

VIA CFTC PORTAL

17 September 2021

Mr. Christopher Kirkpatrick
Commodity Futures Trading Commission
1155 21st Street NW
Three Lafayette Centre
Washington DC 20581

LCH Limited Self-Certification: 2021 ISDA Interest Rate Derivatives Definitions

Dear Mr. Kirkpatrick,

Pursuant to Commodity Futures Trading Commission ("CFTC") Regulation §40.6(a), LCH Limited ("LCH"), a derivatives clearing organization registered with the CFTC, is submitting for self-certification revisions to the LCH rules to accommodate the 2021 International Swaps and Derivatives Association, Inc. ("ISDA") Interest Rate Derivatives Definitions ("ISDA Definitions").

Part I: Explanation and Analysis

ISDA published the ISDA Definitions on June 11, 2021. They are market standard terms used (in conjunction with other contractual terms) to govern interest rate derivatives. They are a significant upgrade of the 2006 ISDA definitions (and related supplements) and will be adopted as the market standard definitions for interest rate derivatives on October 4, 2021. In line with this, on October 4, 2021, LCH will incorporate the ISDA Definitions into the contract terms governing its SwapClear contracts, in place of the 2000 and 2006 ISDA definitions.

Consequently, LCH is submitting for self-certification revisions to its rules to achieve such incorporation and to make certain related changes, as described in Part II below. These revisions are in: (i) the Product Specific Contract Terms and Eligibility Criteria Manual and FCM Product Specific Contract Terms and Eligibility Criteria Manual (jointly the "Product Manuals"); and (ii) Section 2C of the LCH Procedures and Section 2.1.8 of the LCH FCM Procedures (jointly the "Procedures").

Part II: Description of Rule Changes

The following is a summary of the revisions to be made to the Product Manuals and Procedures.

Product Manuals

Section references below refer to the Product Specific Contract Terms and Eligibility Criteria Manual, however the changes described are equivalent to the changes in the FCM Product Specific Contract Terms and Eligibility Criteria Manual.

- Throughout the Product Manuals, references to the 2000 and 2006 ISDA Definitions are removed in favor of reference to the ISDA Definitions. Additionally, the defined term used

throughout the Product Manuals is updated to “ISDA Definitions” and the definition is updated to refer to the ISDA Definitions “as amended from time to time” (Part A Section 1.1 and conforming changes throughout the Product Manuals).

- The definition of “ISDA 2008 Inflation Definitions” is updated to refer to such definitions “as amended from time to time” and to make reference to the defined terms in the ISDA Definitions (Part A Section 1.2).
- The Product Manuals clarify that the ISDA Definitions will apply regardless of what is identified on transactions submitted for clearing (Part A Section 1.5).
- Provision is made for the mechanism by which LCH will ensure that the correct floating rate option under the ISDA Definitions is applied to contracts (Part A Section 1.6).
- Clarification is added to provide that, going forward, the most current version of the ISDA Definitions and the ISDA 2008 Inflation Derivatives Definitions will apply (Part A Section 1.9).
- In Part A Section 2.2, redundant and not applicable language is removed.
- Conforming changes are made to accommodate the defined terms and section references within the ISDA Definitions (Part A Section 2.3-2.5, Footnote 2; Part A Section 3.3; Part B Section 2.1.2).
- Reference is added to make SwapClear clearing members aware that transactions that reference certain designated maturities are not eligible for clearing and that eligible designated maturities change from time to time (and to refer to the LCH website for the latest information) (Footnote 5).¹
- Additional clarity is added to LCH’s discretion to amend contracts in response to events associated with the Economic and Monetary Union, with notice provided to SwapClear clearing members (Part A Section 3.2.3).
- The ISDA Definition refer to “Sections”, rather than “Articles.” Since the Product Manuals also refer to “Sections,” clarification is added where the Product Manuals make reference to their own sections (Part A Section 3.4).
- Part B Section 1(b) is expanded to include all types of entities that may be a party to a SwapClear transaction which is eligible for clearing.
- The list of eligible SwapClear transactions is expanded to provide for those referencing eligible floating rate options that are defined under the ISDA Definitions (Part B Section 1.2).
- The provision related to unique treatment for the Israeli Shekel rate is removed because the ISDA Definitions now incorporate the correct procedures to be followed (Footnotes 17 and 18).
- Updates are made to provide for the set of day count fractions under the ISDA Definitions that may apply to a SwapClear contract, and the corresponding codes that are included in a SwapClear transaction in order to identify the applicable day count fraction (Part B Section 2.1.1).
- Part B Sections 2.1.3-2.1.5 are amended to provide that a SwapClear transaction must meet the additional eligibility criteria related to minimum residual term, designated maturity, and calculation periods, as published on the LCH website.

Procedures

Section references below refer to Section 2C of the LCH Procedures, however the changes described are equivalent to the changes in Section 2.1.8 of the LCH FCM Procedures.

- Throughout, conforming changes are made to refer to the defined term “ISDA Definitions,” consistent with the Product Manuals.
- The method of calculation for the floating amount is clarified (Section 1.8.3).
- References to floating rate options and indices that are redundant, as they are duplicative of those already specified under Part B of the Product Manuals, are removed (former Section 1.8.4, Section 1.8.11(a)(i)-(iv)).

¹ There is no change to footnotes 6-16, they are relocated and/or repeated language.

- Conforming changes are made to accommodate and incorporate the ISDA Definitions (Sections 1.8.4, 1.8.5, 1.8.7, 1.8.10).
- Consistent with Section 2.1.1 of Part B of the Product Manuals, updates are made to provide that the day count fraction (under the ISDA Definitions) that will apply to a SwapClear contract is that which is communicated to LCH via the matched format message for the SwapClear transaction corresponding to such SwapClear contract (Section 1.8.9).
- Section 1.8.15 is no longer applicable and is removed, because the ISDA Definitions provide for the mechanics to manage the circumstances in which a floating rate option becomes non-representative.

The changes to the rules are included as **Appendices I, II, III, and IV** in black line form. The changes will be effective not earlier than October 4, 2021.

Part III: Core Principle Compliance

LCH reviewed the proposed rule changes against the requirements of the Core Principles and finds it will continue to comply with all the requirements and standards set forth therein. Specifically, these rule changes have potential relevance to Core Principle C (Participant and Product Eligibility).

The changes described in this filing ensure that LCH meets the objectives of Core Principle C, including that LCH have appropriate requirements for determining the eligibility of agreements, contracts, or transactions submitted for clearing, taking into account LCH's ability to manage the risks associated with such agreements, contracts, or transactions. Core Principle C also requires LCH to have rules providing that all swaps with the same terms and conditions established under LCH's rules are economically equivalent and may be offset with each other. Consistent with ISDA's revised ISDA Definitions, these rule changes establish terms and conditions that provide for economic equivalence between products of the same type.

LCH considered its product eligibility requirements, specifically those related to the maintenance of product terms and conditions, and determined that the changes outlined in this filing will not impact LCH's compliance with Core Principle C. Furthermore, LCH believes the proposed changes represent LCH's eligible product terms with greater clarity. As a result, LCH believes these changes are consistent with the requirements of Core Principle C on Participant and Product Eligibility under CFTC regulation §39.12.

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: <https://www.lch.com/resources/rulebooks/proposed-rule-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.

Certification

LCH hereby certifies to the CFTC, pursuant to the procedures set forth in CFTC Regulation § 40.6, that the attached submission complies with the Commodity Exchange Act, as amended, and the regulations promulgated thereunder.

Should you have any questions please contact me at julian.oliver@lseg.com.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Julian Oliver', enclosed in a light blue rectangular box.

Julian Oliver
Chief Compliance Officer
LCH Limited

Appendix I
Product Specific Contract Terms and Eligibility Criteria Manual
Changed Pages

Appendix II
FCM Product Specific Contract Terms and Eligibility Criteria Manual
Changed Pages

Appendix III
Section 2C of the LCH Procedures
Changed Pages

Appendix IV
Section 2.1.8 of the LCH FCM Procedures
Changed Pages