

VIA CFTC PORTAL

1 September 2017

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

LCH Limited Self Certification: Member Circular on Implementation of Portfolio Margining Floor

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 a Circular to LCH Clearing Members advising them of the implementation of a portfolio margining floor for initial margin, effective from 2nd October 2017.

Part I: Explanation and Analysis

LCH is implementing a portfolio margining floor for initial margin to ensure compliance with the regulatory guidance of the European Securities and Markets Authority (ESMA) issued in April 2017¹. The guidance clarifies the grouping of financial instruments or products to be used when ensuring the portfolio margining model of a Clearing House meets the relevant EMIR requirements².

The Member Circular on the above changes is attached hereto as **Appendix I**.

Part II: Description of Rule Changes

This submission does not require any changes to the LCH Rulebook.

Part III: Core Principle Compliance

LCH has concluded that compliance with the Core Principles will not be adversely affected by this change.

¹ https://www.esma.europa.eu/sites/default/files/library/esma70-708036281-18_opinion_on_portfolio_margining.pdf
² COMMISSION DELEGATED REGULATION (EU) No 153/2013, Article 27(4)

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 this submission.

Certification

LCH hereby certifies to the CFTC, pursuant to the procedures set forth in 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 valentina.cirigliano@lch.com.

Yours sincerely



Valentina Cirigliano
Regulatory Advisor
LCH Limited

Appendix I
LCH Limited - Circular

Date: 1st September 2017
To: All SwapClear Clearing Members

Subject: Portfolio Margining Floor

Dear Member,

LCH Limited ("LCH") is planning to implement a *portfolio margining floor* for initial margin, effective from Monday 2nd October 2017, subject to regulatory review.

The floor is required in order to comply with the ESMA opinion published on 10th April 2017, which clarifies the grouping of financial instruments or products to be used when ensuring a portfolio margining model meets the requirements of EMIR RTS Article 27 Paragraph 4, namely that "*where portfolio margining covers multiple instruments, the amount of margin reductions shall be no greater than 80 % of the difference between the sum of the margins for each product calculated on an individual basis and the margin calculated based on a combined estimation of the exposure for the combined portfolio*".

For further details see:

https://www.esma.europa.eu/sites/default/files/library/esma70-708036281-18_opinion_on_portfolio_margining.pdf

LCH will apply the portfolio margining floor on a daily basis to any account where the core initial margin is less than the minimum required by Article 27 Paragraph 4 and the ESMA opinion. In any such cases an additional margin will be charged in order to bring the total margin up to the minimum required level.

The impact on margin levels of this change is expected to be small, with only a limited number of members likely to be impacted. LCH Risk and Client Services have already contacted those members that are directly affected based on current positions.

Calculations will be performed first thing in the morning based on the previous day's end-of-day positions. Any additional margin required will be called as part of the first intraday margin run of the day. LCH plans a subsequent phase of this project in which the floor will be fully integrated within the

core margin and reporting suite at the account level. We will advise a go-live date for this phase later in the year.

If you have any questions please contact SwapclearMembershipSales@lch.com or swapclearrisk@lch.com