

VIA CFTC PORTAL

14 June 2019

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

**LCH Limited Self-Certification: SwapClear Initial Margin parameter update**

Dear Mr Kirkpatrick,

Pursuant to Commodity Futures Trading Commission (the "CFTC") Regulation §40.6(a), LCH Limited ("LCH"), a derivatives clearing organization registered with the CFTC, is submitting for self-certification an Initial Margin parameter update for the SwapClear Service.

**Part I: Explanation and Analysis**

SwapClear proposes to replicate the MPOR (Margin Period Of Risk) scaling used in the Core IM model to apply consistently to the IM floor calculation. Under this proposal, the MPOR for Client accounts in the IM floor would increase from 5 days to 7 days. The rationale for this parameter update is to mitigate against reductions in the IM charges for some Client-side swap positions. With passage of time the events of September-October 2008, including the default of Lehman Brothers and subsequent Targeted Asset Repurchase Plan (TARP) action by the US government, have 'rolled out' of the 10-year lookback and are no longer in the historic dataset that is used to calculate the Core IM. These events are retained in the set of permanent scenarios used to determine the IM Floor, however the IM Floor operates to a lower confidence interval and, for Client risk, a lower MPOR.

Thus to reverse some of the margin erosion which has been observed, SwapClear is proposing this parameter update.

This change is due to come into effect on 22<sup>nd</sup> July 2019.

**Part II: Description of Rule Changes**

There are no changes to the LCH Rulebook; however, LCH will update its members via a member circular as shown in **Appendix I**.

**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 including in particular Core Principle D – Risk Management.

**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 change.

**Certification**

LCH hereby certifies to the Commodity Futures Trading Commission, pursuant to the procedures set forth in Commission Regulation § 40.6, that the attached 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](mailto:julian.oliver@lch.com).

Yours sincerely



Julian Oliver  
Chief Compliance Officer  
LCH Limited

**Appendix I**  
Member Circular

# SwapClear Initial Margin parameter update

Circular No.

LCH Circular No: 4029

Date:

14<sup>th</sup> June 2019

To: All LCH Limited SwapClear Clearing Members, SwapClear Clearing Clients and Clients

LCH Limited is planning to make an update to the SwapClear initial margin model. The parameter change is intended to align the margin period of risk (MPOR) in the initial margin floor calculation with the core initial margin calculation for Client accounts at 7 days. The change will become effective as part of the Service Release 10.3 which is scheduled to go live on 22<sup>nd</sup> July 2019 (subject to regulatory non-objection).

The parameter change has become necessary following an erosion in the initial margin per unit risk for some Client positions caused by the evolution of the market data series which drives the initial margin model. This change will restore the initial margin requirement for those positions closer to historic levels.

If you would like to know the expected change in initial margin requirement for any of your accounts the current version of SMART (v6.6.2) can be used along with TESTFLOOR7SMART0001.DAT (instead of the original SMART0001.DAT) to calculate the 7-day Client Unscaled VAR. This is available on the SMART for SwapClear area [here](#). For Clients, your Clearing Member should have the expected change as well.

For further details on the use of SMART please contact [smartsupport@lch.com](mailto:smartsupport@lch.com)

For further details on the model change please contact [OTCIRDRisk@LCH.Com](mailto:OTCIRDRisk@LCH.Com).

Kind regards,

Rates Service Risk Team

*Terms used herein have the meaning assigned to them in either the Rulebook or FCM Rulebook (as applicable), available at [www.lch.com](http://www.lch.com). The term 'SwapClear Clearing Member' includes an 'FCM Clearing Member' and references to a 'Client' mean a 'SwapClear Clearing Client' or an 'FCM Client' on behalf of which an FCM Clearing Member clears FCM SwapClear Contracts.*