



VIA CFTC PORTAL

26 February 2015

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

Dear Mr Kirkpatrick:

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 changes to its rules with respect to the classification of Variation Margin for Futures Commission Merchants ("FCMs") in the SwapClear service.

LCH.Clearnet intends to implement these rule changes on March 16, 2015.

Part I: Explanation and Analysis

The changes to the FCM Regulations are being made in response to FCM feedback, and correct an error in the provisions governing the way in which variation margin is characterised. The current drafting erroneously treats variation margin as collateral. With this rule change, LCH.Clearnet will correct the treatment of variation margin to a settlement payment.

Part II: Description of Rule Changes

FCM Regulations, Regulation 47(a) and (b), have been corrected and 47 (d) has been deleted in order to characterise variation margin as a settlement payment, rather than as collateral.

The changes to the FCM Regulations are included at Appendix I.

Part III: Core Principle Compliance

LCH.Clearnet has concluded that compliance with the Core Principles will not be adversely affected by this change.

Part IV: Public Information

LCH.Clearnet Limited **Aldgate House, 33 Aldgate High Street, London EC3N 1EA**
Tel: +44 (0)20 7426 7000 Fax: +44 (0)20 7426 7001 www.lchclearnet.com
LCH.Clearnet Group Limited | LCH.Clearnet Limited | LCH.Clearnet SA | LCH.Clearnet LLC



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-regulations/proposed-rules-changes>

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 julian.oliver@lchclearnet.com .

Yours sincerely,

A handwritten signature in black ink that reads 'Julian Oliver'.

Julian Oliver
Chief Compliance Officer
LCH.Clearnet Limited

Appendix I
FCM Regulations

**FCM REGULATIONS OF
THE CLEARING HOUSE
LCH.CLEARNET LIMITED**

REGULATION 47 COLLATERALIZATION OF FCM SWAPCLEAR CONTRACTS

- (a) The net present value of each FCM SwapClear Contract shall be calculated ~~for the purposes of collateralization~~ by the Clearing House in such manner and at such times as may be provided in the FCM Procedures. Except as prescribed in the FCM Procedures, the net present value calculated by the Clearing House may in no circumstances be called in question.
- (b) The Clearing House shall, at least daily, call on the FCM Clearing Member to transfer pay to it cash in respect of such FCM Clearing Member's Variation Margin obligations, representing the change in the net present value of the FCM SwapClear Contracts registered in such FCM Clearing Member's name. ~~Cash Margin received by the Clearing House in respect of such payment obligations shall be applied to discharge the obligation of the FCM Clearing Member to the Clearing House on the termination of the relevant FCM SwapClear Contracts.~~
- (c) If the value of any FCM SwapClear Contract changes such that the amount of cash Margin payable by an FCM Clearing Member under paragraph (b) of this FCM Regulation 47 exceeds the obligation to which it relates, an amount shall become payable from the Clearing House to the FCM Clearing Member equal to the excess.
- ~~(d) Any payment made by the Clearing House to the FCM Clearing Member in respect of a change in the value of an FCM SwapClear Contract shall be treated as being applied to discharge amounts due to the FCM Clearing Member by the Clearing House under that FCM SwapClear Contract on the termination of that FCM SwapClear Contract.~~
- (d) ~~(e)~~ In respect of such FCM SwapClear Contracts, on every Business Day, the Clearing House shall aggregate:
- (i) the sums which would otherwise have been payable by the FCM Clearing Member to the Clearing House as cash (in respect of Variation Margin) on such date and any Coupon Payments due on that date; and
 - (ii) the sums which would otherwise have been payable by the Clearing House to the FCM Clearing Member as cash (in respect of Variation Margin) on such date and any Coupon Payments due on that date,

and, if the aggregate amount that would otherwise have been payable by one party exceeds the aggregate amount that would otherwise have been payable by the other party, then the obligations of each party under this FCM Regulation 47 shall be automatically satisfied and discharged on payment by the party by whom the larger amount would have been payable to the other party of the excess of the larger aggregate amount over the smaller aggregate amount. All netting pursuant to this FCM Regulation 47 in respect of an FCM Clearing Member's portfolio of FCM SwapClear Contracts shall be calculated separately with respect to FCM SwapClear Contracts held in that FCM Clearing Member's Proprietary Account and with respect to the FCM SwapClear Contracts held on behalf of each of that FCM Clearing