

VIA EMAIL

28 November 2017

Mr Christopher Kirkpatrick  
Commodity Futures Trading Commission  
115 21<sup>st</sup> Street NW  
Three Lafayette Centre  
Washington DC 20581

Dear Mr Kirkpatrick

SwapClear OIS-IBOR

Pursuant to CFTC regulation §39.5(b), LCH Limited ("LCH"), a derivatives clearing organization ("DCO") registered with the Commodity Futures Trading Commission (the "CFTC"), is submitting information regarding OIS-IBOR basis swap product in AUD (AONIA v BBA) and in EUR (EURIBOR v EONIA) for the CFTC determination of whether mandatory clearing should apply.

Background

SwapClear currently clears the OIS-IBOR basis swap product in GBP (LIBOR v SONIA) and USD (LIBOR v Fed Funds). Both legs of these swaps are floating, with one leg set on the standard OIS index, and the other leg set on the LIBOR or currency specific equivalent, such as Euribor (hence the naming convention OIS-IBOR). The new products are:

- AUD AONIA v BBA
- EUR EURIBOR v EONIA

SwapClear currently clears vanilla swaps in all currencies and indices listed above. The maximum eligible tenor for OIS-IBOR trades will be the minimum value permitted for vanilla IRS or OIS values. In all cases presented, the limiting tenor is from the OIS leg.

CFTC factors for determination

The table below shows SwapClear YTD clearing volumes (in USD) as of 5<sup>th</sup> October 2017. The basis swaps volume is comprised of IBOR-IBOR basis swaps, and OIS-IBOR in USD and GBP. In particular, it can be seen that the volume of basis swaps in EUR is significantly lower than in USD or GBP, which in large part is due to the absence of OIS-IBOR clearing in EUR.

	USD	GBP	EUR	AUD
IRS (IBOR v Fixed)	74,047,511,669,024	13,717,532,974,416	68,033,746,152,620	9,123,109,414,268
OIS (v Fixed)	145,097,649,865,112	21,488,682,512,503	57,450,343,907,255	13,089,132,725,693
<b>Basis</b>	<b>14,202,965,797,225</b>	<b>1,911,244,557,151</b>	<b>660,973,425,514</b>	<b>536,693,618,512</b>
Zeroes	52,735,701,972	147,082,315,529	114,214,280,996	1,248,770,000
FRAs	117,518,661,935,716	18,313,287,346,248	58,371,421,752,849	0
VNS	239,626,420,050	55,827,842,308	144,654,843,757	1,897,721,991
Inflation	777,256,299,754	696,562,749,931	1,049,388,248,534	0

For the OIS-IBOR basis swaps in both AUD and EUR the market data to price the instruments is already used in SwapClear as both the OIS and IBOR markets in these currencies are cleared. The additional products are identical to a synthetic pair of existing trades (IBOR v fixed and OIS v fixed where the fixed legs are netted out). The data is readily available and consumed from conventional price sources, e.g. Bloomberg and Reuters.

***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***

LCH has a well-developed rule framework and support infrastructure for clearing OIS. LCH intends to leverage this existing operational capability when extending its offering to the OIS-IBOR basis swaps in AUD and EUR.

In order to prepare for the launch of this product, LCH will perform testing to ensure that it is able to clear these products in a manner which is consistent with the terms on which they are traded. Further to this, LCH will notify its Clearing Members of a number of minor rule changes which will be made in order to support the clearing of the OIS-IBOR basis swaps in AUD and EUR. The rule changes will be certified with the CFTC and be made available on the LCH website.

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

OIS-IBOR basis swaps in AUD and EUR do not introduce any novel risks to LCH, as the operational capability to manage the product is already in place.

SwapClear currently clears vanilla swaps in all currencies and indices in scope. The two legs of the trade are standard and as per the same legs on a standard swap. This allows for a complete replication of the risk of the basis swap trade to be performed with two simple swaps, one with fixed against LIBOR or equivalent, the other fixed versus OIS. The two replicating trades are eligible for clearing in SwapClear, so the basis swap can currently be constructed in a synthetic way. As such, the systemic risk profile of LCH remains unchanged as a result of the new basis swaps offering.

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

The risk and pricing of a basis swap is identical to that on a pair of swaps. The new offering allows Clearing Members and clients to clear the risk in a single trade which prevents the duplication of notional. ASX Clear already clears OIS-IBOR basis swaps denominated in AUD.

LCH's fees and charges for the above product will be in line with those charged for existing SwapClear contracts.

***The existence of reasonable legal certainty in the event of the insolvency of the relevant DCO 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 the OIS-IBOR basis swaps is in all material respects the same as that of the products already cleared in the SwapClear service at LCH.

Insofar as legal certainty in the event of the insolvency of the DCO is concerned, LCH would be wound up under English law.

***Further information §39.5(b)(iii-viii)***

Product terms for the OIS-IBOR basis swaps are market standard. The trades are executed under the market standard 2008 ISDA Derivatives Definitions<sup>1</sup> and are covered by the Financial products Markup Language (FpML) standard, which is a protocol used for sharing information on derivatives and other products.

The participant eligibility standards for new contracts in scope are the same as those for existing SwapClear Clearing Members.

There are no additional price sources required as the product will be valued using prices that have already been added to the price sources already used by LCH.

No material revisions or adjustments to the existing risk models/parameters and/or liquidity management framework are required for LCH to offer the clearing of the products. As SwapClear already clears vanilla swaps in these currencies and indices only minor configuration changes are required from both an operational and risk management perspective to go live. As many Clearing Members already have positions that are inter-index spreads, the availability of a basis swap as risk neutralisation tool following a default will be beneficial from a risk management perspective.

LCH is making a number of minor changes to its Rulebook to enable clearing of the new the OIS-IBOR basis swaps in the following sections:

- FCM Product Specific Contract Terms and Eligibility Criteria Manual
- Product Specific Contract Terms and Eligibility Criteria Manual

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<sup>1</sup> <http://www.isda.org/publications/pdf/2008-inflation-defs.pdf>



LCH engages its Clearing Members in the design and testing of new products at an early stage, through regular meetings and working groups. Clearing Members have been formally notified of the changes which LCH is required to make to its Rulebook.

The rule changes were submitted for self certification to the CFTC pursuant to §40.6(a) on 13 November 2017, following consultation with LCH Clearing Members.

Notice of this submission under CFTC regulation §39.5(b) was given to SwapClear Clearing Members on 26 October 2017 and a copy of this notice is provided at Appendix A. Furthermore, this submission is publicly available at: <http://www.lch.com/rules-regulations/regulatory-responses>.

LCH looks forward to working with Clearing Members and the CFTC in the determination of clearing requirements. Please do not hesitate to contact me regarding any questions raised by this information.

Should you have questions please contact me at [John.Horkan@lch.com](mailto:John.Horkan@lch.com).

Yours sincerely



John Horkan  
Group Chief Operating Officer  
LCH Limited

cc. Parisa Abadi

## Appendix A

To	SwapClear Clearing Members
From	David Horner, Head of In-Business Risk Rates and FX Derivatives
Date	26 October 2017
Subject	<b>SwapClear OIS-IBOR submission for determination of clearing requirements</b>

Pursuant to CFTC regulation §39.5(b), LCH Limited (LCH), a derivatives clearing organization (DCO) registered with the Commodity Futures Trading Commission (the CFTC), is submitting OIS-IBOR basis swaps in AUD and Euro EUR for determination of whether mandatory clearing should apply.

As per CFTC regulation §39.5(b)(viii), LCH is required to notify members of its submission. This note does not constitute a notification that the products are live for clearing. A notice announcing the live date and arrangements for the formal product launch will be published separately.

#### Factors for determination

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

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- AUD AONIA v BBA
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SwapClear currently clears vanilla swaps in all currencies and indices listed above. The maximum eligible tenor for OIS-IBOR trades will be the minimum value permitted for vanilla IRS or OIS values. In all cases presented, the limiting tenor is from the OIS leg (for some currencies the maximum maturity of for LIBOR-linked cleared swaps is longer than for OIS).

The table below shows SwapClear year to date clearing volumes (in USD) as of 5<sup>th</sup> October 2017. The basis swaps volume is comprised of IBOR-IBOR basis swaps, and OIS-IBOR in USD and GBP. In particular, it can be seen that the volume of basis swaps in EUR and AUD is significantly lower than in USD or GBP, which in large part is due to the absence of OIS-IBOR clearing in EUR.

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In order to prepare for the launch of this product, LCH will perform testing to ensure that it is able to clear these products in a manner which is consistent with the terms on which they are traded.

Further to this, LCH will notify its Clearing Members of a number of minor rule changes which will be made in order to support the clearing of the OIS-IBOR basis swaps in AUD and EUR. The rule changes will be certified with the CFTC and be made available on the LCH website.

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The rule changes will be submitted to the CFTC pursuant to §40.6(a), following consultation with LCH Clearing Members.

LCH engages its Clearing Members in the design and testing of new products at an early stage, through regular meetings and working groups. Clearing Members have been formally notified of the changes which LCH is required to make to its Rulebook.

Further information will form part of the full §39.5(b) filing which will be publicly available on the LCH website.

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<sup>1</sup> <http://www.isda.org/publications/pdf/2008-inflation-defs.pdf>





LCH looks forward to working with Clearing Members and the CFTC in the determination of clearing requirements. Please do not hesitate to contact me regarding any questions raised by this information.