

**VIA CFTC PORTAL**

April 29, 2024

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

**LCH Limited Self-Certification: Termination of Outstanding BSBY Positions**

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 amendments to its rules (“LCH Rules”) related to the termination of outstanding Bloomberg Short-Term Bank Yield Index (“BSBY”) positions.

**Part I: Explanation and Analysis**

On November 15, 2023, Bloomberg Index Services Limited (“BISL”) issued a statement announcing the cessation of BSBY following its final publication on November 15, 2024<sup>1</sup>. On November 20, 2023, ISDA confirmed that BISL’s announcement constitutes an “Index Cessation Event” for the purposes of the 2021 ISDA Interest Rate Derivatives Definitions, the 2006 ISDA Definitions and the 2018 ISDA Benchmarks Supplement<sup>2</sup>.

As stated in Circular No. 4284 (“USD BSBY Cessation”)<sup>3</sup>, these announcements are relevant to LCH since its SwapClear service provides clearing of eligible USD BSBY swaps<sup>4</sup>. LCH noted that BISL’s decision not to recommend a fallback replacement rate for BSBY significantly complicated any potential conversion approach and as a result, LCH confirms that such an approach is not feasible and continues to strongly encourage all SwapClear users with outstanding BSBY swap positions cleared at LCH (“BSBY Positions”) to actively reduce and/or close out their exposures at their earliest convenience.

Since the issuance of Circular No. 4284, liquidity conditions in the underlying market have further deteriorated, thus materially impacting LCH’s ability to risk manage open BSBY Positions. In response, SwapClear will terminate outstanding BSBY Positions at LCH’s prevailing valuations, with such termination event scheduled to occur on May 13, 2024. As a result, all outstanding BSBY Positions will be terminated by LCH as of this date, and any associated variation margin and/or initial margin changes will be calculated, processed and payable as part of that day’s EOD settlement cycle.

<sup>1</sup> <https://assets.bbhub.io/professional/sites/10/BSBY-Future-Cessation-Announcement-.pdf>

<sup>2</sup> <https://www.isda.org/a/vbqgE/Future-Cessation-of-the-Bloomberg-Short-Term-Bank-Yield-Index-Final.pdf>

<sup>3</sup> <https://www.lch.com/membership/ltd-membership/ltd-member-updates/usd-bsby-cessation-1>

<sup>4</sup> <https://www.lch.com/services/swapclear/what-we-clear>

Furthermore, BSBY swap contracts will no longer be eligible for clearing at SwapClear on and from that date.

## **Part II: Description of the Rule Changes**

LCH is proposing to remove any reference and related footnotes to BSBY in Section 1.2 (“SwapClear Product Eligibility Criteria for a SwapClear Transaction”) in the Product Specific Contract Terms and Eligibility Criteria Manual and Section 1.1 (“FCM SwapClear Product Eligibility Criteria for an FCM SwapClear Transaction”) in the FCM Product Specific Contract Terms and Eligibility Criteria Manual.

The changes to the [FCM] Product Specific Contract Terms and Eligibility Criteria Manual are included as Appendices I-II in red line form. The changes will be effective not earlier than May 13, 2024.

## **Part III: Core Principles Compliance**

LCH has reviewed the decision to terminate outstanding BSBY Positions 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 termination of outstanding BSBY Positions 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 liquidity conditions in the underlying market and determined such conditions have had a material impact on LCH’s ability to risk manage BSBY Positions. LCH therefore believes that terminating outstanding BSBY Positions is consistent with Core Principle C and CFTC Rule 39.12.

LCH also believes termination of outstanding BSBY Positions 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

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as LCH may deem necessary for its protection. LCH determined that deteriorating liquidity conditions for BSBY Positions may impact its ability to carry out default management activities in accordance with the Default Rules. LCH therefore believes that terminating outstanding BSBY Positions 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>.

**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 [ryan.hajen@lseg.com](mailto:ryan.hajen@lseg.com).

Yours sincerely,

*Ryan Hajen*

Ryan Hajen  
Senior Compliance Manager  
LCH Limited



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## **Appendix I**

Product Specific Contract Terms and Eligibility Criteria Manual

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**PRODUCT SPECIFIC CONTRACT TERMS AND ELIGIBILITY CRITERIA  
MANUAL**

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**PART B**  
**PRODUCT ELIGIBILITY CRITERIA FOR REGISTRATION OF A SWAPCLEAR CONTRACT**

**1. SwapClear Transaction**

Without prejudice to the Regulations and the Procedures, the Clearing House will only register a SwapClear Contract pursuant to receipt of particulars of a transaction where at the time of the particulars being presented:

- (a) the transaction meets the eligibility criteria, set out in paragraphs 1.2(a), (b), (c) or (d) below for a SwapClear Transaction; and
- (b) each party to the transaction is either a SwapClear Dealer, a SwapClear Clearing Member (including an SCM Branch), an FCM Clearing Member, a SwapClear Clearing Client, an FCM Client or, in respect of Risk Neutralisation, the Clearing House.

and the requirements of (a) and (b) continue to be satisfied at Registration Time.

**1.2 SwapClear Product Eligibility Criteria for a SwapClear Transaction**

- (a) Vanilla interest rate swaps and notional interest rate swaps having the characteristics set out in the table below:

| <u>Instrument</u>  | <u>Currency</u> | <u>Leg 1</u> | <u>Leg 2</u>           | <u>Variable Notional</u> | <u>Maximum Tenor</u> | <u>Notional Amount</u>               |
|--------------------|-----------------|--------------|------------------------|--------------------------|----------------------|--------------------------------------|
| Interest rate swap | GBP             | Fixed        | GBP-LIBOR-BBA          | No                       | 18,675 days          | 0.01-99,999,999,999.99 <sup>14</sup> |
| OIS                | GBP             | Fixed        | GBP-SONIA-COMPOUND     | Yes                      | 18,675 days          | 0.01-99,999,999,999.99               |
| OIS                | GBP             | Fixed        | GBP-SONIA-OIS Compound | Yes                      | 18,675 days          | 0.01-99,999,999,999.99               |
| Interest rate swap | USD             | Fixed        | USD-LIBOR-BBA          | Yes                      | 18,675 days          | 0.01-99,999,999,999.99 <sup>15</sup> |
| Interest rate swap | USD             | Fixed        | USD-LIBOR              | Yes                      | 18,675 days          | 0.01-99,999,999,999.99 <sup>16</sup> |
| OIS                | USD             | Fixed        | USD-SOFR-COMPOUND      | Yes                      | 18,675 days          | 0.01-99,999,999,999.99               |
| OIS                | USD             | Fixed        | USD-SOFR-OIS Compound  | Yes                      | 18,675 days          | 0.01-99,999,999,999.99               |

<sup>14</sup> This transaction will only be eligible as a SwapClear Transaction if it is a Legacy LIBOR Transaction as defined in Schedule 4 of Procedure 2C.

<sup>15</sup> This transaction will only be eligible as a SwapClear Transaction if it is a Legacy LIBOR Transaction as defined in Schedule 5 of the Procedure 2C.

<sup>16</sup> This transaction will only be eligible as a SwapClear Transaction if it is a Legacy LIBOR Transaction as defined in Schedule 5 of Procedure 2C.

|                               |                |                                     |                                     |                |                       |                                   |
|-------------------------------|----------------|-------------------------------------|-------------------------------------|----------------|-----------------------|-----------------------------------|
| Basis swap                    | USD            | USD-SOFR-OIS Compound               | USD-SOFR-OIS Compound               | No             | 18,675 days           | 0.01-99,999,999,999.99            |
| <del>Interest rate swap</del> | <del>USD</del> | <del>Fixed</del>                    | <del>USD-BSBY<sup>17</sup></del>    | <del>Yes</del> | <del>4,050 days</del> | <del>0.01-99,999,999,999.99</del> |
| Basis swap                    | USD            | USD-FEDERAL FUNDS-H.15-OIS-COMPOUND | USD-SOFR-COMPOUND                   | No             | 18,675 days           | 0.01-99,999,999,999.99            |
| Basis swap                    | USD            | USD-Federal Funds-OIS Compound      | USD-SOFR-OIS Compound               | No             | 18,675 days           | 0.01-99,999,999,999.99            |
| Basis swap                    | USD            | USD-Federal Funds                   | USD-SOFR-OIS Compound               | No             | 18,675 days           | 0.01-99,999,999,999.99            |
| <del>Basis swap</del>         | <del>USD</del> | <del>USD-BSBY<sup>18</sup></del>    | <del>USD-SOFR-COMPOUND</del>        | <del>No</del>  | <del>4,050 days</del> | <del>0.01-99,999,999,999.99</del> |
| <del>Basis swap</del>         | <del>USD</del> | <del>USD-BSBY<sup>19</sup></del>    | <del>USD-SOFR-OIS Compound</del>    | <del>No</del>  | <del>4,050 days</del> | <del>0.01-99,999,999,999.99</del> |
| <del>Basis swap</del>         | <del>USD</del> | <del>USD-BSBY</del>                 | <del>USD-BSBY<sup>20</sup></del>    | <del>No</del>  | <del>4,050 days</del> | <del>0.01-99,999,999,999.99</del> |
| OIS                           | USD            | Fixed                               | USD-Federal Funds H.15-OIS-COMPOUND | Yes            | 18,675 days           | 0.01-99,999,999,999.99            |
| OIS                           | USD            | Fixed                               | USD-Federal Funds-OIS Compound      | Yes            | 18,675 days           | 0.01-99,999,999,999.99            |
| Interest rate swap            | EUR            | Fixed                               | EUR-EURIBOR-Reuters                 | Yes            | 18,675 days           | 0.01-99,999,999,999.99            |
| Interest rate swap            | EUR            | Fixed                               | EUR-EURIBOR                         | Yes            | 18,675 days           | 0.01-99,999,999,999.99            |
| Basis swap                    | EUR            | EUR-EURIBOR-Reuters                 | EUR-EURIBOR-Reuters                 | Yes            | 18,675 days           | 0.01-99,999,999,999.99            |
| Basis swap                    | EUR            | EUR-EURIBOR                         | EUR-EURIBOR                         | Yes            | 18,675 days           | 0.01-99,999,999,999.99            |

~~<sup>17</sup> BLOOMBERG, BLOOMBERG INDICES and BLOOMBERG SHORT TERM BANK YIELD INDEX are trademarks or service marks of Bloomberg Finance L.P and its affiliates (collectively, "Bloomberg") and have been licensed for use for certain purposes by LCH Group. Bloomberg is not affiliated with LCH Group and does not approve, endorse, review, or recommend any financial instrument. Bloomberg or its licensors own all proprietary rights in the Bloomberg Short Term Bank Yield Index. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to Bloomberg Short Term Bank Yield Index. Bloomberg makes no warranty, express or implied, as to the Bloomberg Short Term Bank Yield Index or any data or values relating thereto or results to be obtained therefrom, and expressly disclaims all warranties of merchantability and fitness for a particular purpose with respect thereto. To the maximum extent allowed by law, Bloomberg, its licensors, and its and their respective employees, contractors, agents, suppliers, and vendors shall have no liability or responsibility whatsoever for any injury or damages whether direct, indirect, consequential, incidental, punitive, or otherwise arising in connection with the Bloomberg Short Term Bank Yield Index or any data or values relating thereto whether arising from their negligence or otherwise~~

~~<sup>18</sup> Ibid footnote 17.~~

~~<sup>19</sup> Ibid footnote 17.~~

~~<sup>20</sup> Ibid footnote 17.~~



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## **Appendix II**

FCM Product Specific Contract Terms and Eligibility Criteria Manual



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FCM PRODUCT SPECIFIC CONTRACT TERMS AND ELIGIBILITY CRITERIA  
MANUAL

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**PART B**  
**PRODUCT ELIGIBILITY CRITERIA FOR REGISTRATION OF AN FCM SWAPCLEAR CONTRACT**

**1. FCM SwapClear Transaction**

Without prejudice to the FCM Regulations and the FCM Procedures, the Clearing House will only register an FCM SwapClear Contract pursuant to receipt of particulars of a transaction where at the time of the particulars being presented:

- (a) the transaction meets the FCM SwapClear Product Eligibility Criteria for registration as an FCM SwapClear Transaction; and
- (b) each party to the transaction is an Executing Party;

and the requirements of (a) and (b) continue to be satisfied at Registration Time.

**1.1 FCM SwapClear Product Eligibility Criteria for an FCM SwapClear Transaction**

- (a) Vanilla interest rate swaps and notional interest rate swaps having the characteristics set out in the table below:

| <u>Instrument</u>  | <u>Currency</u> | <u>Leg 1</u>          | <u>Leg 2</u>           | <u>Variable Notional</u> | <u>Maximum Tenor</u> | <u>Notional Amount</u>               |
|--------------------|-----------------|-----------------------|------------------------|--------------------------|----------------------|--------------------------------------|
| Interest rate swap | GBP             | Fixed                 | GBP-LIBOR-BBA          | No                       | 18,675 days          | 0.01-99,999,999,999.99 <sup>14</sup> |
| OIS                | GBP             | Fixed                 | GBP-SONIA-COMPOUND     | Yes                      | 18,675 days          | 0.01-99,999,999,999.99               |
| OIS                | GBP             | Fixed                 | GBP-SONIA-OIS Compound | Yes                      | 18,675 days          | 0.01-99,999,999,999.99               |
| Interest rate swap | USD             | Fixed                 | USD-LIBOR-BBA          | Yes                      | 18,675 days          | 0.01-99,999,999,999.99 <sup>15</sup> |
| Interest rate swap | USD             | Fixed                 | USD-LIBOR              | Yes                      | 18,675 days          | 0.01-99,999,999,999.99 <sup>16</sup> |
| OIS                | USD             | Fixed                 | USD-SOFR-COMPOUND      | Yes                      | 18,675 days          | 0.01-99,999,999,999.99               |
| OIS                | USD             | Fixed                 | USD-SOFR-OIS Compound  | Yes                      | 18,675 days          | 0.01-99,999,999,999.99               |
| Basis swap         | USD             | USD-SOFR-OIS Compound | USD-SOFR-OIS Compound  | No                       | 18,675 days          | 0.01-99,999,999,999.99               |

<sup>14</sup> This transaction will only be eligible as an FCM SwapClear Transaction if it is a Legacy LIBOR Transaction as defined in Schedule 2.1D of the FCM Procedures.

<sup>15</sup> This transaction will only be eligible as an FCM SwapClear Transaction if it is a Legacy LIBOR Transaction as defined in Schedule 2.1E of the FCM Procedures.

<sup>16</sup> This transaction will only be eligible as an FCM SwapClear Transaction if it is a Legacy LIBOR Transaction as defined in Schedule 2.1E of the FCM Procedures.

|                       |                |                                     |                                     |               |                       |                                   |
|-----------------------|----------------|-------------------------------------|-------------------------------------|---------------|-----------------------|-----------------------------------|
| Interest-rate swap    | USD            | Fixed                               | USD-BSBY <sup>17</sup>              | Yes           | 4,050 days            | 0.01-99,999,999,999.99            |
| Basis swap            | USD            | USD-FEDERAL FUNDS-H.15-OIS-COMPOUND | USD-SOFR-COMPOUND                   | No            | 18,675 days           | 0.01-99,999,999,999.99            |
| Basis swap            | USD            | USD-Federal Funds-OIS Compound      | USD-SOFR-OIS Compound               | No            | 18,675 days           | 0.01-99,999,999,999.99            |
| Basis swap            | USD            | USD-Federal Funds                   | USD-SOFR-OIS Compound               | No            | 18,675 days           | 0.01-99,999,999,999.99            |
| <del>Basis swap</del> | <del>USD</del> | <del>USD-BSBY<sup>18</sup></del>    | <del>USD-SOFR-COMPOUND</del>        | <del>No</del> | <del>4,050 days</del> | <del>0.01-99,999,999,999.99</del> |
| <del>Basis swap</del> | <del>USD</del> | <del>USD-BSBY<sup>19</sup></del>    | <del>USD-SOFR-OIS Compound</del>    | <del>No</del> | <del>4,050 days</del> | <del>0.01-99,999,999,999.99</del> |
| <del>Basis swap</del> | <del>USD</del> | <del>USD-BSBY</del>                 | <del>USD-BSBY<sup>20</sup></del>    | <del>No</del> | <del>4,050 days</del> | <del>0.01-99,999,999,999.99</del> |
| OIS                   | USD            | Fixed                               | USD-Federal Funds H.15-OIS-COMPOUND | Yes           | 18,675 days           | 0.01-99,999,999,999.99            |
| OIS                   | USD            | Fixed                               | USD-Federal Funds-OIS Compound      | Yes           | 18,675 days           | 0.01-99,999,999,999.99            |
| Interest rate swap    | EUR            | Fixed                               | EUR-EURIBOR-Reuters                 | Yes           | 18,675 days           | 0.01-99,999,999,999.99            |
| Interest rate swap    | EUR            | Fixed                               | EUR-EURIBOR                         | Yes           | 18,675 days           | 0.01-99,999,999,999.99            |
| Basis swap            | EUR            | EUR-EURIBOR-Reuters                 | EUR-EURIBOR-Reuters                 | Yes           | 18,675 days           | 0.01-99,999,999,999.99            |
| Basis swap            | EUR            | EUR-EURIBOR                         | EUR-EURIBOR                         | Yes           | 18,675 days           | 0.01-99,999,999,999.99            |
| OIS                   | EUR            | Fixed                               | EUR-EuroSTR-COMPOUND                | Yes           | 18,675 days           | 0.01-99,999,999,999.99            |

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~~<sup>18</sup>—Ibid footnote 17.~~

~~<sup>19</sup>—Ibid footnote 17.~~

~~<sup>20</sup>—Ibid footnote 17.~~