

VIA CFTC PORTAL

20 September 2018

Mr Christopher Kirkpatrick
Commodity Futures Trading Commission
115 21st Street NW
Three Lafayette Centre
Washington DC 20581

LCH Limited Self-Certification: stress loss exposure notice period

Dear Mr Kirkpatrick

Pursuant to CFTC regulation §40.6(a), LCH Limited (“LCH”), a derivatives clearing organization registered with the Commodity Futures Trading Commission (the “CFTC”), is submitting for self-certification changes to its rules to reduce the notice period required for clearing members to cease payments of stress loss margin.

Part I: Explanation and Analysis

Upon request, the Clearing House may require that SwapClear clearing members provide additional collateral to cover the stress loss exposure with respect to a client account of such SwapClear clearing member (the “Stress Loss Margin”). Currently, the notice period required for a SwapClear clearing member who wishes to cease paying stress loss margin is 30 calendar days. Following SwapClear clearing member feedback, this proposal will reduce the notice period to three business days. There is no material risk or operational reason to keep the previous notice period.

The rule changes will go live on, or after, 05 October 2018.

Part II: Description of Rule Changes

Section 1.9.7 of Procedures Section 2C and Section 2.1.9(f) of the FCM Procedures have been amended to reflect that a SwapClear clearing member may cease paying Stress Loss Margin by giving not less than three business days’ written notice to LCH, rather than 30 calendar days.

The texts of the rule changes are attached hereto as:

- i. **Appendix I**, Procedures Section 2C (SwapClear)
- ii. **Appendix II**, FCM Procedures

Part III: Core Principle Compliance

LCH has reviewed the changes against the requirements of the Core Principles and finds it will continue to comply with all the requirements and standards therein.

Part IV: Public Information

LCH has posted a notice of pending certification with the CFTC and a copy of the submission on LCH's website at:

<http://www.lch.com/rules-regulations/proposed-rules-changes>

Part V: Opposing Views

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

Certification

LCH 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@lch.com.

Yours sincerely



Julian Oliver
Chief Compliance Officer
LCH Limited

Appendix I
Procedures Section 2C (SwapClear)



LCH LIMITED

PROCEDURES SECTION 2C

SWAPCLEAR CLEARING SERVICE

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.

1.9.7 *Collateral for Stress Loss Exposure*

In response to a request from a SwapClear Clearing Member, the Clearing House may require additional Collateral to cover such SwapClear Clearing Member's stress loss exposure with respect to a Client Account (the "**Stress Loss Margin**"). The Stress Loss Margin may be subject to an additional percentage add-on as the Clearing House may require in its sole discretion. The Stress Loss Margin and any add-ons, as applicable, will be called as part of the end of day margin run and by means of morning PPS calls. The request must indicate the percentage of the stress loss exposure that will be covered by Stress Loss Margin. Any request pursuant to this paragraph is subject to the Clearing House's consent in its sole discretion (and the Clearing House may apply a lower percentage than that requested by the SwapClear Clearing Member.)

A SwapClear Clearing Member may cease paying Stress Loss Margin by giving not less than ~~30~~ three (3) calendar business days' written notice to the Clearing House.

Before making any request to pay or notifying the Clearing House of ceasing to pay Stress Loss Margin, a SwapClear Clearing Member must obtain the consent of the SwapClear Clearing Client(s) to which the Stress Loss Margin applies. In making any request pursuant to this paragraph, the SwapClear Clearing Member is deemed to represent that it has obtained such consent.

Appendix II
FCM Procedures



FCM PROCEDURES OF THE CLEARING HOUSE

LCH LIMITED

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 reductions (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.
 - (v) 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.
 - (iv) 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.
- (f) *Collateral for Stress Loss Exposure*

In response to a request from an FCM Clearing Member, the Clearing House may require additional Collateral to cover such FCM Clearing Member's stress loss exposure with respect to an FCM Client Sub-Account (the "**Stress Loss Margin**"). The Stress Loss Margin may be subject to an additional percentage add-on as the Clearing House may require in its sole discretion. The Stress Loss Margin and any add-ons, as applicable, will be called as part of the end of day margin run and by means of morning PPS calls. The request must indicate the percentage of the stress loss exposure that will be covered by Stress Loss Margin. Any request pursuant to this paragraph is subject to the Clearing House's consent in its sole discretion (and the Clearing house may apply a lower percentage than that requested by the SwapClear Clearing Member).

An FCM Clearing Member may cease paying Stress Loss Margin by giving not less than ~~30 calendar~~three (3) business days' written notice to the Clearing House.

Before making any request to pay or notifying the Clearing House of ceasing to pay Stress Loss Margin, an FCM Clearing Member must