



AsiaRisk Awards 2020

Risk.net October 2020



Clearing house of the year

LCH The Markets'
Partner

Clearing house of the year

LCH

LCH has had some important milestones in Asia this year: it cleared the first over-the-counter interest rate swaps linked to Singapore’s overnight rate average (Sora), it poached Yutaka Imanishi from CME to run its Japan business and it onboarded its first Chinese bank. Coupled with a robust margin model that changed little during the Covid-19 pandemic, the UK-based company is a worthy winner of the clearing house of the year award.

Clearing the first swap linked to Sora was a momentous occasion for both the market and LCH – and it has taken on even greater significance following a pronouncement from the Monetary Authority of Singapore that the Singapore interbank offered rate, which Sora is to replace, will disappear altogether by the end of 2024.

“This is particularly important and a really good example of how we have been working together across the region – with the regulator and local market participants – to develop the new benchmark, and then to create a product that could be cleared by us,” says Kate Birchall, LCH’s head of Asia-Pacific. “That sort of co-operation and partnership is something we very much want to continue throughout the region.”

Birchall says LCH is also working in other jurisdictions to help out with benchmark reform, albeit at different speeds. “We will be there front and centre, working with these markets, to allow these new contracts to be clearable at LCH,” she says.

Onboarding successes

Japan has long been an important market for LCH although, due to local protectionism, the clearing house is only able to clear non-yen interest rate swaps, and cannot clear those denominated in the local currency. LCH clears non-deliverable foreign exchange swaps on the Japanese market as well.

In April, LCH brought on board Yutaka Imanishi, who was previously executive director for optimisation in Japan at CME group, to run its Japanese business. Imanishi replaced Kazuhiro Shibuta, who retired this year after spending six years at the helm of LCH’s Japanese business.

“Tokyo is a critical market for LCH. In appointing a new head of Japan, we needed someone with extensive experience of the Japanese financial community,” says Birchall. “Imanishi fitted that bill. Japan is an important market for LCH as we look to grow our offering in the region.”

In September 2019, LCH welcomed its first Japanese clearing member, Mizuho, into the fold.

“Japanese members and clients value the multi-currency nature of the



Kate Birchall, LCH

services that we provide and we hope to welcome new customers in Japan,” says Birchall.

As part of its broader contribution to the development of the Japanese market, LCH is stepping up its client outreach and education about transitioning away from the Libor benchmark, which is expected to cease after the end of 2021.

“Japanese banks have really large dollar positions, so it is important we address this in the market,” says Birchall. In July, LCH conducted its first client seminar on Libor reform in the country entirely in Japanese, rather than using interpretation from English.

Another onboarding success for the clearing house came in June last year, when Bank of China (UK) joined the ranks, becoming LCH’s first clearing member

from a Chinese banking group.

“That was a big moment for us and we were delighted to welcome them onboard,” says Birchall. “For them it represents a new era of partnership between the Chinese and global financial markets. We are working with them to make sure that, as the markets develop, we too can expand our partnership with the Chinese markets. This is an opportunity we are particularly excited by.” Birchall anticipates that other Chinese institutions will follow in the footsteps of Bank of China, too.

Singapore clients

In Singapore, the clearing house has positioned itself to be there for the regional banks as they grapple with new initial margin rules.

While DBS is currently the only Singaporean bank to have to post initial margin on trades, the signs are that UOB and DBS – who now won’t have to face initial margin until September 2021 – have not been slowing down their preparations. All three banks presently clear their trades indirectly with other banks, but with their cleared volumes increasing they have been eyeing potential direct membership of LCH.

While none have yet publicly taken a decision on this, LCH is set to sweeten the proposition in October, when it starts allowing clients to post Singaporean dollars as collateral – something that Singapore’s banks have long been asking for.

“We have had to work very closely with Singapore regulators and local market participants to offer this,” Birchall says. “Increasing the number of currencies we can accept in terms of initial margin is an important component of our increased focus on Asia currencies down the track.”

Worldwide, LCH’s SwapClear processed more than \$1,229 trillion notion in 2019, up 14% from 2018 revenues, while ForexClear cleared a record \$18 trillion in notional, up 5% on the year before. ■



Guiding you through the depths of uncertainty

With robust risk management,
we are here to help all our members
and clients during this uncertain time.

For more information, visit lch.com

LCH The Markets'
Partner