


VIA CFTC Portal

12 June, 2024

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

Re: LCH Limited Submission Related to Mandatory Clearing Determination – ZAR ZARONIA OIS

Dear Mr. Kirkpatrick:

LCH Limited (“LCH”), a derivatives clearing organization (“DCO”) registered with the Commodity Futures Trading Commission (“CFTC”), is submitting (pursuant to CFTC regulation §39.5(b)), Overnight Interest Rate Swaps (“OIS”) that (i) are denominated in South African Rand (“ZAR”) and (ii) reference ZAR-South African Rand Overnight Index Average (“ZARONIA”)-OIS Compound index floating rate option (the, “Submitted Swaps”) for a determination of whether mandatory clearing should apply.

§39.5 Review of swaps for Commission determination on clearing requirement.

(b) Swap submissions.

(2) A derivatives clearing organization shall submit swaps to the Commission, to the extent reasonable and practicable to do so, by group, category, type, or class of swaps.

LCH proposes to clear the Submitted Swaps to a maximum eligibility of 31 years. The below table identifies the characteristics of the Submitted Swaps, including the instrument type, currency, legs of the swap, whether variable notional applies, maximum tenor and notional amount.

Instrument	Currency	Leg 1	Leg 2	Variable Notional	Maximum Tenor	Notional Amount
OIS	ZAR	Fixed	ZAR-ZARONIA-OIS Compound	Yes	11,375 days	0.01-99,999,999,999.99

§39.5(b)(3)(i) Statement of Eligibility

A statement that the DCO is eligible to accept the swap, or group, category, type, or class of swaps for clearing and describes the extent to which, if the CFTC were to determine that the swap, or group, category, type, or class of swaps is required to be cleared, the DCO will be able to maintain compliance with section 5b(c)(2) of the Act.

LCH is eligible to accept the Submitted Swaps for clearing and will be able to clear the Submitted Swaps in compliance with Section 5b(c)(2) of the United States Commodity Exchange Act (the “Act”), including if the CFTC were to determine that such swaps are required to be cleared. LCH has a well-developed rule framework and support infrastructure

for clearing interest rates swaps. LCH will leverage this existing operational capability to offer the clearing of the Submitted Swaps.

To prepare for the launch of these products, 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 changes to the procedure documents which will be made in order to support the clearing of the Submitted Swaps in the above-mentioned tenors. The procedural changes have been certified with the CFTC and are available on the LCH website.

§39.5(b)(3)(ii) Information Related to the Act's Swap Submission Review Requirements

A statement that includes, but is not limited to, information that will 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.

To obtain a near risk-free reference rate ("RFR") aligned to international standards and which represents the South African interbank funding market for ZAR, South Africa has decided to replace the Johannesburg Interbank Average Rate ("JIBAR") with ZARONIA. This rate is based on transaction data, calculated as a trimmed, volume-weighted mean of interest rates paid on eligible unsecured overnight deposits.

LCH publishes volume and outstanding notional data and will do so for the Submitted Swaps once launched. Please see Exhibit 1 – LCH Volumes (<https://www.lch.com/services/swapclear/volumes>).

(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.

LCH has a well-developed rule framework and support infrastructure for clearing interest rates swaps. LCH will leverage this existing operational capability to offer clearing of the Submitted Swaps.

(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.

Central counterparty clearing of a product brings a number of well-established benefits to the market in that product, including to its oversight. Clearing imposes rigorous risk-management on all counterparties, including the collection of initial margin and the exchange of variation margin; it promotes standardization at all stages of trade management, which feeds back into improved market liquidity; and it introduces transparency, enabling more efficient market surveillance and monitoring of potential systemic risks.

The introduction of the Submitted Swaps does not introduce any new or novel risks to the SwapClear service, and the policies, procedures and operational aspects of the service

remain unchanged. The Submitted Swaps will be cleared using the same models, methodologies and processes used to clear existing OIS offerings.

As is the case for all cleared products, it is the view of LCH that clearing the Submitted Swaps is beneficial from a systemic risk perspective. Clearing avoids complex bilateral relationships and provides for default management of a failed institution to be handled centrally by the clearing house. Additionally, since trades are centrally held by LCH, any implementation of fallbacks would be conducted under a single rule book, with LCH being the determining party. Furthermore, LCH provides a centralized view of risk for its cleared products and makes the visibility of risk positions more transparent.

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

LCH does not believe the clearing of the Submitted Swaps will have any negative impact on competition as other CCPs could also offer similar products for clearing.

LCH's fees and charges for the Submitted Swaps are in line with those charged for existing SwapClear contracts. Please see Exhibit 2 – LCH Fees (<https://www.lch.com/services/swapclear/fees>).

(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.

LCH believes that there is reasonable legal certainty in the event of the insolvency of LCH or a clearing member with regard to the treatment of house and customer positions, funds and property in connection with the clearing of the Submitted Swaps. Importantly, the level of legal certainty around the clearing of Submitted Swaps is in all material respects the same as that of the products already cleared in the LCH SwapClear service.

LCH's Default Rules contained in its Rulebook set out that it is entitled to place a clearing member in default if it appears to LCH that the clearing member is unable, or is likely to become unable, to meet its obligations in respect of one or more contracts. The Default Rules set out the steps that LCH may take in respect of a defaulter, including entering into contracts to hedge market risk, selling any security, porting customer accounts of that clearing member to another clearing member, auctioning the defaulter's proprietary portfolio to other clearing members (to include any customer accounts of that clearing member which could not be ported to another clearing member), otherwise closing out any open contracts, and generally taking such action as LCH may deem necessary for its protection. The sequence of actions will be determined by a number of factors, including size and characteristics of the defaulted clearing member's portfolio and the market environment.

Please see Exhibit 3 – LCH Rules (<https://www.lch.com/resources/rulebooks/lch-limited>).

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

§39.5(b)(3)(iii) Product Specifications

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.

Product terms for the Submitted Swaps are market standard and follow 2021 ISDA Definitions¹ and are also part of the Financial products Markup Language (FpML) standard², which is a protocol for sharing information on derivatives and other products. The relevant Floating Rate Option for the Submitted Swaps under the 2021 ISDA definitions is ZAR-ZARONIA-OIS Compound.

The terms of the Submitted Swaps can be found in the LCH Product Specific Contract Terms and Eligibility Criteria Manual. Please see Exhibit 3 – LCH Rules (<https://www.lch.com/resources/rulebooks/lch-limited>) which includes links to the Product Specific Contract Terms and Eligibility Criteria Manuals although they are not part of the rulebook. A detailed specification for the Submitted Swaps will be available to members and clients in line with those supplied for all existing products.

§39.5(b)(3)(iv) Participant Eligibility

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

The participant eligibility standards for the Submitted Swaps are the same as those for existing SwapClear clearing members.

§39.5(b)(3)(v) Price Discovery

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 how often it is calculated, and when and where it is published publicly.

LCH will have three brokers for available pricing sources prior to go-live.

Please see:

Exhibit 4 – LCH Settlement Prices
 (<https://www.lch.com/services/swapclear/essentials/settlement-prices>)
 Confidential Exhibit 5 – Contract and Market Acceptability Policy
 Confidential Exhibit 6 – SwapClear Zero Coupon Rate Curve Configuration
 Confidential Exhibit 7 – SwapClear Zero Coupon Rate Curve Construction Methodology

¹ <https://www.isda.org/2021/10/04/2021-isda-interest-rate-derivatives-definitions/>

² <http://www.fpml.org/coding-scheme/floating-rate-index> published on 21st December 2017

**§39.5(b)(3)(vi) Risk Management**

Risk management procedures, including measurement and monitoring of credit exposures, initial and variation margin methodology, methodologies for stress testing and back testing, settlement procedures, and default management procedures.

The clearing of the Submitted Swaps has been entirely accommodated within the existing LCH framework for measurement and management of risk and for the process of default management. The introduction of a clearing mandate for the product would not necessitate any change to these processes.

Please see:

Confidential Exhibit 8 – SwapClear & Listed Rates Risk Management Framework
Confidential Exhibit 9 – Default Management Policy

§39.5(b)(3)(vii) Applicable Rules, Manuals, Policies, or Procedures

Please see Exhibit 3 – LCH Rules (<https://www.lch.com/resources/rulebooks/lch-limited>).

§39.5(b)(3)(viii) Communications to Members Regarding this Submission

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 (a copy of the notice to members shall be included with the submission).

LCH engages its clearing members in the design and testing of new products at an early stage, through regular meetings and working groups. No material feedback was received in relation to this initiative. Prior to clearing the Submitted Swaps, clearing members will be notified of required Rulebook changes. Furthermore, this submission related to a mandatory clearing determination is publicly available.³

LCH intends to launch these products with its Clearing Members and clients no earlier than **July 1, 2024**.

Should you have questions please contact me at ebba.andersson1@lseg.com.

Sincerely,

Ebba Andersson
Regulatory Advisor
LCH Limited

³ <https://www.lch.com/resources/regulatory-responses>

**Exhibits**

Exhibit 1 – LCH Volumes (<https://www.lch.com/services/swapclear/volumes>)

Exhibit 2 – LCH Fees (<https://www.lch.com/services/swapclear/fees>)

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