing Parties shall be released and discharged from all rights and obligations thereunder which fall due for performance on or after the Registration Time and, in all other cases, the rights and obligations of the Executing Parties to the SwapClear Transaction shall be governed by the applicable Execution Terms, or as otherwise agreed by such Executing Parties; and

(B) the relevant SwapClear Clearing Member(s) will be deemed to be and will be bound by the SwapClear Contract(s) with the Clearing House automatically and without any further action on its part, on terms that, without limitation, incorporate all applicable terms of the Rulebook and the Schedule to these SwapClear Regulations (including the SwapClear Contract Terms applicable to the relevant SwapClear Contract).

(e) The Economic Terms shall be such that: (A) a SwapClear Clearing Member paying (or clearing on behalf of a person paying) Rate X and receiving (or clearing on behalf of a person receiving) Rate Y under a SwapClear Transaction shall have such rights against, and owe such obligations to, the Clearing House under the corresponding SwapClear Contract registered by it in respect of such SwapClear Transaction as further provided for in the final paragraph of this sub-paragraph (e) and (B) a SwapClear Clearing Member paying (or clearing on behalf of a person paying) Rate Y and receiving (or clearing on behalf of a person receiving) Rate X under a SwapClear Transaction shall have such rights against, and owe such obligations to, the Clearing House under the corresponding SwapClear Contract registered by it in respect of such SwapClear Transaction as further provided for in the final paragraph of this sub-paragraph (e).

In this sub-paragraph (e), a reference to the "rights" and "obligations" is a reference to rights and obligations, falling due for exercise or performance after the Registration Time, and which are the same in nature and character as the rights or obligations set out in the Economic Terms of the corresponding SwapClear Transaction (it being assumed, for this purpose, that such SwapClear Transaction was a legal, valid, binding and enforceable obligation of the parties thereto and that the Economic Terms thereof were as presented to the Clearing House for registration), notwithstanding the change in the person entitled to them or obliged to perform them, and subject to any change thereto as a result of the operation of the Standard Terms. In this sub-paragraph (e), a reference to "paying" means either paying under a SwapClear Transaction that is an existing swap transaction or "agreeing to pay" under a SwapClear Transaction that is contingent on clearing.

(f) If at any time after registration of a SwapClear Contract, the Clearing House determines that the corresponding SwapClear Transaction of which details were presented for registration did not, at the Registration Time, meet the ~~eligibility criteria for registration as a SwapClear Contract pursuant to the Rulebook~~ [SwapClear Product Eligibility Criteria](#) in existence at the Registration Time (an "Ineligible SwapClear Transaction"), the

**Part B**

**Product Eligibility Criteria for Registration of a SwapClear Contract**

**1. SwapClear Transaction**

Without prejudice to the Regulations and the Procedures, the Clearing House will only register a SwapClear Contract pursuant to receipt of particulars of a transaction where at the time of the particulars being presented:

- (a) the transaction meets the ~~eligibility criteria, set out in paragraphs 1.2 (a), (b) or (c) and 1.3, below for~~ SwapClear Eligibility Criteria for registration as a SwapClear Transaction; and
- (b) each party to the transaction is either a SwapClear Dealer or a SwapClear Clearing Member (including an SCM Branch),

and the requirements of (a) and (b) continue to be satisfied at Registration Time.

**1.1. ~~1.2.~~ SwapClear Product ~~eligibility criteria~~ Eligibility Criteria for a SwapClear Transaction**

- (a) Vanilla interest rate swaps with constant notional principal having the characteristics set out in the table below;

Instrument	Acceptable Currencies	Acceptable Indices <sup>6</sup>	Types		Maximum Residual Term	Notional Amount (Min - Max of the relevant currency unit)
Vanilla interest rate swaps with constant notional principal	Sterling (GBP)	GBP-LIBOR-BBA	Fixed vs. Floating	Single currency	18,275 days	0.01-
		GBP-WMBA-SONIA-COMPOUND	Fixed vs. Floating	Single currency	736 days	
		See Article 7.1w (vii) for definition	Floating vs. Floating			99,999,999,999.99
	US Dollar (USD)	USD-LIBOR-BBA	Fixed vs. Floating	Single currency	18,275 days	0.01-
		See Article 7.1(ab) (xxii) for definition	Floating vs. Floating			99,999,999,999.99
		USD-Federal Funds H.15-OIS-COMPOUND	Fixed vs. Floating	Single currency	736 days	
		See article 7.1(ab)(xxxix) for definition				
	Euro (EUR)	EUR-LIBOR-	Fixed vs.	Single	18,275 days	0.01-

<sup>6</sup> References in this column are to the 2006 ISDA Definitions

2. [ ]

3. **Additional ~~Criteria for a SwapClear Transaction~~ Product Eligibility Criteria**

3.1. A contract must also meet the following additional criteria to be eligible as a SwapClear Transaction:

3.1.1 Day Count Fractions

(See Article 4.16 of the “Annex to 2000 ISDA Definitions (June 2000 Version)”, Article 4.16 of the ISDA 2006 Definitions for definition)

The Clearing House will only accept the following day count fractions for vanilla interest rate swaps with constant notional principal and variable notional swaps. Day Count Fractions are applied to each deal leg independently, as communicated via the affirmed MarkitWire trade detail.:

**Day Count Fractions using the ISDA 2000 Definitions**

Day Count Fraction	MarkitWire/FpML Code
30/360 (or Bond Basis)	30/360
30E/360 (or Eurobond)	30E/360
Actual/360	ACT/360
Actual/365 (Fixed)	ACT/365.FIXED
Actual/365 (or	ACT/365.ISDA
Actual/Actual (ISMA)	ACT/ACT.ISMA

**Day Count Fractions using the ISDA 2006 Definitions:**

Day Count Fraction	MarkitWire/FpML Code
30/360 (or Bond Basis)	30/360
30E/360 (or Eurobond)	30E/360
Actual/360	ACT/360
Actual/365 (Fixed)	ACT/365.FIXED
Actual/Actual	ACT/ACT.ISDA
30E/360 (ISDA)	30E/360.ISDA
Actual/Actual (ICMA)	ACT/ACT.ICMA

The Clearing House will only accept the following day count fractions for Forward Rate Agreements Day Count Fractions are applied to each deal leg independently, as communicated via the affirmed MarkitWire trade detail:

**Day Count Fractions using the ISDA 2006 Definitions:**

Day Count Fraction	MarkitWire/FpML Code	Currency
Actual/365 (Fixed)	ACT/365.FIXED	CAD, AUD, NZD, PLN, ZAR, GBP



its PPS Accounts in which the FCM Clearing Member holds the Client funds held in connection with its FCM Clients' cleared FCM Contracts.

- FCM SwapClear Clearing Services* - Means the services provided by an FCM Clearing Member in connection with FCM SwapClear Contracts cleared on behalf of its FCM Clients or its Affiliates, as the case may be.
- FCM SwapClear Contract* - Means a contract that is registered for clearing and is entered into by the Clearing House with an FCM Clearing Member on the FCM SwapClear Contract Terms, and which is governed by these FCM Regulations.
- FCM SwapClear Contract Terms* - Means the terms applicable to each FCM SwapClear Contract as set out from time to time in the FCM Regulations.
- FCM SwapClear Product Eligibility Criteria* - Means the product criteria set out in paragraphs 1.1(a), 1.1(b) or 1.1(c) and 3 of Part B of Schedule A to these FCM Regulations.
- FCM SwapClear Transaction* - Means any transaction the details of which are presented to the Clearing House via an FCM Approved Trade Source System for the purpose of having such transaction registered at the Clearing House as two FCM SwapClear Contracts (or, where a corresponding presentation has been made in respect of the same transaction for registration of a Non-FCM SwapClear Contract, one Non-FCM SwapClear Contract and one FCM SwapClear Contract), regardless of whether (a) such transaction is an existing swap transaction, (b) it was entered into in anticipation of clearing, and (c) it is contingent on clearing.
- FCM Transaction* - Means either an FCM SwapClear Transaction, an FCM ForexClear Transaction or an FCM EnClear Transaction, as applicable.
- First EnClear Clearing Member* - Has the meaning assigned to it in FCM Regulation 51(a).
- ForexClear Clearing Member* - Means a person who is designated as such by the Clearing House pursuant to the UK General Regulations and who is not an FCM Clearing Member.
- ForexClear Contribution* - Means, in relation to the Default Fund Rules, the meaning assigned to it in rule 17 of the Default Fund Rules.
- ForexClear DMP* - Has the meaning assigned to it in the ForexClear DMP Annex of the Default Rules.
- Hedged Account* - Has the meaning assigned to it in the FCM Procedures.
- Ineligible FCM ForexClear Contract* - Has the meaning assigned to it in FCM Regulation 40(f)(ii).

SwapClear Transaction are presented to the Clearing House and continues to meet such criteria at the Registration Time;

- (iii) each FCM SwapClear Contract is consented to by the relevant FCM Clearing Member (automatically or otherwise) in accordance with paragraph (b) above and Section 2A.3.2 of the FCM Procedures;
- (iv) the applicable FCM Clearing Member has paid or transferred, upon request of the Clearing House and in accordance with FCM Regulation 9 and such other applicable provisions of the FCM Rulebook, all required cover in respect of such FCM SwapClear Contract prior to registration (taking into account any available SwapClear Tolerance, if any); and
- (v) all the conditions applicable (under the terms of the FCM Rulebook or the UK General Regulations, as the case may be) for the registration of the Non-FCM SwapClear Contract or the other FCM SwapClear Contract (as the case may be) deriving from the relevant FCM SwapClear Transaction. have been satisfied.

If for any reason in respect of an FCM SwapClear Contract the other corresponding FCM SwapClear Contract or Non-FCM SwapClear Contract (as the case may be) is not registered by the Clearing House, the Clearing House shall de-register such FCM SwapClear Contract and shall not have any liability whatsoever to any FCM Clearing Member or to any other person (including, without limitation, any SwapClear Dealer (as such term is defined in the UK General Regulations)) in contract, tort (including without limitation, negligence), trust, as a fiduciary or under any other cause of action in respect of any damage, loss, cost or expense of whatsoever nature suffered or incurred as a result of such de-registration.

- (e) The Clearing House shall be deemed to register an FCM SwapClear Contract, in accordance with this FCM Regulation 30 in the name of an FCM Clearing Member on behalf of an FCM Client or an Affiliate (or, if applicable, on the FCM Clearing Member's own behalf), at the time prescribed in the FCM Procedures ("*Registration Time*"). At the Registration Time, the FCM Clearing Member, and the FCM Client or Affiliate if applicable, will be deemed to be bound by the relevant FCM SwapClear Contract on the terms entered into between the FCM Clearing Member and the Clearing House automatically and without any further action by such FCM Clearing Member or FCM Client or Affiliate, which such terms shall, without limitation, incorporate all applicable terms of these FCM Regulations and Schedule A hereto.
- (f) If at any time after registration of an FCM SwapClear Contract, the Clearing House determines that the corresponding FCM SwapClear Transaction of which details were presented for registration did not, at the Registration Time, meet the ~~eligibility criteria for registration as an FCM SwapClear Contract pursuant to the FCM Rulebook~~ [Product Eligibility Criteria](#) in existence at the Registration Time (an "*Ineligible FCM SwapClear Transaction*"), the Clearing House shall, immediately following the next margin run following such determination, set aside both FCM

**Part B**

**Product Eligibility Criteria for Registration of an FCM SwapClear Contract**

**1. FCM SwapClear Transaction**

Without prejudice to the FCM Regulations and the FCM Procedures, the Clearing House will only register an FCM SwapClear Contract pursuant to receipt of particulars of a transaction where at the time of the particulars being presented:

- (a) the transaction meets the ~~eligibility criteria, set out in paragraph 1.2(A), (B) and 1.3, below for~~ [FCM SwapClear Product Eligibility Criteria for registration](#) as an FCM SwapClear Transaction; and
- (b) each party to the transaction is an Executing Party;

and the requirements of (a) and (b) continue to be satisfied at Registration Time.

**1.1** [1.2 FCM SwapClear](#) Product ~~eligibility criteria~~ [Eligibility Criteria](#) for an FCM SwapClear Transaction

- (a) Vanilla interest rate swaps with constant notional principal having the characteristics set out in the table below;

Instrument	Acceptable Currencies	Acceptable Indices <sup>6</sup>	Types	Maximum Residual Term	Notional Amount (Min-Max of the relevant currency unit)	
Vanilla interest rate swaps with constant notional principal	Sterling (GBP)	GBP-LIBOR-BBA	Fixed vs. Floating	Single currency	18,275 days	0.01-
			Fixed vs. Floating	Single currency	736 days	
	US Dollar (USD)	USD-LIBOR-BBA	See Article 7.1w (vii) for definition	Floating vs. Floating		99,999,999,999.99
			See Article 7.1(ab) (xxii) for definition	Floating vs. Floating		18,275 days
					99,999,999,999.99	

<sup>6</sup> References in this column are to the 2006 ISDA Definitions

Instrument	Acceptable Currencies	Acceptable Rate Options (as further set out in Section 7.1 of the 2006 ISDA Definitions)	Types	Single currency	Maximum Residual Term	Notional Amount (Min - Max of the relevant currency unit)	FRA Tenors	Minimum and Maximum FRA Terms (Days)
Forward Rate Agreement	JPY	JPY-LIBOR-BBA	Fixed v floating	Single currency	1105 days		1m, 1y 1w,2w 1m,2m,3m,4m,5m,6m,7m,8m,9m,10m,11m, 1y	Min 3 Max 375
Forward Rate Agreement	NOK	NOK-NIBOR-NIBR	Fixed v floating	Single currency	740 days		1w, 1m,2m,3m,4m,5m,6m,7m,8m,9m,10m,11m,1y	Min 3 Max 375
Forward Rate Agreement	NZD	NZD-BBR-FRA	Fixed v floating	Single currency	740 days		1m,2m,3m, 4m,5m,6m,	Min 25 Max 190
Forward Rate Agreement	PLN	PLN-WIBOR-WIBO	Fixed v floating	Single currency	740 days		1w,2w 1m, 3m,6m,9m,11y	Min 3 Max 375
Forward Rate Agreement	SEK	SEK-STIBOR-SIDE	Fixed v floating	Single currency	740 days		1w, 1m,2m,3m, 6m,9m,11y	Min 3 Max 375
Forward Rate Agreement	USD	USD-LIBOR-BBA	Fixed v floating	Single currency	1105 days		1w,2w 1m,2m,3m,4m,5m,6m,7m,8m,9m,10m,11m, 1y	Min 3 Max 375
Forward Rate Agreement	ZAR	ZAR-JIBAR-SAFEX	Fixed v floating	Single currency	740 days		1m, 3m, 6m,9m,11y	Min 3 Max 375

2. [ Intentionally Omitted ]

3. Additional ~~Criteria for an FCM SwapClear Transaction~~ Eligibility Criteria

3.1 A contract must also meet the following additional criteria to be eligible as an FCM SwapClear Transaction:

- (a) Day Count Fractions