

VIA CFTC PORTAL

8 March 2017

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

LCH Limited Self Certification: Rule Changes on Collateralisation to Stress Loss

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 enhance the current arrangements which allow LCH to require, following a request of Clearing Members, additional collateral from Clients to cover stress loss exposure.

Part I: Explanation and Analysis

The LCH Risk management framework requires that a Clearing Member with aggregate Stress Loss Over Initial Margin (STLOIM) of greater than 45% of the Rates Default Fund on any given business day intra-month is charged the incremental additional margin in the form of Daily and Monthly Default Fund Additional Margin (DFAM). The STLOIM includes both the stress loss exposure generated by its proprietary account and that of its Client accounts.

In September 2016, SwapClear introduced the ability for Clearing Member to request that LCH requires additional collateral from a Client to cover the Daily DFAM, where the stress loss exposure is generated by that Client account. Further to this, SwapClear is proposing that the additional collateral from a Client may also be used to cover Monthly DFAM where the stress loss exposure is generated by that Client account. In both cases, the Client will be called a margin, called Stress Loss Margin (SLM), to cover the new liability. All SLMs will be required to settle as part of EOD together with Initial Margin attributable to the relevant Client account(s).

The rule changes will go live on, or after, March 27, 2017.

Part II: Description of Rule Changes

The rule changes affect all Clearing Members of SwapClear and have been made under the Initial Margin section of the respective Procedures for SwapClear Clearing Members ("SCMs") and Futures Commission Merchants ("FCMs").

The section *Collateral for Stress Loss Exposure* (1.9.7 in the Procedures Section 2C and 2.1.9 (f) in the FCM Procedures) notes that, following a request from an SCM or FCM, LCH may require, at its sole discretion, additional collateral to cover such Clearing Member's stress loss exposure with respect to a Client Account and provides details on the process for LCH to charge such additional margin to the Client account. Further, under the proposal Clearing Members and their Clients are able to opt in or out of this capability on a monthly basis in line with the monthly default fund recalculation process; the proposed rules note the process for the Clearing Member to cease paying such additional margin in respect to its Client account(s), subject to receiving the consent of the Client(s).

The proposed rules also specify the obligation of a Clearing Member, to which the positions of SwapClear Clients are being transferred or ported, to pay the relevant SLM following receipt of the positions.

The text of the changes to Procedures Section 2C is attached hereto as **Appendix I** and the text of the changes to FCM Procedures is attached hereto as **Appendix II**.

Part III: Core Principle Compliance

LCH has reviewed the changes to its rules against the Core Principles, in particular F and G, and concluded that compliance with all the requirements and standards therein will not be adversely affected by these changes.

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

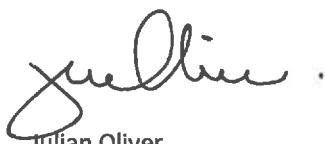
There were no opposing views expressed to LCH by governing board or committee members, members of LCH or market participants that were not incorporated into the rule.

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



LCH.CLEARNET LIMITED
PROCEDURES SECTION 2C
SWAPCLEAR CLEARING SERVICE

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). In response to a request from a SwapClear Clearing Member, the Clearing House may, in its sole discretion, require additional Collateral to cover such SwapClear Clearing Member's stress loss exposure with respect to a Client Account.

A SwapClear Clearing Member may cease paying Stress Loss Margin by giving not less than 30 calendar 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).

1.10 Tenor Basis Risk Margin Add-on

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

Appendix II
FCM Procedures



**FCM PROCEDURES OF
THE CLEARING HOUSE**

LCH.CLEARNET LIMITED

(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-be-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). In response to a request from an FCM Clearing Member, the Clearing House may, in its sole discretion, require additional Collateral to cover such FCM Clearing Member's stress loss exposure with respect to an FCM Client Sub Account.

An FCM Clearing Member may cease paying Stress Loss Margin by giving not less than 30 calendar 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.

2.1.10 *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.