

**VIA ELECTRONIC EMAIL**

December 14th , 2017

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

Dear Mr Kirkpatrick,

Pursuant to CFTC regulation 39.5(b), LCH SA ("**LCH**"), a derivatives clearing organization ("**DCO**") registered with the Commodity Futures Trading Commission (the "**CFTC**"), is making the present submission for determination of whether mandatory clearing should apply.

**Credit Index Options ("**CIO**") initiative**

LCH intends to add to the list of eligible instruments CIO transactions.

**Eligibility to clear swaps and ability to maintain compliance under a mandatory clearing determination**

LCH is launching CIO as part of its CDSClear service, as an extension to its current product offering. LCH is proposing that the implementation date of this new clearing service will be on or after December 13th 2017, subject to any relevant regulatory review or approval process duly completed. LCH has been authorised by the CFTC to file CFTC regulation §39.5(a)(1) under which LCH is deemed eligible to clear these index options and will be able to maintain compliance with section 5b(c)2 of the Act in the event.

**Factors for determination**

**The existence of significant outstanding notional exposures, trading liquidity, and adequate pricing data.**

LCH has reviewed data that was made available by the DTCC Trade Information Warehouse (TIW) to determine the size of the market in iTraxx Europe Main and Crossover index CDS Swaptions. Data available for the last week of January 2017, for example, shows that there was 157.4 Bn USD equivalent of gross notional outstanding for 2,066 trades in the iTraxx Europe Main on-the-run series 5 YR index options (1M, 2M and 3M expiries) and 31 Bn USD equivalent of gross notional outstanding for 539 trades in the iTraxx Crossover on-the-run series 5 YR index Swaptions (1M, 2M and 3M expiries).

Public information is not available on trades that have been terminated or compressed. Therefore the gross notional number cited above will be lower than the total amount traded on these Credit Index Options because it is based on live trades in the TIW only.

Pricing data for Credit Index Options will be calculated by LCH using Clearing Members' end of day price contributions in a similar fashion to the existing process for index and single name CDS whereby members of the CDS Clear service with open interest in a product must contribute prices on a daily basis. Other relevant pricing sources (including Markit composite prices) will also be used. LCH aggregates these prices to create the LCH's settlement prices.

**The availability of rule framework, capacity, operational expertise and credit support infrastructure to clear the contract on terms that are consistent with the material terms and trading conventions on which the contract is then traded**

LCH already has a well developed rule framework and support infrastructure for clearing index and single name CDS. LCH intends to leverage this existing operational capability when extending its offering to cover CIO.

In order to prepare for the launch of the iTraxx Europe Main and Crossover index options, LCH has performed testing to ensure that it is able to clear these Swaptions in a manner which is consistent with the terms on which iTraxx Europe Main and Crossover index Swaptions are traded bilaterally. Testing for CIO has included involvement from clearing members who will be actively clearing the product from launch.

As with the other CDS products currently cleared through LCH, the clearing documentation that will be applicable to CIO transactions is based on the market standard documentation.

**The effect on the mitigation of systemic risk, taking into account the size of the market for such contract and the resources of the derivatives clearing organization available to clear the contract**

For any newly cleared product, the CCP's default management protocols, processes and technology are modified to allow clearing of the new product.

The CCP's risk management framework has been calibrated to handle an expected volume of activity.

**The effect on competition, including appropriate fees and charges applied to clearing**

To the best of our knowledge, iTraxx Europe Main and Crossover index Swaptions are not currently offered for clearing. The extension of the CDS Clearing service offered by LCH to cover CIO will, on the one hand, contribute to lower systemic risk and, on the other hand, foster greater transparency on this market and could, down the line, lead the European authorities to consider submitting the iTraxx Europe Main and Crossover index Swaptions to mandatory clearing and trading.

The fees applicable to the clearing of the iTraxx Europe Main and Crossover index Swaptions to be cleared on the platform as denominated in EUR. The applicable fee grid for iTraxx Europe Main and Crossover index Swaptions has been filed with the CFTC<sup>1</sup>.

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<sup>1</sup> [http://www.lch.com/documents/731485/762520/cdsclear\\_cio-fee-grid\\_cftc-self-certification.pdf](http://www.lch.com/documents/731485/762520/cdsclear_cio-fee-grid_cftc-self-certification.pdf)

**The existence of reasonable legal certainty in the event of insolvency of the relevant derivatives clearing organization or one or more of its clearing members with regard to the treatment of customer and swap counterparty positions, funds and property**

The level of legal certainty around the clearing of iTraxx Europe Main and Crossover index Swaptions is the same as that of CDS, including iTraxx Europe Main and Crossover indices, currently cleared by LCH.

Insofar as legal certainty in the event of the insolvency of the DCO is concerned, LCH would be wound up under French law and has provided opinions on the treatment of cleared swaps customer funds as part of its DCO registration in 2013 and updated versions of jurisdictional and netting legal opinions covering CIO will be available as at the date of the launch of the CIO service.

**Product specifications, including copies of any standardized legal documentation, generally accepted contract terms, standard practices for managing any life cycle events associated with the swap, and the extent to which the swap is electronically confirmable**

The clearing documentation applicable to iTraxx Europe Main and Crossover index Swaptions is based on the market standards iTraxx Europe Untranchured Transactions Swaption Standard Terms Supplement published by Markit. This covers the standardized legal documentation and generally accepted contract terms.

Standard practices for managing any life cycle events are based on credit events as defined under the 2014 ISDA Credit Derivatives Definitions and as determined by the ISDA EMEA Credit Derivatives Determinations Committee. Standard practices for managing expiry/exercise are based on the 2006 ISDA Definitions.

Only standardized CIO transactions are eligible to clearing and as a result they are all electronically confirmable.

**Participant eligibility standards, if different from the derivatives clearing organization's general participant eligibility standards**

The participant eligibility standards have not been modified.

**Pricing sources, models, and procedures, demonstrating an ability to obtain sufficient price data to measure credit exposures in a timely and accurate manner, including any agreements with clearing members to provide price data and copies of executed agreements with third party price vendors, and information about any price reference index used, such as the name of the index, the source that calculates it, the methodology used to calculate the price reference index and when and where it is published publicly**

LCH will continue using a price contribution process as described under Section 5.18 of the CDS Clearing Procedures. All members are required to contribute on contracts on which they have open interest.

**Applicable rules, manuals, policies or procedures**

LCH has made some amendments to the CDS Clearing documentation to take into account the clearing of the iTraxx Europe Main and Crossover index Swaptions:

- the CDS Clearing Supplement now includes a new Part (Part C) that covers CIO.

- Section 2 of the Procedures is now incorporating CIO within the scope of the margin calculations. Additionally volatility fluctuations have been added as a parameter in the Spread Margin calculations for CIO.
- Section 3 of the Procedures has been amended to include payments related to CIO, notably Swaption Premium cash payments.
- Section 4 of the Procedures has been amended to adapt eligibility criteria to the clearing of the iTraxx Europe Europe Main and Crossover index Swaptions,
- Section 5 of the Procedures has been updated extending its scope to CIO and to provide credit event management, exercise and settlement processes for CIO and the contribution to end of day prices in respect of CIO.- the CDS Clearing Rule Book has been amended to include CIO within its scope and reflects the changes listed above.

**A description of the manner in which the derivatives clearing organization has provided notice of the submission to its members and a summary of any views on the submission expressed by the members**

The clearing documentation provided to the legal working group and submitted to consultation for the iTraxx Europe Europe Main and Crossover index Swaptions initiative has been filed with the CFTC<sup>2</sup> and will be available on LCH's website once duly approved by the National Competent Authorities.

Clearing members have been informed via the attached notice.

No material comments have been expressed by the clearing members.

Yours sincerely

**Frank Soussan**  
Global Head of CDSClear  
LCH SA



<sup>2</sup> [http://www.lch.com/documents/731485/762520/CDSClear\\_CIO\\_RB\\_CFTC-Self-Certification%2BAppendix\\_Final.pdf/3599219e-b8be-4630-87ca-50f98a8d8b14](http://www.lch.com/documents/731485/762520/CDSClear_CIO_RB_CFTC-Self-Certification%2BAppendix_Final.pdf/3599219e-b8be-4630-87ca-50f98a8d8b14)