



VIA CFTC PORTAL

14 October 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 which clarify the legal nature of a pre-allocation transaction and allow a Futures Commission Merchant ("FCM") to re-allocate erroneously booked bunched orders back to its suspense account.

Part I: Explanation and Analysis

LCH.Clearnet is making changes to its FCM Regulations to clarify that the beneficial owner of a pre-allocation transaction is the unidentified FCM Client on whose behalf the Unallocated FCM SwapClear Transaction was executed.

Further changes set out that in the event an error is made in the allocation of a bunched order LCH.Clearnet will, on receiving a written request within three days of the allocation, transfer the FCM SwapClear Contract to the suspense account from which it was allocated.

The changes will go live on, or after, November 3rd, 2015.

Part II: Description of Rule Changes

Regulation 46(o)(ii) has been amended to include the clarification of the beneficial owner of a pre-allocation transaction.

Regulation 46(o)(vi) has been amended to refer to the Regulation 46(o)(viii), which has been added to the FCM Regulations to set out those provisions related to the re-allocation of erroneously booked bunched orders.

The text of the changes to FCM Regulations are attached hereto as **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 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, appearing to read 'Julian Oliver'.

Julian Oliver
Chief Compliance Officer
LCH.Clearnet Limited



Appendix I
LCH.Clearnet FCM Regulations

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

shall have a notional amount equal to the net notional amount of the compressed FCM SwapClear Contracts, however, in some cases the replacement FCM SwapClear Contracts will have an aggregate notional amount that is greater than the net notional amount of the compressed FCM SwapClear Contracts **provided that** in no event will the aggregate notional amounts of the replacement FCM SwapClear Contracts be greater than the aggregate notional amounts of the compressed FCM SwapClear Contracts, and provided further that in the event that the net notional amount and net future cash flows are equal to zero such compression shall result in no replacement FCM SwapClear Contracts. The Clearing House shall determine (in its sole discretion) whether FCM SwapClear Contracts that are the subject of a request for compression from the FCM Clearing Member may be compressed and, if such FCM SwapClear Contracts are compressed, the Clearing House shall determine the resulting terms of the FCM SwapClear Contract(s) (if any) that replaces the compressed FCM SwapClear Contracts, and such determination shall be binding on the FCM Clearing Member, absent manifest error. It is a condition for compression of FCM SwapClear Contracts that the amount of Margin that the Clearing House requires in respect of the original FCM SwapClear Contracts is equal to that which is required by the Clearing House in respect of the replacement FCM SwapClear Contract(s).

- (n) **SwapClear Accounts.** All FCM Omnibus SwapClear Client Accounts with LCH shall not be permitted to contain any FCM Contracts other than FCM SwapClear Contracts or to reflect any Margin other than in connection with FCM SwapClear Contracts.
- (o) **Unallocated FCM SwapClear Transactions.** In accordance with all other applicable provisions of the FCM Rulebook, an FCM Clearing Member may register an FCM SwapClear Contract subject to post-registration allocation on behalf of a Pre-Allocation Executing Party in accordance with the following provisions:
 - (i) In order for a FCM SwapClear Transaction executed by a Pre-Allocation Executing Party and to be subject to post-registration allocation (such transaction, an “**Unallocated FCM SwapClear Transaction**”), the FCM Clearing Member that will be registering the Unallocated FCM SwapClear Transaction (such FCM Clearing Member, a “**Pre-Allocation FCM Clearing Member**”) must have notified the Clearing House that it wishes to establish a FCM SwapClear Suspension Sub-Account with respect to that Pre-Allocation Executing Party and the Clearing House shall have opened such FCM SwapClear Suspension Sub-Account for the FCM Clearing Member.
 - (ii) The FCM SwapClear Contract registered on behalf of a Pre-Allocation Executing Party that results from an Unallocated FCM SwapClear Transaction (an “**Unallocated FCM SwapClear Contract**”) shall be registered in FCM SwapClear Suspension Sub-Account. The beneficial owner of the Unallocated FCM SwapClear Contract shall be the unidentified FCM Client on whose behalf the Unallocated FCM SwapClear Transaction was executed.
 - (iii) In order to allocate an Unallocated FCM SwapClear Transaction, a Pre-Allocation Executing Party or Pre-Allocation FCM Clearing Member must provide the Clearing House with one or more Allocation Notices. Each Allocation Notice shall be delivered to the Clearing House via an FCM

Approved Trade Source System, the SwapClear API or such other means as notified by the Clearing House. Where the foregoing delivery methods are unavailable, or in such other circumstances that the Clearing House deems appropriate, the Pre-Allocation Executing Party or Pre-Allocation FCM Clearing Member as the case may be may provide the Allocation Notice in the form of a direct written request, subject that the processing of an Allocation Notice received as a direct written request may take the Clearing House up to five (5) Business Days.

- (iv) Where an Allocation Notice: (i) contains instructions that would result in the allocation of a notional value that is greater than the notional value of the Unallocated FCM SwapClear Contract to which such Allocation Notice relates; or (ii) does not relate to an Unallocated FCM SwapClear Contract; or (iii) seeks to allocate part of all of an Unallocated FCM SwapClear Contract to a Proprietary Account of a SwapClear Clearing Member other than the Pre-Allocation FCM SwapClear Clearing Member, then such Allocation Notice shall be ineligible and shall be rejected by the Clearing House. For the avoidance of doubt, the Post-Allocation FCM Clearing Member(s) need not be the same as the Pre-Allocation FCM Clearing Member. Unless or until the Clearing House receives an eligible Allocation Notice, the Unallocated FCM SwapClear Contract shall remain in the Pre-Allocation FCM Clearing Member's FCM SwapClear Suspension Sub-Account and subject to the rules of the Clearing House.
- (v) Following receipt of an eligible Allocation Notice, the Clearing House shall (following acceptance from the relevant Post-Allocation FCM Clearing Member(s) and the Pre-Allocation FCM Clearing Member, in the same manner as a new FCM SwapClear Transaction is accepted in accordance with the Procedures):
 - (A) close out the outstanding Unallocated FCM SwapClear Contract and simultaneously register two or more (as applicable) FCM SwapClear Contracts to the same FCM SwapClear Suspension Sub-Account, and these newly registered FCM SwapClear Contracts shall have the same Economic Terms as the Unallocated FCM SwapClear Contract except that they shall have lower notional values corresponding to the allocation instructions provided in the Allocation Notice (which notional values shall, in the aggregate, equal the notional value of the Unallocated FCM SwapClear Contract) – for the purpose of the foregoing, if the Allocation Notice has not allocated the full notional value of the Unallocated FCM SwapClear Contract, one of the FCM SwapClear Contracts so registered by the Clearing House shall be a new Unallocated FCM SwapClear Contract with a notional value equal to that portion of the Unallocated FCM SwapClear Contract that has not been allocated; and
 - (B) following the actions described in paragraph (A) above, transfer one or more of the newly registered FCM SwapClear Contracts resulting from the cancellation of the Unallocated FCM SwapClear Contract to the applicable Client Segregated Sub-Accounts or Proprietary Account in accordance with the Allocation Notice. Following the transfer of one

or more of the newly registered FCM SwapClear Contracts, any remaining FCM SwapClear Contract that has not been transferred shall thereafter be the Unallocated FCM SwapClear Contract.

Where an Allocation Notice directs the entire notional amount of an Unallocated FCM SwapClear Contract to be allocated to a single Client Segregated Sub-Account or the Proprietary Account, then the Clearing House shall not take the steps described in sub-paragraphs (A) and (B) above and shall instead transfer the Unallocated FCM SwapClear Contract to the applicable Client Segregated Sub-Account or Proprietary Account following receipt of the Allocation Notice.

By a Pre-Allocation FCM Clearing Member delivering an eligible Allocation Notice to the Clearing House, that Pre-Allocation FCM Clearing Member shall be deemed to represent and warrant that it has been properly authorized by the Pre-Allocation Executing Party to allocate the relevant Unallocated FCM SwapClear Contract or, where the allocation is to such Pre-Allocation FCM Clearing Member's Proprietary Account, in accordance with paragraph (vii) below. Where the Clearing House receives an ineligible Allocation Notice, the Unallocated FCM SwapClear Transaction to which it relates shall remain in the FCM SwapClear Suspension Sub-Account.

- (vi) Subject to paragraph (viii) below, ~~The~~ the transfer of an Unallocated FCM SwapClear Contract from the FCM SwapClear Suspension Sub-Account to a Client Segregated Sub-Account or Proprietary Account shall be final. In no event can Unallocated FCM SwapClear Contracts be further allocated once they are transferred from the FCM SwapClear Suspension Sub-Account.
- (vii) Where an Unallocated FCM SwapClear Contract has been registered to an FCM SwapClear Suspension Sub-Account and is not allocated by the Pre-Execution Allocating Party or in such other circumstances that the Clearing House considers appropriate, the Pre-Allocation FCM Clearing Member may submit an Allocation Notice to the Clearing House requesting the transfer of the relevant Unallocated FCM SwapClear Contract to that FCM Clearing Member's Proprietary Account. An FCM Clearing Member, through requesting such transfer, shall be deemed to represent that such transfer is in accordance with applicable law and regulation and the FCM's contractual rights against the Pre-Allocation Executing Party or, if applicable, the Pre-Allocation Executing Party's underlying customer(s).
- (viii) Where an Unallocated FCM SwapClear Contract has been erroneously allocated to a Client Segregated Sub-Account the Clearing House will, in response to a written request from a Post-Allocation FCM Clearing Member and subject to acceptance of the transfer by the relevant Pre-Allocation FCM Clearing Member, transfer an FCM SwapClear Contract to the FCM SwapClear Suspension Sub-Account from which that FCM SwapClear Contract was allocated. Following such transfer, the FCM SwapClear Contract shall be treated as an Unallocated FCM SwapClear Contract except that the provisions of FCM Regulation 46(o)(iv) shall not apply to it, such that an over-allocation will not be ineligible and will result in the allocation of the notional amount prescribed in an Allocation Notice. Any transfer pursuant to

this FCM Regulation 46(o)(viii) must be requested within three Business Days of the original allocation to the relevant Client Segregated Sub-Account. Through requesting a transfer pursuant to this paragraph (viii), the Post-Allocation FCM Clearing Member shall be deemed to represent and warrant that the transfer is in accordance with applicable law and regulation.

~~(viii)~~(ix) The registration and allocation of Unallocated FCM SwapClear Contracts as set forth above is subject to all other applicable provisions of the FCM Rulebook including, where applicable, and to the same extent as if an Unallocated FCM SwapClear Transaction or Allocation Notice were a new FCM SwapClear Transaction with respect to the relevant account: (A) the provision by the Pre-Allocation FCM Clearing Member of adequate Margin in the FCM SwapClear Suspension Sub-Account at the time of registration of the Unallocated FCM SwapClear Contract; (B) the provision by the applicable Post-Allocation FCM Clearing Member(s) of adequate Margin, at the time of the transfer of the relevant Unallocated FCM SwapClear Contract, in respect of each of the applicable Client Segregated Sub-Accounts or Proprietary Account to which an Unallocated FCM SwapClear Contract is to be allocated. If adequate Margin is not so provided in respect of each Proprietary Account, Client Segregated Sub-Account and Omnibus Client Swaps Account with LCH, the Clearing House may in its sole discretion, delay or reject the allocation and transfer all or any portions of the Unallocated SwapClear FCM Contract, and may take any other actions permitted under the FCM Rulebook.

~~(ix)~~(x) In order to meet the obligations of a FCM Clearing Member set out under paragraph (viii) above, the Clearing House will solely look to the FCM Buffer held by the relevant FCM Clearing Member and such FCM Buffer shall only be available to margin an Unallocated FCM SwapClear Transaction to the extent that it is Available FCM Buffer. For such time as any Available FCM Buffer is, and remains, applied to margin an Unallocated FCM SwapClear Transaction, such FCM Buffer shall no longer be Available FCM Buffer and shall be Encumbered Buffer.

~~(x)~~(xi) Each Pre-Allocation FCM Clearing Member and Post-Allocation FCM Clearing Member must comply with the applicable provisions of the CFTC Regulations (including CFTC Regulations 1.35 and 1.73) and all other applicable law, and shall be responsible for ensuring that Pre-Allocation Executing Parties clearing through it are in compliance with CFTC Regulation 1.35(b)(5), where applicable.