

VIA CFTC PORTAL

10 December 2018

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

LCH Limited Self Certification: Rule Changes on the removal of the IMMES Service

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 remove the Initial Margin Management Service (IMMES).

Part I: Explanation and Analysis

The IMMES service aims to find risk reducing, and correspondingly, Initial Margin (IM) reducing trades amongst participating members in the service. Where trades are found, participating members are notified of the trade details and the matching counterparty. It is then up to them to submit one trade with the risk reduction to the clearing house. In order to remain risk flat overall from the IMMES the members then execute an equal and offsetting trade with the other counterparty. Before mandatory clearing came into force this would have been kept bilateral. With the introduction of mandatory clearing the participants have to clear it at another clearing house. LCH’s members have noted that the benefit of clearing at one CCP is often negated if they have to put the offsetting trade somewhere else, and therefore members have stopped participating in the IMMES. LCH has therefore decided to cease provision of the service.

The rule changes associated with the removal of this Service will go live on, or after, January 1, 2019.

Part II: Description of Rule Changes

Section 1.9.6 of Procedures Section 2C (“SwapClear Clearing Service”) and section 2.1.9(e) of the FCM Procedures have been deleted. These sections dealt with IMMES.

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 that they 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

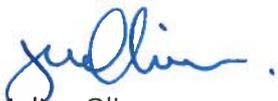
There were no opposing views expressed to LCH by governing board or committee members, members of LCH or market participants that were not incorporated into the rule.

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

facilities in the USA (see Section 1.3 of Procedure 3 (*Financial Transactions*)). **Members must ensure, in these circumstances, that they are in a position to comply with such demands through their nominated US PPS account within one hour of the demand.**

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")*~~ [*Reserved.*]

~~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@lch.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)(i) 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 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, 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.

Where SwapClear Contracts entered into by a SwapClear Clearing Member in respect of a SwapClear Clearing Client which has requested to pay Stress Loss Margin are transferred to a Backup Clearing Member or a Receiving Clearing Member (including an FCM Clearing Member), such Backup Clearing Member or Receiving Clearing Member may be required to pay additional initial margin to the Clearing House in the event that it does not pay Stress Loss Margin with respect to the transferring SwapClear Clearing Client(s).

Appendix II
FCM Procedures



FCM PROCEDURES OF THE CLEARING HOUSE

LCH LIMITED

(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” [Reserved.])*~~

~~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@lch.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 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 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 obtain the consent of the FCM Client to which the Stress Loss Margin applies. In making any request pursuant to this paragraph, the FCM Clearing Member is deemed to represent that it has obtained such consent.

Where FCM SwapClear Contracts entered into by an FCM Clearing Member in respect of an FCM Client which has requested to pay Stress Loss Margin are transferred to a Receiving Clearing Member, such Receiving Clearing Member may be required to pay additional initial margin to the Clearing House in the event that it does not pay Stress Loss Margin with respect to the transferring FCM Client.