

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

23 September 2016

Dear Mr Kirkpatrick

**Mexican Peso Interest Rate Swaps**

Pursuant to CFTC regulation §39.5(b), LCH.Clearnet Limited ("LCH"), a derivatives clearing organization ("DCO") registered with the Commodity Futures Trading Commission (the "CFTC"), is submitting Mexican Peso Interest Rate Swaps ("MXN IRS") for determination of whether mandatory clearing should apply.

Background

LCH is launching MXN IRS as part of its SwapClear service, as an extension to its current product offering. LCH is eligible to accept these swaps and would be able to maintain compliance in the event that these swaps were required to be cleared.

The Mexican TIIE 28D is a fixed for floating interest rate swap that exchanges flows every 28 days. The floating leg is referenced to the 28-day Interbank Equilibrium Interest Rate (MXN-TIIE-Banxico) which is compiled daily by the Mexican Central Bank and published on its website. Mexican TIIE IRS are traded and listed according to the number of coupons or interest rate revisions every 28 days.

Factors for determination

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

The 2016 BIS Triennial Survey<sup>1</sup> show MXN is the 8th most liquidly traded interest rate derivatives market, with a daily turnover of \$26billion, ahead of 7 markets already cleared by the SwapClear service.

Pricing data for MXN IRS is readily available from conventional 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 already has a well-developed rule framework and support infrastructure for clearing IRS. LCH intends to leverage this existing operational capability when extending its offering to cover MXN IRS.

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

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<sup>1</sup> [http://www.bis.org/statistics/d12\\_1.pdf](http://www.bis.org/statistics/d12_1.pdf)

Further to this, LCH has notified its Clearing Members of a number of minor rule changes which will be made in order to support the clearing of MXN IRS. The rule changes have been certified with the CFTC and 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***

Last June, the Commodity Futures Trading Commission (“CFTC”) proposed mandatory clearing of MXN IRS with a maturity up to 21 years; LCH intends to clear MXN IRS with a maturity below this period.

These products do not introduce any novel risks to LCH, as the operational capability to manage the product, albeit in other currencies, is already in place. Further expanding the clearing offering will allow participants to manage a larger proportion of their risk via a CCP. LCH expects around ten of the current SwapClear Clearing Members to start clearing MXN immediately following the launch with further Clearing Members taking part shortly after.

Further, in the event of a default, MXN IRS products would be managed in conjunction with other products using portfolio level macro hedges to remove the primary risk of the defaulter ahead of an auction. The introduction of these products has no impact on the LCH’s ability to manage defaults or the Clearing Members’ ability to bid in an auction in a default scenario.

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

LCH expects to be the second clearing house to make MXN IRS available for clearing. It first became available for clearing at the end of 2013 and is offered by the CME Group. LCH expects to clear a small portion of the market initially given clearing is already offered.

LCH’s fees and charges for the above products 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 MXN IRS is in all material respects the same as that of the IRS already cleared by 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 of MXN IRS are market standard and follow the 2008 ISDA Derivatives Definitions<sup>2</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 MXN IRS are the same as those for existing SwapClear Clearing Members.

There are no additional price sources required as the products can be valued using prices that are readily available from the price sources already used by LCH.

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<sup>2</sup> <http://www.isda.org/publications>

No material revisions or adjustments to the existing risk models/parameters and/or liquidity risk management framework are required for LCH to offer clearing of the new products; however minor adjustments will be made as follows:

- MXN has been added to the SwapClear liquidity survey, and liquidity add-ons will be charged based on the estimates provided by Clearing Members and according to the current methodology for MXN IRS;
- Historical and hypothetical stress testing scenarios have been added to the scenario framework used for default fund sizing to capture MXN IRS; and
- MXN IRS trading expertise will be added to the SwapClear Default Management Group.
- For the purposes of the interest rate portfolio margining service (also referred to as Spider), MXN will be treated in the same way as South African Rand, Polish Zloty and Hungarian Forint, so that no offset would result from portfolio margining.

LCH will make a number of minor changes to its Rulebook to enable clearing of MXN IRS in the following sections:

- FCM Procedures
- Procedures Section 2C (SwapClear)
- FCM Product Specific Contract Terms and Eligibility Criteria Manual
- SCM Product Specific Contract Terms and Eligibility Criteria Manual

The rule changes have been 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 on the changes which LCH is required to make to its Rulebook.

Notice of this submission under CFTC regulation §39.5(b) was given to SwapClear Clearing Members on 13<sup>th</sup> September 2016 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 intends to launch these products with its Clearing Members and clients no earlier than 3<sup>rd</sup> October 2016.

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

Yours sincerely

**Daniel J Maguire**



**Global Head of SwapClear and Listed Rates**  
LCH.Clearnet Limited

cc. Parisa Abadi

**Appendix A**

**Notice of this submission provided to SwapClear Clearing Members**

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To	SwapClear Clearing Members
From	David Horner, Head of SwapClear Business Risk
Date	13 September 2016
Subject	<b>MXN IRS submission for determination of clearing requirements</b>

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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 data 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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Further information will form part of the full §39.5 filing which will be publically available on the LCH website.

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.

Regards

David Horner  
**Head of SwapClear Business Risk**