

**Via CFTC Portal**

12 July 2016

**Mrs. Parisa Abadi**  
Commodity Futures Trading Commission  
1155 21<sup>st</sup> Street NW  
Three Lafayette Centre  
Washington DC 20581

Dear Mrs. Abadi,

Pursuant to CFTC regulation §40.6(a), LCH SA (“**LCH**”), a derivatives clearing organization registered with the Commodity Futures Trading Commission (the “**CFTC**”), is submitting for self-certification the refinement of the CDS Liquidity Margin initiative, to be implemented on 26 July 2016 subject to the regulatory review process.

**Part I: Explanation and Analysis**

The Liquidity Margin is intended to capture the liquidation cost of the defaulted member’s portfolio when a default occurs. CDSClear seeks to refine its current Liquidity Margin while ensuring that LCH’s risk standards continue to be met. The current Liquidity Margin methodology overlooks the potential netting opportunities between instruments while market and academic feedbacks strongly advise that liquidation cost can effectively benefit from portfolio offsets.

The business case of this project is to increase the margin methodology’s sensitivity to portfolio balance in order to evaluate more accurately the potential liquidation costs of members’ portfolios.

The proposed changes have been communicated to the CFTC via emails with confidential treatment requested.

**Part II: Description of Rule Changes**

This submission does not require any changes to the Rulebook. LCH will issue a communication to CDSClear Clearing Members relative to the refinement of the CDS Liquidity Margin initiative as attached as Appendix.

**Part III: Core Principle Compliance**

LCH will continue to comply with all Core Principles following the introduction of these changes and has concluded that its compliance with the Core Principles would 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 that were not incorporated into the rule.

**Certification**

LCH SA 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: [françois.faure@lch.com](mailto:françois.faure@lch.com).



Francois Faure  
Chief Compliance Officer  
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**APPENDIX**

1.1 Member Notification

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## Implementation of Margin Refinements

Dear CDSClear Members,

LCH CDSClear is pleased to confirm that its next phase of Margin Calculation Enhancements will go live on XX/XX/XX. This is an important piece of our program to establish a competitive clearing service that meets our Member needs.

### Background

Following the margin refinements delivered in January 2015 and July 2015 CDSClear is now releasing additional changes with regards to the below margin calculations:

- **spread margin** to better capture auto-correlation in spread returns
- **liquidity charge margin** to better reflect the offsets between various instruments

The combination of these will have a positive effect on margins from a member perspective whilst remaining within LCH's risk appetite.

### Benefits for Clearing Members

Based on portfolios as of end of June we have observed **margin reductions between 0 and 25%** across member firms based on portfolio composition which have risk exposure

in the CDSClear service.

Clearing Members will be contacted individually and provided with the exact margin impact for their firm. Should you wish to conduct additional what-if scenarios, please use the Portfolio Margin Calculator on UAT.

For more information please contact [Risk\\_CDSClear@lch.com](mailto:Risk_CDSClear@lch.com) or your Risk Focus Group member.

*Terms used in this circular and not defined herein shall have the meaning assigned to them in the Rulebook of LCH SA CDSClear.*

Kind regards,

Business Development & Relationship Management, CDSClear

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