



Mr David A Stawick
Secretary
Commodity Futures Trading Commission
1155 21st Street NW
Washington DC 20581

17 July 2012

Dear Mr Stawick

Please find enclosed a submission to the Commodity Futures Trading Commission by LCH.Clearnet Limited under the procedure set out in 17 CFR Section 40.6 for the self-certification of rules.

Should you have any questions regarding this submission please contact me on +44-207-426-7285 or at jay.iyer@lchclearnet.com.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Jay Iyer", written over a horizontal line.

Jay Iyer
CCO, LCH.Clearnet Limited

SUBMISSION OF AMENDMENTS TO THE CLEARINGHOUSE RULES

TO THE

COMMODITY FUTURES TRADING COMMISSION

SUBMITTED BY

LCH.Clearnet Limited

an English limited company

FILING AS A REGISTERED DERIVATIVES CLEARING ORGANIZATION

Pursuant to Commission Regulation § 40.6

**Submission of Amendments to the Clearing House Rules and
Regulations:**

- LCH.Clearnet Limited Default Fund Rules
- Clearing House Procedures
- FCM Procedures

Submitted: July 17, 2012

LCH.CLEARNET LIMITED SELF-CERTIFICATION OF AMENDMENTS TO RULES AND REGULATIONS

LCH.Clearnet Limited ("LCH.Clearnet"), a derivatives clearing organization registered with the Commodity Futures Trading Commission (the "CFTC"), is submitting for self-certification, pursuant to CFTC Regulation §40.6, amendments to LCH.Clearnet's Rulebook. The proposed rule amendment will become effective August 1, 2012.

Part I: Explanation and Analysis

LCH.Clearnet's Rule and Regulations will be amended to reflect a change to the rate of return on contributions to LCH.Clearnet's SwapClear default fund.

Rule S7 of the Default Fund Rules will be amended to allow the Clearing House to amend the rate of interest payable on SwapClear contributions, including notifying SwapClear Clearing Members from time to time of such changes.

The consequential amendments to Rule S7 of the Default Fund Rules, Rule 2C.20.5 of the Clearing House Procedures and Rule 3.7.1 of the FCM Procedures state that if the rate of interest payable on SwapClear Contributions is negative, interest shall be payable by SwapClear Clearing Members to the Clearing House. Rule 3.7.1 of the FCM Procedures will also be corrected to confirm that Default Fund contributions will be called via PPS normally on the fourth working day of each month, bringing this in line with the rest of the FCM Procedures.

Additionally, the proposed amendment to Rule 1.5 of the FCM Procedures is designed to add clarification around the method and process that FCMs must adopt in respect of margining FCM Clients where such clients enter into non-hedging SwapClear contracts.

Part II: Certification by LCH.Clearnet

LCH.Clearnet certifies to the CFTC, in accordance with CFTC Regulation §40.6, that the amendments to its rules comply with the Commodity Exchange Act and the CFTC Regulations promulgated thereunder. In addition, LCH.Clearnet certifies that 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. A signed certification is attached to this submission as Exhibit B.

Part III: Compliance with Core Principles

LCH.Clearnet complies, and will continue to comply, with all of the Core Principles.

Part IV: 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.

Exhibit A-1
Default Fund Rules
See Attached

- (a) references to "SwapClear Clearing Members" or "SCMs" do not include references to Defaulting SCMs (apart from any Defaulting SCM in respect of which the Clearing House permits the application of Rule S2) or persons which were formerly SCMs but are not SCMs at the SwapClear Determination Date at which the relevant determination is made;
- (b) Contributions shall be rounded upwards, if not already such a multiple, to the next integral multiple of one thousand pounds; and
- (c) no account shall be taken, in calculating initial margin or SwapClear Margin Weight under Rule S2 of any offsets in the initial margin required for SwapClear Contracts from an SCM, which may otherwise be permissible under the Procedures or other arrangements applicable.

Provided that the SCM is not a defaulter, the amount of its SwapClear Contribution shall be calculated in accordance with and subject to Rule S2. The provisions of Rule S2 and this Rule do not apply to a Defaulting SCM, unless the Clearing House so permits in any particular case.

S5. Without prejudice to any other requirements which the Clearing House may impose, the amount of the SwapClear Contribution of a New Member shall be the sum of (a) the Minimum SwapClear 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.

S6. Upon determination of the amount of a SwapClear Contribution in accordance with Rule S2:

- (a) if the amount of the SwapClear Contribution of an SCM immediately before close of business on the relevant SwapClear Determination Date exceeds the amount of the SCM's SwapClear Contribution as determined under Rule S2 as at close of business on that day, the excess shall be paid by the Clearing House to such SCM in accordance with the Procedures;
- (b) if the amount of the SwapClear Contribution of an SCM immediately before close of business on the relevant SwapClear Determination Date is the same as the amount of the SCM's SwapClear Contribution as so determined, no sum shall then be payable by or to such SCM in respect of its Contribution; and
- (c) if the amount of the SwapClear Contribution of an SCM immediately before close of business on the relevant SwapClear Determination Date is less than the amount of the SCM's SwapClear Contribution as so determined, the shortfall shall be paid by such SCM to the Clearing House in accordance with the Procedures.

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

S7. On any day interest shall accrue on the amount of each SwapClear Contribution then held by the Clearing House, to the extent that it has not been applied under Rule 26 or Rule 28, ~~at such rate and in such manner as provided by the Procedures, and at a SONIA-linked rate determined, in light of market conditions at such time, by the Clearing House from time to time and notified by the Clearing House to SwapClear Clearing Members~~ provided that the rate of interest for any particular day shall not be

less than the SONIA rate published on that day (or, in relation to any day for which a SONIA rate is not available, the SONIA rate most recently published before such day). Interest shall be payable in arrear and shall be paid on the date or dates specified by the Procedures. In these Default Fund Rules any interest which has accrued under this Rule shall not be regarded as part of the SwapClear Contribution. For the avoidance of doubt, if the rate of interest payable on SwapClear Contributions is negative, interest shall be payable by SwapClear Clearing Members to the Clearing House.

- S8. Where, after a Default, the Clearing House has applied part or all of a SwapClear Contribution under Rule 26 or Rule 28, the SwapClear Segregated Fund Amount shall be reduced forthwith by the aggregate amount of the SwapClear Contributions or parts of SwapClear Contributions so applied and the amount of the SwapClear Contribution that each SCM must maintain with the Clearing House shall be reduced by the amount of its SwapClear Contribution which has been applied pursuant to Rule 28, in each case until the next SwapClear Determination Date. Unless and until the Clearing House has repaid a defaulter's SwapClear Contribution (or remaining part thereof, as applicable), the SwapClear Segregated Fund Amount shall be treated as having been reduced by the amount of the defaulter's SwapClear Contribution (if any), regardless of whether the Clearing House has applied part or all of that SwapClear Contribution under Rule 26.
- S9. Where, after a Default, the Clearing House determines that (i) by reason of a reduction in accordance with Rule S7, the value of the SwapClear Segregated Fund Amount has been reduced by at least 25%; or (ii) by the time of the SwapClear Default Management Process Completion Date in relation to the relevant Default the value of the SwapClear Segregated Fund Amount will be reduced by at least 25%, the Clearing House may, by notice in writing (the "**SwapClear Unfunded Contribution Notice**"), require each Non-Defaulting SCM to deposit and maintain an amount (each a "**SwapClear Unfunded Contribution**") in accordance with the following provisions:
- (a) SwapClear Unfunded Contributions will only be payable in circumstances where the relevant SwapClear Unfunded Contribution Notice is delivered by the Clearing House to SCMs prior to the SwapClear Default Management Process Completion Date in relation to the relevant Default;
 - (b) the value of the SwapClear Unfunded Contribution payable by each individual SCM shall be the product of (i) the percentage by which the value of the SwapClear Segregated Fund Amount has been reduced and (ii) the value of the SwapClear Contribution of such SCM as at the last SwapClear Determination Date prior to the date when the relevant Default occurred;
 - (c) the Clearing House may, by the delivery of one or more further SwapClear Unfunded Contribution Notices, require each Non-Defaulting SCM to pay one or more further SwapClear Unfunded Contributions in respect of the same Default, provided that the total value of the SwapClear Unfunded Contributions payable by an individual SCM in respect of a particular Default (determined in accordance with paragraph (b) above) may not exceed the value of the SwapClear Contribution of such SCM as at the last SwapClear Determination Date prior to the date when the relevant Default occurred; and
 - (d) following a Default in respect of which SwapClear Unfunded Contributions were paid (the "First Default"), the Clearing House may require the payment of further SwapClear Unfunded Contributions in respect of subsequent Defaults, (which, for the avoidance of doubt, can never be a First Default),

Exhibit A-2
Clearing House Procedures
See Attached

and following the default of the relevant SwapClear Clearing Member, to immediately and without notice to any person, send details of the Relevant Contracts and Account Balances to that pre-nominated Backup SwapClear Clearing Member; the Clearing House shall not require consent from any person in advance of sending these details.

Note: Nomination of a Backup Clearing Member does not mean that SwapClear Contracts will always be transferred to that Backup Clearing Member. Porting of SwapClear Contracts, following a SwapClear Clearing Member's default is always subject to the Clearing House's receipt of consent from the relevant Backup SwapClear Clearing Member.

A SwapClear Clearing Member that wishes to nominate a Backup SwapClear Clearing Member on behalf of a SwapClear Clearing Client should contact the Clearing House's Membership Department (membership@lchclearnet.com; +44 (0)207 426 7949).

2C.20.5 **Default Fund: SwapClear Contributions**

SwapClear Contributions (as defined in the Default Fund Rules) will be called via PPS on the fourth working day of each month or more frequently pursuant to a determination of the SwapClear Contribution under S2(k) of the Default Fund Rules (each a "**SwapClear Reset Day**"). SwapClear Contribution requirements will be notified to SwapClear Clearing Members at least two working days prior to each SwapClear Reset Day on Member Intranet Report 000032.

Excess SwapClear Contribution amounts due to SwapClear Clearing Members following the adjustment to the SwapClear Contribution will be repaid to SwapClear Clearing Members' PPS accounts on the SwapClear Reset Day immediately following the adjustment to the SwapClear Contribution.

Interest on SwapClear Contributions will be paid to SwapClear Clearing Members' PPS accounts on the first working day after the SwapClear Reset Day following the end of the relevant "interest accrual period". Interest is calculated in respect of each "interest accrual period", which commences on (and includes) a SwapClear Reset Day and ends on (and includes) the calendar day immediately before the next SwapClear Reset Day. Notwithstanding the preceding paragraphs, if the rate of interest payable on SwapClear Contributions is negative, interest shall be payable by SwapClear Clearing Members to the Clearing House.

2C.20.6 **Quantifying SwapClear Contributions**

For the purposes of calculating the SwapClear Margin Weight under Rule S2(c) of the SwapClear Default Fund Supplement, the average daily requirement for initial margin applied to an SCM shall be determined by reference to the SwapClear Contracts comprising the SwapClear House Business of that SCM only. Nothing in the foregoing sentence shall prevent the Clearing House from introducing changes to the methodology used for calculating the SwapClear Margin Weight and, in particular, with effect from 28 September 2012, the average daily requirement for initial margin applied to an SCM for the purposes of such calculation shall be determined by reference to the SwapClear Contracts comprising both the SwapClear House Business and the SwapClear Clearing Client Business of that SCM.

Exhibit A-3
FCM Procedures
See Attached

1.5 **Additional Requirements**

Notification of Changes of Ownership

FCM Clearing Members are required to notify or pre-notify the Clearing House of changes in controlling holdings (defined as the exercise or control of 20% or more of the voting power of the firm). In cases of changes in ownership, and particularly where those potentially acquiring a dominant stake in an FCM Clearing Member are not known to the Clearing House, FCM Clearing Members are required to pre-notify the Clearing House of their plans. The proposed change of ownership may be subject to an approval process involving the Risk Committee and Board of the Clearing House (LCH.Clearnet Limited).

Each FCM Clearing Member shall maintain current written risk management policies and procedures which address the risks that the relevant FCM Clearing Member may pose to the Clearing House, including any policies and procedures that the Clearing House may reasonably request be incorporated therein. Upon the request of the Clearing House, an FCM Clearing Member shall promptly provide the Clearing House with a copy of its current policies and procedures for review by the Clearing House.

Pursuant to and in accordance with FCM Regulation 10(o), where an FCM Client enters into an FCM SwapClear Transaction which results in an FCM SwapClear Contract that is non-hedging in nature, the FCM Clearing Member shall collect from that FCM Client additional collateral at a rate of 10% above the Clearing House's level of Required Margin in respect of the relevant FCM SwapClear Contract (such total increased margin requirement being the "Core Additional Requirement"). In the event that the level of Required Margin in respect of an FCM SwapClear Contract exceeds the Core Additional Requirement (such total increased margin requirement being the "Revised Margin Requirement"), the FCM Clearing Member shall collect initial margin from its FCM Client at a rate of 10% above the Revised Margin Requirement and the Revised Margin Requirement shall henceforth constitute the Core Additional Requirement for the purposes of this section.

In connection with FCM Regulation 10(o) and this section, FCM Clearing Members are not required to lodge initial margin with the Clearing House which is in excess of the Required Margin. Pursuant to and in accordance with FCM Regulation 10(o), where an FCM Client enters into an FCM SwapClear Transaction that is non-hedging in nature, the relevant FCM Clearing Member shall collect from that FCM Client additional collateral at a level of 10% above the amount that the Clearing House would normally require for the associated FCM SwapClear Contract.

1.6 **Other Conditions**

The Clearing House may, at any time, impose additional conditions relating to continued FCM Clearing Member status, and at any time vary or withdraw any such conditions. These conditions may include, but are not limited to, a requirement to deposit additional security in cash or other collateral as determined by the Clearing House.

3.7 **Participation Monies**

3.7.1 **DF Contributions**

DF contributions will be called via PPS normally on the fourth working day ("Reset Day") of ~~the~~ each monthquarter (i.e. ~~early February, May, August and November~~). Contribution requirements will be notified to FCM Clearing Members at least two working days prior to each Reset Day on the Member Reporting Website. Excess DF amounts due to FCM Clearing Members following the adjustment to DF accounts and the crediting of interest will be repaid to FCM Clearing Members' PPS accounts on the Reset Days. Notwithstanding anything else herein, if the rate of interest payable on DF contributions is negative, interest shall be payable by FCM Clearing Members to the Clearing House.

Exhibit B
Certification
See Attached



AMENDED RULES SELF CERTIFICATION

LCH.Clearnet Limited ("LCH.Clearnet") hereby certifies to the Commodity Futures Trading Commission ("CFTC"), pursuant to the procedures set forth in the Commission Regulations 40.6, that the following:

- Amendments in LCH.Clearnet's Rules and Regulations, to reflect a change to the rate of return on contributions to LCH.Clearnet's SwapClear default fund and to clarify FCM Clearing Members' collection of additional collateral for FCM Clients' SwapClear contracts that are non-hedging in nature, comply with the Commodity Exchange Act, as amended, and the regulations promulgated thereunder.

Signed as of July 17, 2012

By: _____

Name: Jay Iyer

Title: Chief Compliance Officer

LCH.Clearnet Limited