

VIA CFTC PORTAL

17-29 September 2021

Mr. Christopher Kirkpatrick  
Commodity Futures Trading Commission  
1155 21<sup>st</sup> Street NW  
Three Lafayette Centre  
Washington, DC 20581

**LCH Limited Self-Certification: Benchmark Reform – Rates Conversion**

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 its rules related to the rates conversion for benchmark reform.

**Part I: Explanation and Analysis**

LCH is revising its rules in order to provide for the retirement of the London inter-bank offered rate (“LIBOR”) for British Pound (“GBP”), Euro (“EUR”), Swiss Franc (“CHF”), and Japanese Yen (“JPY”) and the retirement of the Euro Overnight Index Average (“EONIA”) for Euro. In order to facilitate the conversion of swaps referencing LIBOR and EONIA to alternative rates, LCH is revising its rules. These revisions are in: (i) the General Regulations of LCH and the FCM Regulations of LCH (jointly the “Regulations”); ~~and~~ (ii) Section 2C (SwapClear Clearing Service) of the LCH Procedures and Section 2 (SwapClear) of the LCH FCM Procedures (jointly the “Procedures”); and (iii) the Product Specific Contract Terms and Eligibility Criteria Manual and FCM Product Specific Contract Terms and Eligibility Criteria Manual (jointly the “Product Terms”).

In most respects, LCH’s conversion processes align with and rely on the fallback methodologies published by the International Swaps and Derivatives Association (“ISDA”) through Supplement 70 to the 2006 ISDA Definitions and the equivalent provisions in the 2021 ISDA Definitions<sup>1</sup> (jointly the “ISDA Fallbacks”), which will be incorporated in all SwapClear Contracts prior to the conversion date.<sup>2</sup>

**Part II: Description of Rule Changes**

The following is a summary of the revisions to be made to the Procedures, ~~and the~~ Regulations, and Product Terms.

<sup>1</sup> The following terms used throughout this filing are used as defined in the 2021 ISDA Definitions: Delayed Payment, Payment Date, Termination Date, Discounting, and Discount Rate.

<sup>2</sup> Subject to regulatory review.

Regulations:

The Regulations have been amended to include a new section called “LIBOR and EONIA Conversion Provisions.” This new section provides LCH with the legal means to effect, through the publication of a Floating Rate Conversion Notice, the conversion of EONIA SwapClear Contracts<sup>3</sup> to the Euro Short-Term Rate (“€STR”) and the conversion of LIBOR interest rates to the risk free rates stated below.

The Regulations also provide LCH with additional tools in connection with the conversion, including the power and authority to register additional SwapClear Contracts in the name of a SwapClear Clearing Member, amend existing SwapClear Contracts and make compensation payments.

The Regulations reference the recording of certain operational bookings, which are described in more detail below.

Procedures:

The Procedures contain the more detailed mechanics of how the conversions will be effected.

**EONIA SwapClear Contracts**

On the conversion date stated in the relevant Floating Rate Conversion Notice, LCH will amend all EONIA Contracts such that the floating rate reference to EONIA will instead refer to €STR and will calculate the value of the converted SwapClear Contracts both prior to and following the conversion. A compensation payment will be called or paid on an account-by-account basis (House or Client) to compensate for this change in value.

Further, SwapClear Clearing Members will be required to provide their clients with a Risk Notice, which will be published by LCH closer to the conversion date.

EONIA SwapClear Contracts will no longer be eligible for clearing from the conversion date.

**LIBOR SwapClear Contracts**

The conversion process for SwapClear Contracts referencing CHF, EUR, GBP and JPY LIBOR will align with the process for EONIA SwapClear Contracts, with a number of important differences and additions:

- i. The floating leg of the LIBOR SwapClear Contract will not be calculated by reference to the relevant Adjusted Risk Free Rate (“RFR”) (as is the case for swap contracts which have adopted the ISDA Fallbacks) but instead will be calculated using market standard overnight index swap (“OIS”) payment conventions as set out below.

<i>In-Scope Floating Rate Option</i>	<i>RFR</i>
CHF-LIBOR-BBA	CHF-SARON-OIS-COMPOUND
CHF-LIBOR	CHF-SARON-OIS Compound
EUR-LIBOR-BBA	EUR-EuroSTR-COMPOUND
EUR-LIBOR	EUR-EuroSTR-OIS Compound
GBP-LIBOR-BBA	GBP-SONIA-COMPOUND
GBP-LIBOR	GBP-SONIA-OIS Compound
JPY-LIBOR-BBA	JPY-TONA-OIS-COMPOUND
JPY-LIBOR	JPY-TONA-OIS Compound

<sup>3</sup> For the purposes of this filing, “SwapClear Contract” includes “FCM SwapClear Contract” and “SwapClear Clearing Member” includes “FCM Clearing Member.”

- ii. The Spread Adjustment<sup>4</sup> which has been calculated and fixed pursuant to the ISDA Fallbacks and the Bloomberg IBOR Fallbacks Rate Adjustments Rulebook ("Bloomberg Fallbacks") will be added to the Floating Amount.
- iii. The Delayed Payment will be 'Applicable' in relation to each relevant contract (other than for GBP-SONIA-COMPOUND and GBP-SONIA-OIS Compound where it will be 'Not Applicable') and the number of days for such purpose will be as specified in the Procedures.
- iv. LCH and the SwapClear Clearing Members will agree that as a result of the amendments described above, each "Floating Rate" under each LIBOR SwapClear Contract will be calculated for each relevant "Calculation Period" without any shift, adjustment or "observation shift" and all provisions relating thereto in the ISDA Fallbacks and the Bloomberg Fallbacks will not apply to the calculation of the "Floating Rate" under each contract.

Furthermore, LCH will be making changes to forward rate agreements which have a Reset Date which falls after the LIBOR index cessation date. These contracts will be amended such that the Payment Date under such affected forward rate agreement will be the Termination Date and Discounting will be 'Not Applicable' and the Discount Rate will be deleted in its entirety.

In order to effect the conversion process, and due to certain systems limitations that restrict cleared contracts from having different Floating Rate Options for different periods of that contract, LCH will be required to make a number of operational bookings within the SwapClear system. These will not result in the registration of a new SwapClear Contract, unless a post conversion process, such as compression, is successfully effected with respect to those operational bookings.

Additional legal protections for LCH for the purposes of the conversion exercise, including a limitation of liability, are also included.

Product Terms:

In connection with the changes described above, LCH will be removing eligibility for certain cleared swaps (primarily basis swaps) from the dates listed below. Changes to the Product Terms will be made on the indicated dates.

<u>Date (cob)</u>	<u>Instrument</u>	<u>Currency</u>	<u>Leg 1</u>	<u>Leg 2</u>	<u>Variable Notional</u>	<u>Comment</u>
<u>1 Oct 2021</u>	<u>Basis Swap</u>	<u>CHF</u>	<u>CHF-LIBOR-BBA</u>	<u>CHF-LIBOR-BBA</u>	<u>Yes</u>	<u>Full removal</u>
<u>1 Oct 2021</u>	<u>Basis Swap</u>	<u>EUR</u>	<u>EUR-LIBOR-BBA</u>	<u>EUR-LIBOR-BBA</u>	<u>Yes</u>	<u>Full removal</u>
<u>1 Oct 2021</u>	<u>Basis Swap</u>	<u>GBP</u>	<u>GBP-LIBOR-BBA</u>	<u>GBP-LIBOR-BBA</u>	<u>Yes</u>	<u>Full removal</u>
<u>1 Oct 2021</u>	<u>Basis Swap</u>	<u>GBP</u>	<u>GBP-LIBOR-BBA</u>	<u>GBP-SONIA-COMPOUND</u>	<u>Yes</u>	<u>Full removal</u>
<u>1 Oct 2021</u>	<u>Basis Swap</u>	<u>JPY</u>	<u>JPY-LIBOR-BBA</u>	<u>JPY-LIBOR-BBA</u>	<u>Yes</u>	<u>Full removal</u>
<u>1 Oct 2021</u>	<u>Basis Swap</u>	<u>JPY</u>	<u>JPY-LIBOR-BBA</u>	<u>JPY-TONA-OIS-COMPOUND</u>	<u>Yes</u>	<u>Full removal</u>

<sup>4</sup> For JPY LIBOR conversion, due to a difference in day count between JPY LIBOR swaps (Act/360) and TONA swaps (Act/365), LCH will adjust the ISDA/Bloomberg Spread Adjustments by a factor of 365/360.

<u>15 Oct 2021</u>	<u>OIS</u>	<u>EUR</u>	<u>Fixed</u>	<u>EUR-EONIA-OIS-COMPOUND</u>	<u>No</u>	<u>Full removal</u>
<u>15 Oct 2021</u>	<u>Basis Swap</u>	<u>EUR</u>	<u>EUR-EONIA-OIS-COMPOUND</u>	<u>EUR-EURIBOR-Reuters</u>	<u>No</u>	<u>Full removal</u>

The changes to the rules are included as **Appendices I - 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 requirements and standards set forth therein. Specifically, this rule change has potential relevance to Core Principle C (Participant and Product Eligibility) and Core Principle L (Public Information).

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. The changes described in this filing provide for LCH's ability to amend, maintain, and risk manage SwapClear contracts referencing LIBOR and EONIA during the benchmark reform process. 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. These rule changes provide for the maintenance of such economic equivalence throughout the conversion.

LCH considered its product eligibility requirements, specifically those related to the maintenance of product terms and conditions, and determined that the changes discussed in this filing will not impact LCH's compliance with Core Principle C. 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.

The changes described in this filing also ensure that LCH meets the objectives of Core Principle L, including that, in addition to the specified requirements of §39.21, LCH make available any information that is relevant to participation in the clearing and settlement activities of LCH. LCH considered its public information requirements and believes including rules related to these contract conversions in its publicly available Regulations and Procedures maintains its compliance with Core Principle L. As a result, LCH believes these changes are consistent with the requirements of Core Principle L on Public Information under CFTC regulation §39.21.

### 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 that were not incorporated into this proposal.

**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](mailto:julian.oliver@lseg.com).

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Julian Oliver", is positioned above a thin horizontal line.

Julian Oliver  
Chief Compliance Officer  
LCH Limited

**Appendix I**  
General Regulations of LCH  
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**Appendix II**  
FCM Regulations of LCH  
*Changed Pages*

**Appendix III**

Section 2C (SwapClear Clearing Service) of the LCH Procedures  
*Changed Pages*



**Appendix IV**  
Section 2 (SwapClear) of the LCH FCM Procedures  
*Changed Pages*

**Appendix V**

Product Specific Contract Terms and Eligibility Criteria Manual  
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**Appendix VI**

FCM Product Specific Contract Terms and Eligibility Criteria Manual

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