

VIA CFTC PORTAL

April 24, 2024

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

LCH Limited Emergency Self-Certification: Suspension of Clearing Eligibility for PLN WIRON

Dear Mr. Kirkpatrick,

Pursuant to Commodity Futures Trading Commission (“CFTC”) Regulation §40.6(a)(6), LCH Limited (“LCH”), a derivatives clearing organization registered with the CFTC, is submitting this emergency self-certification to suspend clearing eligibility for Overnight Interest Rate Swaps (“OIS”) denominated in Polish Zloty (“PLN”) and referencing the PLN-WIRON-OIS Compound floating rate (the “PLN OIS Suspension”). This change was implemented and effective as of 24 April 2024 and notified to clearing members in a member circular.¹ Attached as **Appendix I** is the member circular.

Part I: Explanation and Analysis

LCH launched clearing eligibility for OIS denominated in PLN and referencing the PLN-WIRON-OIS Compound floating rate on October 23, 2023.² On March 29, 2024, the Polish Financial Supervision Authority’s Steering Committee of the National Working Group for benchmark reform (“Steering Committee”) decided to commence a review and analysis of risk-free-rate replacement choices for the WIBOR benchmark, including both WIRON and other possible interest rate indices or benchmarks. The Steering Committee noted the purpose of the review was to assess the decision to adopt WIRON as the risk-free rate replacement choice based on a wider scope of market information available.

Based on this information and considering the Steering Committee’s recently launched analysis of risk-free rate replacement choices, LCH is submitting this emergency self-certification to suspend clearing eligibility for PLN OIS effective 24 April 2024. Although LCH currently has no outstanding PLN OIS cleared contracts and historical transaction volumes have been low, LCH believes a suspension is warranted to mitigate any adverse impact on LCH should it need to close out any newly cleared PLN OIS contracts as part of its default management process. LCH may reassess clearing

¹ No Rulebook changes are required. LCH will also add the following footnote in the [FCM] Product Specific Contract Terms and Eligibility Criteria Manual, “This transaction is currently ineligible as an [FCM] SwapClear Transaction as outlined in the Clearing House’s member circular 4303, which is dated 24 April 2024 and located at www.lch.com.”

² See LCH Limited self-certification: Clearing of Polish Zloty overnight interest rate swaps that reference the PLN-WIRON-OIS Compound floating rate option (October 6, 2023).

<https://www.cftc.gov/sites/default/files/filings/orgrules/23/10/rules1006237353.pdf>

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eligibility of PLN OIS at a later date following any decisions made by the Steering Committee.

Part II: Description of the Rule Changes

No Rulebook changes are required. LCH will add the following footnote in the [FCM] Product Specific Contract Terms and Eligibility Criteria Manual indicating suspension of clearing eligibility for PLN-WIRON-OIS: “This transaction is currently ineligible as an [FCM] SwapClear Transaction as outlined in the Clearing House’s member circular 4303, which is dated 24 April 2024 and located at www.lch.com.”

Part III: Core Principles Compliance

LCH has reviewed the decision to suspend PLN OIS 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 Principles C (Participant and Product Eligibility) and G (Default Rules and Procedures).

LCH believes the PLN OIS Suspension will not impact its ongoing compliance with the objectives of Core Principle C and CFTC Rule 39.12. Core Principle C requires, among other things, each derivatives clearing organization establish appropriate standards for determining the eligibility of agreements, contracts, or transactions submitted to the derivatives clearing organization for clearing. Rule 39.12 further requires derivatives clearing organizations take into account its ability to manage the risks associated with such agreements, contracts, or transactions. Factors to be considered in determining product eligibility include trading volume, liquidity, the ability of the derivatives clearing organization and clearing members to gain access to the relevant market for purposes of creating, liquidating, transferring, auctioning, and/or allocating positions and the operational capacity of the derivatives clearing organization and clearing members to address any unusual risk characteristics of a product. LCH has reviewed the trading volume and liquidity of PLN OIS transactions, in addition to the historical volatility of WIRON as a benchmark and determined it may face increased risk should it need to exit a PLN OIS transaction in a default. LCH therefore believes that suspending clearing eligibility for PLN OIS is consistent with Core Principle C and CFTC Rule 39.12.

LCH also believes the PLN OIS Suspension will not impact LCH’s ongoing compliance with the objectives of Core Principle G and CFTC Rule 39.16. Core Principle G requires, among other things, each derivatives clearing organization have rules and procedures designed to allow for the efficient, fair, and safe management of events during which members or participants become insolvent or otherwise default on the obligations of the members or participants to the derivatives clearing organization. Core Principle G further states that the derivatives clearing organization ensure it can take timely action to contain losses and liquidity pressures and to continue meeting each obligation of the derivatives clearing organization. The LCH Rulebook contains default rule provisions (“Default Rules”) that set out LCH’s rights and obligations in the event of a clearing member default. The Default Rules establish the steps LCH may take with respect to a defaulter, including entering into contracts to hedge market risk, selling any security, porting client accounts of that clearing member to another clearing member, auctioning the defaulter’s proprietary portfolio to other clearing members, otherwise closing out any open contracts, and generally taking such action as LCH may deem necessary for its protection. LCH determined that the lack of liquidity for PLN OIS may result in an increased risk to LCH to exit any position in a default scenario pursuant to the Default Rules. LCH therefore believes that suspending clearing eligibility for PLN OIS is consistent with Core Principle G and CFTC Rule 39.16.

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>.

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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 ryan.hajen@lseg.com.

Yours sincerely,

Ryan Hajen

Ryan Hajen
Senior Compliance Manager
LCH Limited



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Appendix I
Clearing Member Circular

Circular No. LCH Circular No 4303

Date: 24 April 2024

To: All SwapClear Users

Suspension of PLN WIRON Clearing Eligibility

On 29 March 2024, Poland's Steering Committee of the National Working Group for benchmark reform ("Polish NWG") announced a review and analysis of risk-free rate ("RFR") replacement choices for WIBOR¹.

In light of this announcement, and pending the outcome of the Polish NWG's review, LCH SwapClear will suspend clearing eligibility for PLN WIRON contracts from (and including) 24 April 2024 and any such contracts submitted to LCH SwapClear for clearing on or after such date will be rejected².

Should you have any comments or questions, or if you require further information, please do not hesitate to contact LCHSales@lseg.com.

¹ https://www.knf.gov.pl/en/?articleId=88664&p_id=19

² <https://www.lch.com/services/swapclear/what-we-clear>