



VIA EMAIL TO: SUBMISSIONS@CFTC.GOV

July 28, 2014

Ms. Melissa Jurgens
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

RE: Implementation of the Initial Margin Management Events Service (“IMMES”)

Dear Ms. Jurgens:

Pursuant to §40.6(a) of the Commission Regulations, LCH.Clearnet LLC (“LCH.Clearnet”), a Derivatives Clearing Organization (“DCO”) registered with the Commodity Futures Trading Commission (“CFTC”), hereby submits changes to its Rulebook in relation to SwapClear’s Initial Margin Maintenance Service (“IMMES”). LCH.Clearnet’s SwapClear service is planning to implement these rule changes to become effective on August 13, 2014.

Part I: Explanation and Analysis

IMMES is a monthly post-trade service which helps members reduce their risk with us (and thus margin) by matching members with long/short positions and identifying to them offsetting trades that would be mutually beneficial when cleared through LCH.Clearnet. However, it is not obligatory for members to execute the proposed trades. Members wishing to take advantage of IMMES must sign an agreement with the relevant DCO in order to access the service.

The IMMES service was not previously documented in the rulebook, being governed by bilateral agreements with members. In the interest of transparency to all members and prospective members, we are now inserting rules with respect to IMMES into the SwapClear procedures and the FCM Procedures as per the attached submission. There will remain a separate IMMES agreement as described in the rules.

Part II: Description of Rule Changes

The LLC Procedures have been amended to include a description of the Initial Margin Management Events Service (“IMMES”).



Part III: Public Information

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

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

Part IV: Compliance with Core Principles

LCH.Clearnet will continue to comply with all Core Principles following the introduction of these rule amendments. LCH.Clearnet has concluded that its compliance with Core Principles would not be adversely affected by these changes.

Part V: Opposing Views

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

Part VI: Certification

LCH.Clearnet hereby certifies to the Commodity Futures Trading Commission, pursuant to the procedures set forth in Commission regulation §40.6, that the attached rule submission complies with the Commodity Exchange Act, as amended, and the regulations promulgated thereunder.

Should you have any questions regarding this submission please contact me at suprio.chaudhuri@lchclearnet.com.

Cordially yours,

A handwritten signature in blue ink that reads "Suprio Chaudhuri".

Suprio Chaudhuri
Chief Compliance Officer
LCH.Clearnet LLC
US Contact: +1 212 513 5629

cc: Shawn Durrani, CFTC
Jay Iyer, LCH.Clearnet Limited CCO



Appendix A-1 (Submission Cover Sheet)

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): LCHLLC

Organization: LCH.Clearmet LLC

Filing as a: DCM SEF DCO SDR Please note - only ONE choice allowed.

Filing Date (mm/dd/yy): 07/28/2014 Filing Description:

New Rule for IMMES Service

SPECIFY FILING TYPE Please note only ONE choice allowed per Submission.

Organization Rules and Rule Amendments

- | | |
|--|------------|
| <input checked="" type="checkbox"/> Certification | § 40.6(a) |
| <input type="checkbox"/> Approval | § 40.5(a) |
| <input type="checkbox"/> Notification | § 40.6(d) |
| <input type="checkbox"/> Advance Notice of SIDCO Rule Change | § 40.10(a) |
| <input type="checkbox"/> SIDCO Emergency Rule Change | § 40.10(h) |

Rule Numbers: _____

New Product

Please note only ONE product per Submission.

- | | |
|--|------------|
| <input type="checkbox"/> Certification | § 40.2(a) |
| <input type="checkbox"/> Certification Security Futures | § 41.23(a) |
| <input type="checkbox"/> Certification Swap Class | § 40.2(d) |
| <input type="checkbox"/> Approval | § 40.3(a) |
| <input type="checkbox"/> Approval Security Futures | § 41.23(b) |
| <input type="checkbox"/> Novel Derivative Product Notification | § 40.12(a) |
| <input type="checkbox"/> Swap Submission | § 39.5 |

Official Product Name: _____

Product Terms and Conditions (product related Rules and Rule Amendments)

- | | |
|--|----------------------|
| <input type="checkbox"/> Certification | § 40.6(a) |
| <input type="checkbox"/> Certification Made Available to Trade Determination | § 40.6(a) |
| <input type="checkbox"/> Certification Security Futures | § 41.24(a) |
| <input type="checkbox"/> Delisting (No Open Interest) | § 40.6(a) |
| <input type="checkbox"/> Approval | § 40.5(a) |
| <input type="checkbox"/> Approval Made Available to Trade Determination | § 40.5(a) |
| <input type="checkbox"/> Approval Security Futures | § 41.24(b) |
| <input type="checkbox"/> Approval Amendments to enumerated agricultural products | § 40.4(a), § 40.5(a) |
| <input type="checkbox"/> "Non-Material Agricultural Rule Change" | § 40.4(b)(5) |
| <input type="checkbox"/> Notification | § 40.6(d) |

Official Name(s) of Product(s) Affected: SwapClear

Rule Numbers: LLC Procedures Section 2A.8.7

Appendix A-2 (LLC Procedures)

CONTENTS

1.	CLEARING MEMBER AND DEALER STATUS.....	1
1.1	Clearing Member and SwapClear Dealer Application Procedure.....	1
1.2	Net Capital	6
1.3	Calculation of Net Capital	7
1.4	Reporting	8
1.5	Additional Requirements	10
1.6	Other Conditions	11
2.	PRODUCT-SPECIFIC PROCEDURES	1312
2A.	SWAPCLEAR	1413
2A.1	The Clearing Process.....	1413
2A.2	Operating Times And Calendars	1544
2A.3	Registration.....	1645
2A.4	Position Accounts.....	2424
2A.5	Financial Accounts	2522
2A.6	SwapClear Contract Valuation	2622
2A.7	Coupon Payments.....	2824
2A.8	Initial Margin.....	4037
2A.9	Intra-Day Margin Call: Collateral Management	4238
2A.10	Compression.....	4339
2A.11	Affiliate Clearing	4339
2A.12	Transfers of Clients and Client Positions; Defaulting Clients and Affiliates	4440
2A.13	Proprietary Account Position Transfers	5147
2A.14	Amendment of Trade References.....	5147
2A.15	Early Termination Events	5349
2A.16	Termination of Clearing Member and SwapClear Dealer Status.....	5450
2A.17	Default Management.....	5450
2A.18	Taxes	6157
APPENDIX 2A.A	.....	6358
	SWAPCLEAR PROCESSING SCHEDULE	6358
APPENDIX 2A.B	.....	6459
	CLIENT – PARTIAL TRANSFER FORM	6459
APPENDIX 2A.C	.....	6661
	CLIENT – FULL TRANSFER FORM	6661
APPENDIX 2A.D	.....	6964
	CLIENT TRANSFER – CARRY FCM CLEARING MEMBER REPOSSES FORM	6964
APPENDIX 2A.E	.....	7166
	CONFIDENTIALITY, NON-DISCLOSURE AND PARTICIPATION IN THE DEFAULT MANAGEMENT GROUP	7166

2A.8.2 Liquidity Multiplier

Risk Management applies a liquidity multiplier based on Worst Case Loss (“WCL”) exceeding certain thresholds on the Clearing Member’s whole portfolio and individual currencies. The threshold amounts and multipliers are reviewed on an ongoing basis. Client accounts are treated as independent accounts for purposes of liquidity and will be called only in the event that the individual account exceeds the relevant threshold.

2A.8.3 Intra-day Margin Calls

In accordance with the Regulations, the Clearing House is entitled to make additional margin calls for payment the same day (intra-day margin calls) where it is considered necessary. Intra-day margin calls can be called at any time throughout the Business Day. Intra-day margin calls will usually be made via the PPS (see Section 2A.9). The Clearing Members are required to make Margin payments to the Clearing House within one hour of notification that payment is due.

2A.8.4 Calculation of Initial Margin

(a) 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 Risk Management team at +1 (212) 513-5654.

2A.8.5 Modification of Margin Requirements Pursuant to Regulation 106(d)

Any modifications to margin requirement calculations made by the Clearing House pursuant to Regulation 106(d) will be effected in accordance with the CEA and the CFTC Regulations.

2A.8.6 Tenor Basis Risk Margin Add-on

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

2A.8.7 [Initial Margin Management Events Service \(“IMMES”\)](#)

[IMMES aims to find risk and initial margin reducing SwapClear Contracts amongst participating Clearing Members. IMMES can be run on all SwapClear Contracts of participating 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 Clearing Member’s Proprietary Account and/or Client account.](#)

[Clearing Members who wish to obtain further information about, or to participate in, IMMES should contact SwapClear Risk by emailing \[OTCIRDRisk@lchclearnet.com\]\(mailto:OTCIRDRisk@lchclearnet.com\). To be](#)

eligible to participate in IMMES, a Clearing Member must enter into an IMMES agreement with the Clearing House (the “IMMES Agreement”).

Step-By-Step Details

- (a) The Clearing House usually conducts the IMMES monthly.
- (b) A reminder that there is an IMMES run taking place is sent out the week before to each Clearing Member which is a party to an IMMES Agreement with LCH and each such Clearing Member is asked to confirm its participation.
- (c) On the day of the scheduled IMMES run, the Clearing House analyses each participating 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”).
- (d) The Clearing House then analyses each participating 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.
- (e) The Clearing Members on either side of the trades (which may include an FCM 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.
- (a)(f) The 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.

Formatted: S2.Heading 4, Left, Indent: Left: 0 cm, First line: 0 cm

2A.9 **Intra-Day Margin Call: Collateral Management**

2A.9.1 **General – Intra-day Margining**

Following an intra-day Margin call and unless notified otherwise by a Clearing Member at the time of an intra-day Margin call the Clearing House will deduct cash, in USD, directly from the relevant Clearing Member’s PPS account to cover the Margin needed to meet that intra-day Margin call.

It is the responsibility of each Clearing Member to ensure that it has sufficient cash funds in place with its PPS Bank(s) in order to avoid any intra-day liquidity issues.

2A.9.2 **PPS Debit Authorization – Deemed Representation of FCM Clearing Member**

When an FCM Clearing Member provides the Clearing House authorization (whether by phone or electronic means (including email)) to debit a PPS account in connection with an intra-day margin call, the FCM Clearing Member shall be deemed to have made the following representation to the Clearing House:

- Following the relevant intra-day margin call, the FCM Clearing Member has completed all necessary FCM compliance calculations as required by applicable Law and the funds should be debited from the FCM Clearing Member’s nominated account in satisfaction of such margin call.