July 28, 2014

Ms. Melissa Jurgens  
Secretary of the Commission  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21\textsuperscript{st} Street, N.W.  
Washington, DC 20581

**RE: Implementation of the Initial Margin Management Events Service (“IMMES”)**

Dear Ms. Jurgens:

Pursuant to §40.6(a) of the Commission Regulations, LCH.Clearnet Limited (“LCH.Clearnet”), a Derivatives Clearing Organization (“DCO”) registered with the Commodity Futures Trading Commission (“CFTC”), hereby submits changes to its Rulebooks in relation to SwapClear’s Initial Margin Maintenance Service (“IMMES”). LCH.Clearnet’s SwapClear service is planning to implement these rule changes to become effective on August 13, 2014.

**Part I: Explanation and Analysis**

IMMES is a monthly post-trade service which helps members reduce their risk with us (and thus margin) by matching members with long/short positions and identifying to them offsetting trades that would be mutually beneficial when cleared through LCH.Clearnet. However, it is not obligatory for members to execute the proposed trades. Members wishing to take advantage of IMMES must sign an agreement with the relevant DCO in order to access the service.

The IMMES service was not previously documented in the rulebook, being governed by bilateral agreements with members. In the interest of transparency to all members and prospective members, we are now inserting rules with respect to IMMES into the SwapClear procedures and the FCM Procedures as per the attached submission. There will remain a separate IMMES agreement as described in the rules.

**Part II: Description of Rule Changes**

The SwapClear and FCM Procedures have been amended to include a description of the Initial Margin Management Events Service (“IMMES”).
Part III: 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 IV: Compliance with Core Principles

LCH.Clearnet will continue to comply with all Core Principles following the introduction of these rule amendments. LCH.Clearnet has concluded that its compliance with Core Principles would not be adversely affected by these changes.

Part V: Opposing Views

There were no opposing views expressed to LCH.Clearnet by its governing board or committee members, members of LCH.Clearnet or market participants that were not incorporated into the planned changes.

Part VI: Certification

LCH.Clearnet hereby certifies to the Commodity Futures Trading Commission, pursuant to the procedures set forth in Commission regulation §40.6, that the attached rule submission complies with the Commodity Exchange Act, as amended, and the regulations promulgated thereunder.

Should you have any questions regarding this submission please contact me at jay.iyer@lchclearnet.com.

Cordially yours,

Jay Iyer
Chief Compliance Officer
LCH.Clearnet Limited
UK Contact: +44 20 7426 7285

cc: Shawn Durrani, CFTC
Suprio Chaudhuri, LCH.Clearnet LLC CCO
Appendix A-1 (Submission Cover Sheet)
SUBMISSION COVER SHEET

**IMPORTANT:** Check box if Confidential Treatment is requested □

Registered Entity Identifier Code (optional): LCHLTD

Organization: LCH.Clearnet Ltd

Filing as a: ☑ DCM ☐ SEF ☑ DCO ☐ SDR Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 07/28/2014 Filing Description: New Rule for IMMES Service

SPECIFY FILING TYPE Please note only ONE choice allowed per Submission.

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Rule Numbers: 

New Product Please note only ONE product per Submission.

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Official Product Name: 

Product Terms and Conditions (product related Rules and Rule Amendments)

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Official Name(s) of Product(s) Affected: SwapClear

Rule Numbers: LCH Procedures Sect 2C.1.8.6 and FCM Procedures Section 2.1.8e
Appendix A-2 (Ltd Procedures & FCM Procedures)
1.9.5  Calculation of Initial Margin

(a)  Portfolio Approach to Interest Rate Scenarios (PAIRS)

PAIRS is a historical model which takes historical events that occurred within the look-back period and from these calculates initial margin in line with the Clearing House’s risk policies (which also take into account regulatory requirements). All positions in each currency are revalued under a series of scaled historical market moves and initial margin is calculated as the Expected Shortfall (ES) of the portfolio. Further details of this method are available upon request and are detailed in the PAIRS TIP document. The PAIRS document and further information relating to initial margin calculations can be obtained from SwapClear Risk on +44 (0)20 7 426 7549.

1.9.6  Initial Margin Management Events Service (“IMMES”)

IMMES aims to find risk and initial margin reducing SwapClear Contracts amongst participating SwapClear Clearing Members. IMMES can be run on all SwapClear Contracts of participating SwapClear Clearing Members that are cleared through the SwapClear Service, although the primary focus will be on those that contribute to the largest initial margin requirement. IMMES is available in respect of SwapClear Contracts registered to a SwapClear Clearing Member’s Proprietary Account and/or client account.

SwapClear Clearing Members who wish to obtain further information about, or to participate in, IMMES should contact SwapClear Risk by emailing OTCIRDRisk@lchclearnet.com. To be eligible to participate in IMMES, a SwapClear Clearing Member must enter into an IMMES agreement with the Clearing House (the “IMMES Agreement”).

Step-by-step details

(i)  The Clearing House usually conducts the IMMES monthly.

(ii)  A reminder that there is an IMMES run taking place is sent out the week before to each SwapClear Clearing Member which is a party to an IMMES Agreement with LCH and each such SwapClear Clearing Member is asked to confirm its participation.

(iii)  On the day of the scheduled IMMES run, the Clearing House analyses each participating SwapClear Clearing Member’s portfolio profile to find SwapClear Contracts with equivalent and opposite delta values to compile a list of offsetting trades that are Block IRS Trades and that may be mutually beneficial in terms of initial margin reduction (the “IMMES Trades”).

(iv)  The Clearing House then analyses each participating SwapClear Clearing Member’s portfolio (assuming that the IMMES Trades have been entered into) and determines the
change in, initial margin and zero yield sensitivity from the IMMES Trades.

(v) The SwapClear Clearing Members on either side of the trades (which may include an FCM SwapClear Clearing Member (as defined in the FCM Rulebook)) are advised of the economic details of the IMMES Trades, and their respective identities and contact details.

(vi) The SwapClear Clearing Members may but are not required to enter into the IMMES Trades. Any IMMES Trades entered into must be submitted to the Clearing House for registration.

1.10 Tenor Basis Risk Margin Add-on

An add-on margin requirement will be applied in respect of tenor basis risk.

1.11 Intra-Day Margin Call: Collateral Management

The methods for covering intra-day margin calls are set out in Section 1.11 of Procedure 4 (Margin and Collateral).

1.12 Price Alignment Interest (PAI) Rate

To minimise the impact of daily cash variation margin payments on the pricing of interest rate swaps and inflation swaps, the Clearing House will charge interest on cumulative amounts in respect of variation margin received by the Clearing Member and pay interest on cumulative amounts in respect of variation margin paid in by the Clearing Member in respect of these instruments. This interest element is known as price alignment interest ("PAI").

The calculation of PAI shall use the interest rates specified and published on the Clearing House's website.

The Clearing House shall not change the interest rates used for the calculation of PAI in respect of USD, EUR, GBP, JPY and CHF without the consent of all SwapClear Clearing Members holding open contracts in such currencies.

1.13 Transfer of SwapClear Contracts between Client Accounts and Proprietary Accounts

1.13.1 If at any time an early termination date (howsoever described) occurs in respect of one or more of the transactions between a SwapClear Clearing Member and a SwapClear Clearing Client in respect of which such SwapClear Clearing Member (i) is a party to Related SwapClear Contracts and (ii) at the time of such early termination date, is not a Defaulting SCM, that SwapClear Clearing Member may instruct the Clearing House to transfer the relevant Related SwapClear Contracts from its Client Account to its Proprietary Account.

For the purposes of this Section 1.13.1 below a "Related SwapClear Contract" means, in respect of a transaction between a SwapClear Clearing
2.1.8 **Initial Margin**

The Clearing House will require FCM Clearing Members to furnish it with Initial Margin. This amount will be determined by the prevailing market conditions and the expected time to close out the portfolio. The Portfolio Approach to Interest Rate Scenarios (PAIRS) will be used to calculate Initial Margin requirements for FCM SwapClear Contracts.

Separate Initial Margin calculations are performed for an FCM Clearing Member's house “H” and client “C” accounts and, within a “C” account, separately in respect of each FCM Client Sub-Account therein. No offset between the “C” and “H” accounts is permitted.

The Clearing House reserves the right to require additional amounts of Margin from a specific FCM Clearing Member or from all FCM Clearing Members in accordance with FCM Regulation 14 (*Margin and Collateral*).

(a) **Liquidity Multiplier**

Risk Management applies a liquidity multiplier based on Worst Case Loss (WCL) exceeding certain thresholds on the FCM Clearing Member's whole portfolio and individual currencies. The threshold amounts and multipliers are reviewed on an on-going basis. FCM Client accounts are treated as independent accounts for purposes of liquidity and will be called only in the event that the individual account exceeds the relevant threshold.

(b) **Intra-day Margin Calls**

In accordance with the Clearing House's FCM Regulations, the Clearing House is entitled to make additional margin calls for payment the same day (intra-day margin calls) where it is considered necessary. Intra-day margin calls can be called at any time throughout the Business Day. Intra-day margin calls will usually be made via the Protected Payments System (PPS) (see Section 2.1.9).

In certain circumstances the Clearing House may wish to make a call for additional funds after the closure of UK PPS facilities at 16:00 hours, London time. In this event the Clearing House will require payment of additional funds through PPS facilities in the USA (see Section 3.2.1). Members must ensure, in these circumstances, that they are in a position to fund such calls through their nominated US PPS account within one hour of the call.

(c) **Calculation of Initial Margin**

(i) **Portfolio Approach to Interest Rate Scenarios (PAIRS)**

The PAIRS calculation is a VAR based approach based on filtered historical simulations. All positions in each currency are re-valued under a series of cross portfolio yield curve scenarios to estimate the highest forecast loss and therefore the
Initial Margin requirement. Further details of this method are available upon request and are detailed in the PAIRS TIP document. The PAIRS document and further information relating to Initial Margin calculations can be obtained from the Rates team at +44 (020) 7426 6325 or +44 (020) 7426 7428.

(d) **Tenor Basis Risk Margin Add-on**

A margin add-on will be applied in respect of tenor basis risk.

(e) **Initial Margin Management Event Service (“IMMES”)**

IMMES aims to find risk and Initial Margin reducing FCM SwapClear Contracts amongst participating FCM SwapClear Clearing Members. IMMES can be run on all SwapClear Contracts of participating SwapClear Clearing Members that are cleared through the SwapClear Service, although the primary focus will be on those that contribute to the largest Initial Margin requirement. IMMES is available in respect of SwapClear Contracts registered to an FCM SwapClear Clearing Member’s Proprietary Account and/or FCM Client Sub-Account.

FCM Clearing Members who wish to obtain further information about, or to participate in, IMMES should contact SwapClear Risk by emailing OTCIRDRisk@lchclearnet.com. To be eligible to participate in IMMES, an FCM Clearing Member must enter into an IMMES Agreement with the Clearing House (the “IMMES Agreement”).

Step-by-step details

(i) The Clearing House usually conducts the IMMES monthly.

(ii) A reminder that there is an IMMES run taking place is sent out the week before to each FCM SwapClear Clearing Member which is a party to an IMMES Agreement with LCH and each such FCM SwapClear Clearing Member is asked to confirm its participation.

(iii) On the day of the scheduled IMMES run, the Clearing House analyses each participating FCM SwapClear Clearing Member’s portfolio profile to find FCM SwapClear Contracts with equivalent and opposite delta values to compile a list of offsetting trades that are Block IRS Trades and that may be mutually beneficial in terms of Initial Margin reduction (the “IMMES Trades”).

(iv) The Clearing House then analyses each participating FCM Clearing Member’s portfolio (assuming that the IMMES Trades have been entered into) and determines the change in Initial Margin, and zero yield sensitivity from the IMMES Trades.
The FCM SwapClear Clearing Members on either side of the trades (which may include a SwapClear Clearing Member (as defined in the UK General Regulations)) are advised of the economic details of the IMMES Trades, and their respective identities and contact details.

The FCM SwapClear Clearing Members may but are not required to enter into the IMMES Trades. Any IMMES Trades entered into must be submitted to the Clearing House for registration.

2.1.9 **Intra-Day Margin Call: Collateral Management**

(a) **General – Intra-day Margining**

Following an intra-day margin call and unless notified otherwise by an FCM Clearing Member at the time of an intra-day margin call the Clearing House will deduct cash, in the appropriate currency, directly from the relevant FCM Clearing Member's PPS account to cover the Margin needed to meet that intra-day margin call.

Cash payments in respect of intra-day Margin requirements are accepted only in USD by the Clearing House.

It is the responsibility of the FCM to ensure that they have sufficient cash funds in place with their PPS bank(s) in order to avoid any intra-day liquidity issues.

2.1.10 **Compression**

(a) Pursuant to FCM Regulation 45(m) (**Registration of FCM SwapClear Contracts; Novation and Post-Novation Compression; SwapClear Accounts**), an FCM Clearing Member may compress existing FCM SwapClear Contracts in accordance with that FCM Regulation. There are two options available to an FCM Clearing Member that wishes to compress existing FCM SwapClear Contracts:

(i) An FCM Clearing Member can request that all FCM SwapClear Contracts entered into (i) on behalf of a designated FCM Client or (ii) in such FCM Clearing Member's Proprietary Account be considered for compression by the Clearing House. Such a request shall be reconsidered by the Clearing House automatically each day (and the results notified to the FCM Clearing Member by 19:00 hours, New York City time, on each applicable day) until the FCM Clearing Member notifies the Clearing House to discontinue such compression of FCM SwapClear Contracts. FCM Clearing Members should contact the Clearing House's Membership Department to request such a compression of FCM SwapClear Contracts.