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February 17, 2012

Office of the Secretary
Commodity Futures Trading Commission
Three Lafayette Center
1155 21st St., N.W.
Washington, D.C. 20581

Re: International Derivatives Clearinghouse, LLC – IDCH-2012-01

Ladies and Gentlemen:

Pursuant to Section 39.5(b) of the regulations (the “CFTC Rules”) promulgated by the Commodity Futures Trading Commission (the “Commission”) under the Commodity Exchange Act, as amended (the “Act”), International Derivatives Clearinghouse, LLC (“IDCH”), a derivatives clearing organization registered under the Act, hereby submits this swap submission for the category of interest rate swap contracts that it currently clears, which includes interest rate swaps (IDEX USD Interest Rate Swaps and IDEX OIS USD Interest Rate Swaps) and interest rate forward rate agreements (IDEX USD Forward Rate Agreements), as further described in the contract specifications set forth in Chapter 11 of the IDCH Rulebook (collectively, the “IDEX USD OTC Contracts”).¹

IDCH was registered with the Commission as a derivatives clearing organization (“DCO”) on December 22, 2008, and in accordance with its order of registration is authorized to clear, *inter alia*, “over-the-counter derivative contracts where interest rates and/or currencies constitute the underlying commodity or reference.”² Originally, IDCH cleared over-the-counter (“OTC”) interest rate swaps as traditional futures contracts. These futures contracts were available for trading on a designated contract market, and also were used to clear OTC swap transactions as futures contracts through replacement transactions. Effective September 1, 2010, IDCH amended the IDCH Rulebook and related procedures to provide for the clearing of the IDEX USD OTC Contracts, which are cleared as swaps rather than futures. In April 2011, Commission staff from the Division of Clearing and Risk conducted an on-site review of IDCH’s compliance with DCO core principles in connection with IDCH’s clearance of the IDEX USD OTC Contracts. Effective December 16, 2011, IDCH amended the IDCH Rulebook to remove the futures contracts. Effective January 9, 2012, IDCH amended the IDCH Rulebook, Risk Management Procedures and Default Procedures to conform to the CFTC Rules that became effective on that date.

¹ The IDCH Rulebook is enclosed as Exhibit A and also is available on the IDCH website at <http://www.idcg.com/pdfs/idch/20120109rulebook.pdf>.

² In re Application of International Derivatives Clearinghouse, LLC For Registration as a Derivatives Clearing Organization (Commodity Futures Trading Comm’n December 22, 2008) (Order of Registration).

The following briefly describes the primary features of IDEX USD OTC Contracts:

IDEX OIS USD Interest Rate Swaps. These IDEX USD OTC Contracts are USD-denominated interest rate swaps that require the exchange of periodic annual fixed rate payments for annual floating rate payments based on the Fed Funds Effective Rate compounded over the life of the contract. The maturity of these contracts cannot exceed 2 years, the minimum notional principal must be at least \$1 million, the payment frequency must be annual, and there could be one or more accrual periods during the life of the swap. The fixed rate payment for a given accrual period is equal to the notional principal value multiplied by the fixed rate multiplied by the accrual year fraction of the fixed leg of the swap. The floating rate payment for a given accrual period is equal to the notional principal value multiplied by the compounded Fed Funds Effective Rate multiplied by the accrual year of the floating leg of the swap.

IDEX USD Interest Rate Swaps. These IDEX USD OTC Contracts are USD-denominated interest rate swaps that must conform to one or both of the fixed leg or floating leg definitions provided in the contract specifications. The maturity of these contracts cannot exceed 30 years, the minimum notional principal must be at least \$1 million, the payment frequency may be monthly, quarterly, semi-annual, or annual, and there may be one or more accrual periods during the life of the swap. The fixed rate payment for a given accrual period is equal to the notional principal value multiplied by the fixed rate multiplied by the accrual year fraction of the fixed leg of the swap. The floating leg of the swap is characterized by a periodically resetting rate and is defined by a set of several terms (such as floating rate index, index tenor, reset leg, reset holiday centers, etc.). The floating rate payment for a given accrual period is an amount equal to the notional principal value multiplied by the floating rate index setting multiplied by the accrual year of the floating leg of the swap.

IDEX USD Forward Rate Agreements. These IDEX USD OTC Contracts are USD-denominated forward rate agreements that require the exchange of a final payment, which is the net of fixed and floating interest payments. The maturity of these contracts cannot exceed 2 years, the minimum notional principal must be at least \$1 million, and the payment frequency may be monthly, quarterly, semi-annual, or annual. The final payment is an amount equal to the notional principal value multiplied by the difference between the fixed rate and the USD LIBOR setting multiplied by the actual / 360 accrual year fraction divided by the accrual factor.

Pursuant to CFTC Rule 39.5(b)(3)(i), IDCH affirms that it is eligible to accept the IDEX USD OTC Contracts for clearing and, if the Commission determines that USD interest rate swaps are required to be cleared, it will be able to maintain compliance with section 5b(c)(2) of the Act for clearing USD interest rate swaps. Because the financial resources backing IDCH's obligations under the cleared IDEX USD OTC Contracts are scaled based on open interest, IDCH will continue to be able to meet the financial risks as open interest increases. Moreover, IDCH will scale its operational and infrastructure resources to accommodate additional demands that may arise from an increase in open interest of cleared IDEX USD OTC Contracts.

In accordance with CFTC Rule 38.5(b)(3)(ii), IDCH is providing the following information to assist the Commission in making a quantitative and qualitative assessment of the following factors:

(A) The existence of significant outstanding notional exposures, trading liquidity, and adequate pricing data.

Deep and liquid markets in IDEX USD OTC Contracts are available in the OTC interest rate swap market. This is supported by data published by the Bank for International Settlements (“BIS”) regarding the outstanding notional value and average daily turnover in OTC transacted interest rate derivatives. As of June 2011, BIS estimates that there were \$553.88 trillion in outstanding single currency interest rate derivatives in the OTC market.

Outstanding Notional Value of OTC Single Currency Interest Rate Derivatives

Date	OTC Single Currency Interest Rate Derivatives			
	All	Swaps	FRA	Option
Dec. 07	393,138,098	309,588,274	26,598,764	56,951,060
Jun. 08	458,303,968	356,771,552	39,370,224	62,162,192
Dec. 08	432,657,151	341,127,621	41,561,290	49,968,240
Jun. 09	437,228,334	341,902,730	46,812,158	48,513,446
Dec. 09	449,874,756	349,287,982	51,779,165	48,807,609
Jun. 10	451,831,321	347,508,058	56,241,786	48,081,477
Dec. 10	465,259,625	364,377,150	51,587,025	49,295,450
Jun. 11	553,880,059	441,615,279	55,842,195	56,422,585
BIS OTC Derivatives Statistics up to 2Q11, notional amounts outstanding in USD Millions				

Turnover in the OTC single currency interest rate market is similarly robust; BIS estimates an average daily volume of \$2.1 trillion in interest rate related derivatives as of April 2010.

Turnover in OTC Single Currency Interest Rate Derivatives Market

Date	OTC Single Currency Interest Rate Derivatives			
	All	Swaps	FRA	Option
Apr. 95	147,000	61,500	64,500	21,000
Apr. 98	265,384	154,562	74,446	36,376
Apr. 01	488,904	331,192	129,099	28,613
Apr. 04	1,024,654	620,585	233,126	170,943
Apr. 07	1,684,226	1,210,427	258,380	215,419
Apr. 10	2,055,933	1,274,554	600,459	180,921
BIS OTC Derivatives Statistics up to 2Q11, notional amounts outstanding in USD Millions				

BIS estimates that the daily turnover trading volume of USD single currency OTC interest rate derivatives as of April 2010 was \$653.9 billion.

Turnover in USD OTC Single Currency Interest Rate Derivatives Market

Date	USD OTC Single Currency Interest Rate Derivatives			
	All	Swaps	FRA	Option
Apr. 95	40,590	16,400	17,630	6,560
Apr. 98	70,826	35,816	22,771	12,239
Apr. 01	151,688	100,484	38,988	12,216
Apr. 04	347,132	195,147	58,835	93,150
Apr. 07	532,439	321,679	97,903	112,857
Apr. 10	653,858	302,445	281,705	69,708

BIS OTC Derivatives Statistics up to 2Q11, notional amounts outstanding in USD Millions

Open interest of OTC interest rate derivatives on two other clearinghouses that clear interest rate swaps as of February 15, 2012 was an estimated \$234.4 trillion.

Cleared IRS Open Interest as of February 15, 2012				
Currency	LCH-SwapClear		CME Group	
	Open Interest	USD Open Interest	Open Interest	USD Open Interest
USD	\$97,613,010,331,845	\$97,613,010,331,845	\$132,916,135,000	\$132,916,135,000
EUR	€84,332,751,036,673	\$110,189,172,504,517	€33,844,501,000	\$44,221,225,007
GBP	£16,834,402,339,989	\$26,418,227,592,145	£5,253,800,000	\$8,244,788,340
Total in USD	\$234,220,410,428,507		\$185,382,148,347	
Total LCH & CME	\$234,405,792,576,854			

Daily volume of OTC interest rate derivatives on two other clearinghouses that clear interest rate derivatives was approximately \$944 billion on February 15, 2012.

Cleared IRS Volume on February 15, 2012				
Currency	LCH-SwapClear		CME Group	
	Volume	USD Volume	Volume	USD Volume
USD	\$493,242,681,400	\$493,242,681,400	\$9,799,620,000	\$9,799,620,000
EUR	€263,935,316,000	\$344,857,883,886	€250,700,000	\$327,564,620
GBP	£60,934,707,492	\$95,624,836,467	£13,700,000	\$21,499,410
Total in USD	\$933,725,401,753		\$10,148,684,030	
Total LCH & CME	\$943,874,085,783			

Each open position in an IDEX USD OTC Contract is valued by the IDCH at the end of each trading day by valuing each leg of the cash flows of the contract (fixed and floating) according to discount factors produced by the IDCH-generated discount curve (the “IDCH

Curve”). The IDCH Curve is a zero-coupon yield curve that is updated on a continual basis and includes BBA-LIBOR and a composite of swap rates. IDCH generates a unique IDCH Curve for each reference rate that is available for clearing and calibrates each of these IDCH Curves to the discount curve, thereby ensuring that at-market instruments value to par.³ Because the IDCH Curve is calculated by IDCH and is based on rates and data available to IDCH publicly or through a license agreement with an information provider, IDCH believes that it has adequate pricing data.

(B) The availability of rule framework, capacity, operational expertise and resources, 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.

The IDCH Rulebook provides a rule framework for clearing members and customers of clearing members to clear the IDEX USD OTC Contracts on terms that are consistent with the material terms and trading conventions on which they would trade interest rate swaps and forward rate agreements in the OTC market. The IDEX USD OTC Contracts provide market participants with the flexibility to negotiate and transact interest rate derivatives in the same manner that they currently effect such transactions in the OTC market. The IDEX USD OTC Contracts standardize contract-critical dates (*e.g.*, effective dates, maturity dates, and reset dates) and other material contract terms (*e.g.*, payment schedules, notional principal, and payment frequency) that are consistent with the OTC trading conventions. The IDCH Rulebook also sets forth clearing member criteria and obligations, and descriptions of the clearing process, the settlement process (including the collection of performance bond and protection of customer collateral), and the default process.

IDCH has the capacity, operational expertise and resources, and credit support infrastructure to clear the IDEX USD OTC Contracts on terms that are consistent with the material terms and trading conventions on which interest rate swaps and forward rate agreements are traded in the OTC market. IDCH’s financial capacity to clear IDEX USD OTC Contracts is demonstrated by the financial resources backing its obligations under the cleared IDEX USD OTC Contracts, which includes performance bond posted by clearing members (for their proprietary account and customer accounts), guaranty fund deposits posted by clearing members, and assessment powers against clearing members, all as described in more detail below. IDCH has been registered as a DCO since 2008 and has dedicated tremendous resources to developing its operational capacity to clear IDEX USD OTC Contracts. The capacity of the IDCH clearing systems is scalable and has been tested to manage the anticipated volume of IDEX USD OTC Contracts. The IDCH clearing systems presently have the capacity to manage the clearing of up to 220 thousand IDEX USD OTC Contracts with 550 VaR scenarios being used for portfolio revaluation. The architecture of the systems is designed to be scalable with hardware and has been tested to manage the clearing of up to two million IDEX USD OTC Contracts using the same 550 VAR scenarios for revaluation.

³ A detailed description of the calculation of the IDCH Curve is contained in Exhibit B of the IDCH Risk Management Procedures, which are enclosed as Confidential Exhibit B.

(C) 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.

Given the tremendous size of the interest rate derivative market, the potential mitigation of systemic risk through centralized clearing of USD interest rate derivatives is significant. Clearing of IDEX USD OTC Contracts brings the risk mitigation and collateral and operational efficiency afforded to cleared exchange-traded futures contracts to bilaterally negotiated OTC interest rate derivatives. The submission of OTC interest rate derivatives to IDCH for clearing as IDEX USD OTC Contracts affords the parties the credit, risk management, capital and operational benefits of central counterparty clearing of such transactions, and facilitates collateral efficiency. Cleared IDEX USD OTC Contracts allow market participants to free up counterparty credit lines that would otherwise be committed to open bilateral contracts. Additionally, the mark-to-market process employed by IDCH enhances risk management by clearing members. An efficient system for centralized clearing also allows parties to mitigate the risk of a bilateral OTC derivative. Instead of holding offsetting positions with different counterparties and being exposed to the risk of each counterparty, a party may enter into an economically offsetting position that is cleared by IDCH. Although the positions are not offset, the performance bond requirement will be reduced to close to zero. To eliminate risk without using centralized clearing, the party must enter into a tear-up agreement with the counterparty, or enter into a novation.

The IDCH framework provides IDCH with scalable financial resources sufficient to clear the IDEX USD OTC Contracts. IDCH's financial resources are a combination of each clearing member's performance bond on deposit to support its positions, the performance bond of its customers on deposit to support their positions, IDCH surplus funds, guaranty fund deposits, and IDCH assessment powers. IDCH's current total financial resources include:

- IDCH working capital of \$3.2 million.
- IDCH surplus funds of \$50 million, which has been deposited to the guaranty fund.
- Guaranty fund deposits of approximately \$80 million.⁴ Each clearing member is subject to a minimum \$25 million guaranty fund contribution requirement.

IDCH also maintains a \$125 million committed line of credit provided by a consortium of six international banks that provides immediate short-term liquidity in the event of a clearing member default.

IDCH collects adequate performance bond to collateralize market risk. For the purposes of calculating performance bond requirements, IDCH applies a Historic Scenario Value-at-Risk ("HS VaR") methodology to establish original performance bond for each portfolio of contracts cleared by clearing members. IDCH utilizes five look-back periods (30 days, 90 days, 125 days, 250 days, and 500 days) and an implied 99.7% confidence interval to generate original performance bond. The inputs to original performance bond are calculated as the average plus 3

⁴ The guaranty fund includes a deposit of \$50 million of surplus funds from IDCH and a deposit of \$30 million from International Derivatives Clearing Group, LLC ("IDCG"), the parent company of IDCH. The deposit of IDCG will be reduced dollar-for-dollar as clearing members make deposits to the guaranty fund, such that the minimum size of the guaranty fund will remain at \$80 million.

standard deviations for each of the look back periods. The minimum original performance bond requirement is the higher of the original performance bond derived from the five look-back periods or the largest five-day move over the preceding 125 days.⁵

Throughout the trading day, but officially twice daily, IDCH revalues the positions held by each clearing member based on the IDCH Curve. The resulting net present value of the cash flows (fixed side and floating side in the case of an interest rate swap) determines the value, or mark-to-market, of the interest rate swap. IDCH debits the clearing member's designated bank cash account to realize (collect) any losses during the trading day. Prior day gains in value are paid once per day in the first (morning) banking process.

IDCH evaluates the adequacy of the guaranty fund and each clearing member's required guaranty fund deposit on a quarterly basis according to a multiple clearing member default scenario, and performs daily stress testing of the guaranty fund. Clearing members are required to deposit such additional amounts as IDCH determines from time to time. A detailed description of the parameters used to evaluate the adequacy of the guaranty fund is set forth in the Risk Management Procedures, enclosed as Confidential Exhibit B.

(D) The effect on competition, including appropriate fees and charges applied to clearing.

IDCH believes that the required mandatory clearing of IDEX USD OTC Contracts will promote competition. IDCH provides clearing members and their customers with another alternative to clear interest rate derivatives. To encourage volume and open interest, clearinghouses that clear interest rate swaps will be required to compete on price, service and minimization of risk. The existence of multiple clearinghouses to clear interest rate derivatives also will allow market participants to diversify clearinghouse risk. IDCH presently charges clearing fees that range from \$3.50 per million notional for an IDEX USD OTC Contract with a tenor of 2 years to \$28.80 per million notional for an IDEX USD OTC Contract with a tenor of 30 years.⁶ These fees are comparable to those charged by other DCOs that clear interest rate swaps.

(E) The existence of reasonable legal certainty in the event of the 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.

IDCH segregates the collateral of its clearing members (the "Proprietary Account") and the assets of its clearing members' customers (the "OTC Customer Segregated Account"). IDCH's Rulebook contains a rule set that provides for the segregation of customer funds ("OTC Customer Funds") in the "cleared OTC derivatives account class" that is parallel to the segregation requirements for the futures account class under CFTC Rule 1.20. In accordance with IDCH Rule 511, all OTC Customer Funds must be separately accounted for and segregated as belonging to customers. IDCH maintains an omnibus OTC Customer Segregated Account with its settlement banks, and has obtained an acknowledgement from each settlement bank that

⁵ Exhibit C to the Risk Management Procedures, enclosed as Confidential Exhibit B, describes the HS VaR methodology in detail.

⁶ The IDCH Fee Schedule is available on the IDCH website at <http://www.idcg.com/idch/index.html#feeschedule>.

such bank was informed that the OTC Customer Funds deposited therein are those of customers and are being held in accordance with the provisions of the CFTC Rules.

All IDCH clearing members must be U.S. domiciled entities, and therefore are subject to U.S. insolvency proceedings. In the event of the insolvency of an IDCH clearing member, the customer and swap counterparty positions, funds and property would be treated as part of the “cleared OTC derivatives account class” for the purpose of Part 190 of the CFTC Rules. IDCH intends to amend the IDCH Rulebook to comply with the recently adopted CFTC Rules implementing the swap customer segregation requirements of Section 4d(f) of the Act.⁷ As a DCO, IDCH is subject to the bankruptcy code process relating to commodity brokers.

In accordance with CFTC Rule 39.5(b)(3)(iii), IDCH has enclosed the IDCH Rulebook, which contains the contract specifications for the IDEX USD OTC Contracts in Chapter 11. IDEX USD OTC Contracts are electronically confirmable through the OMNet API.

IDCH has a single category of clearing members; therefore, the eligibility standards to clear IDEX USD OTC Contracts are the same for all clearing members.

IDCH establishes settlement prices for the IDEX USD OTC Contracts based on the IDCH Curve, which is calculated by IDCH. A detailed description of the calculation of the IDCH Curve is contained in Exhibit B of the IDCH Risk Procedures. Certain inputs to the IDCH Curve are provided by third-party price vendors with which IDCG has entered into licensing agreements. In particular, IDCG has entered into (i) a non-exclusive user agreement with BBA Enterprises Limited to permit IDCH to use BBA LIBOR for the purpose of clearing the IDEX USD OTC Contracts,⁸ (ii) a Redistribution Agreement with Tullett Prebon Information Inc. to use information consisting of the bid and offer price indications made available from Tullett Prebon for a variety of USD interest rate swaps and forward rate agreements,⁹ (iii) a Data License Agreement with ICAP Information Services LLC to use information made available for a variety of USD interest rate swaps and forward rate agreements,¹⁰ and (iv) a Services Contract with Thompson Reuters America.¹¹

Enclosed as Confidential Exhibit B is a copy of IDCH’s Risk Management Procedures, which include procedures for measuring and monitoring of credit exposures, initial and variation performance bond methodologies, methodologies for stress testing and back testing, and settlement procedures. Enclosed as Exhibit G is a copy of IDCH’s Default Management Procedures, which also are available on the IDCH website at: <http://www.idcg.com/pdfs/idch/IDCH%20Default%20Procedures.pdf>.

IDCH has enclosed its applicable rules, manuals, policies, and procedures as set forth in this submission. IDCH is separately requesting confidential treatment for each of the exhibits described as a “Confidential Exhibit.”

⁷ Protection of Cleared Swaps Customer Contracts and Collateral; Conforming Amendments to the Commodity Broker Bankruptcy Provisions, Final Rule, 77 Fed. Reg. 6336 (Feb. 7, 2012).

⁸ Enclosed as Confidential Exhibit C is a copy of the agreement with BBA Enterprises Limited.

⁹ Enclosed as Confidential Exhibit D is a copy of the agreement with Tullett Prebon Information Inc.

¹⁰ Enclosed as Confidential Exhibit E is a copy of the agreement with ICAP Information Services LLC.

¹¹ Enclosed as Confidential Exhibit F is a copy of the agreement with Thompson Reuters America.

IDCH has posted a notice of this submission on its website (<http://www.idcg.com>), which may be accessed under the International Derivatives Clearinghouse tab → Regulatory References → CFTC Rule Filings.¹²

If you have any further questions or comments about this submission, please contact me at (646) 867-2528.

Sincerely,



Michael Dundon

Enclosures

¹² IDCH currently has no clearing members, therefore it has not provided prior notice of the submission to its clearing members as contemplated in CFTC Rule 39.5(b)(3)(xi).