

**VIA CFTC Portal**

20 June 2024

Mr. Christopher Kirkpatrick

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

LCH Limited self-certification: Amendments to SwapClear Contracts for Purposes of Netting and/or Risk Management and the Treatment of IMM CAD SwapClear Contracts

Dear Mr Kirkpatrick,

Pursuant to Commodity Futures Trading Commission (“CFTC”) Regulation §40.6(a), LCH Limited (“LCH”), a derivatives clearing organization registered with the CFTC, is submitting for self-certification revisions to its procedures to allow for LCH to amend the terms of certain SwapClear Contracts and/or FCM SwapClear Contracts in the event LCH determines public statements or publications of information have affected or are likely to affect LCH’s ability to net two or more SwapClear Contracts and/or FCM SwapClear Contracts and/or risk manage one or more SwapClear Contracts and/or FCM SwapClear Contracts.

Pursuant to these revisions to its procedures, LCH will amend certain affected International Money Market (“IMM”) Canadian Dollar (“CAD”) SwapClear Contracts and/or FCM SwapClear Contracts (each, an “Affected Contract”) following changes to the IMM CAD Roll Date as a result of Bourse de Montréal (“BdM”) amending the “last trading day” of BdM 3-Month Canadian Bankers’ Acceptance Futures contracts (“BAX Contracts”) expiring after 28 June 2024.

Part I: Explanation and analysis

On 1 December 2022, BdM amended the “last trading day” of BAX Contracts expiring after 28 June 2024 from the second London banking day preceding the third Wednesday of the settlement month to the third Wednesday of the settlement month. This change causes the IMM CAD roll date applicable to SwapClear Contracts to differ for calculation periods occurring before 28 June 2024 from those occurring after such date, and the inability for LCH to net Affected Contracts.

LCH is now proposing to revise its procedures to allow it to amend the terms of such Affected Contracts for purposes of netting and risk management. Moving forward, the proposed revision to the procedures will allow for LCH to amend the terms of SwapClear Contracts and/or FCM SwapClear Contracts in the event LCH determines public statements or publications of information have affected or are likely to affect LCH’s ability to net two or more SwapClear Contracts and/or FCM SwapClear Contracts and/or risk manage one or more SwapClear Contracts and/or FCM SwapClear Contracts.

Accordingly, and in accordance with LCH Circular No 4308 (“Treatment of IMM CAD SwapClear Contracts”) published on 22 May 2024, LCH will take the following approach for all Affected Contracts:



1. Contractually, the terms of each Affected Contract will be amended such that:
 - a. If an Affected Contract references IMM CAD in its terms, this will be construed as a reference to “IMM Settlement Dates” as defined under the 2021 ISDA Interest Rate Derivatives Definitions
 - b. If not already, the Affected Contract’s effective date and termination date will be the third Wednesday of the relevant month
2. Operationally, each Affected Contract will be re-booked with roll dates as well as an effective date and termination date in line with the above contractual amendments

Finally, per LCH Circular No 4308, SwapClear Transactions that reference IMM CAD will no longer be eligible for clearing with the LCH SwapClear Clearing Service from and including 1 July 2024.

Part II: Description of the Rule Changes

LCH is proposing to amend the FCM Procedures of LCH Limited (“FCM Procedures”) and LCH Limited Procedures Section 2C SwapClear Clearing Service (“Procedures 2C”) to insert a provision covering impact on netting and/or risk management.

The provision being inserted outlines that if there is a public statement or publication of information which, in LCH’s sole discretion, has affected or is likely to affect, LCH’s ability to net two or more and/or risk manage one or more FCM or Non-FCM SwapClear Contract(s), then LCH may amend the terms of the contract to ensure netting and/or risk management is possible. Further, LCH may also require any FCM or Non-FCM SwapClear member that is party to such SwapClear Contract(s) to comply with such directions issued by LCH reasonably connected with such amendments.

Within the FCM Procedures, the new provision will be inserted under section 2.1.9 ‘Coupon Payments’ under a new subpoint (q). In the Procedures 2C, the new provision will be inserted under section 1.8 ‘Coupon Payments’ in a new subsection 1.8.15.

Subsequent to this rule change going live and per LCH Circular No 4308, SwapClear Contracts that reference IMM CAD will no longer be eligible for clearing with the LCH SwapClear service.

The changes to the FCM Procedures and Procedures 2C, are included as **Appendices I-II** in red line form. Circular 4308 (Treatment of CAD IMM SwapClear Contracts) is also included as **Appendix III**. These changes will not be effective earlier than **9 July 2024**.

Part III: Core Principles Compliance

LCH has reviewed the rule changes covering impacts on netting or risk management against the requirements of the Core Principles and finds it will continue to comply with all requirements and standards set forth therein. Specifically, this rule change has potential relevance to Core Principles C (Participant and Product Eligibility) and D (Risk Management).

LCH believes the insertion of provisions for public statements impacting netting and/or risk management will not impact its ongoing compliance with the objectives of Core Principle C and CFTC Rule 39.12. Core Principle C requires, among other things, each derivatives clearing organisation establish appropriate standards for determining the eligibility of agreements, contracts, or transactions submitted to the derivatives clearing organisation for clearing. Rule 39.12 further requires derivatives clearing organisations take into account their ability to manage the risks associated with such agreements,



contracts, or transactions. Factors to be considered in determining product eligibility include, among other things, trading volume, liquidity, the operational capacity of the derivatives clearing organisation and clearing members to address any unusual risk characteristics of a product, the ability of the derivatives clearing organisation to measure risk for purposes of setting margin requirements, and importantly, the ability of market participants to use portfolio compression with respect to a particular swap product. LCH has reviewed both the ability of the LCH as a derivatives clearing organisation to measure risk for purposes of setting margin requirements and the ability of market participants to use portfolio compression in respect of specific swap products in light of such aforementioned public statements and/or announcements, and has determined that both of these considerations have material impacts on LCH's ability to net and/or manage the risks associated with any affected agreements, contracts or transactions. LCH therefore believes that inserting provisions to mitigate such impacts on netting or risk management and to require SwapClear Clearing Members to comply with directions reasonably connected with these objectives is consistent with Core Principle C and CFTC Rule 39.12.

LCH also believes the insertion of provisions for impacts on netting or risk management will not impact LCH's ongoing compliance with the objectives of Core Principle D and CFTC Rule 39.13. Core Principle D requires, among other things, that each derivatives clearing organisation possesses the ability to manage risks associated with discharging the responsibilities of the derivatives clearing organisation through the use of appropriate tools and procedures. Rule 39.13 further requires derivatives clearing organisations to take additional actions with respect to particular clearing members, when appropriate, based on the application of objective and prudent risk management standards. Such actions include, but are not limited to, imposing position limits, requiring a reduction of positions, and suspending or revoking clearing membership. LCH has reviewed the insertion of provisions to the effect of this self-certification in the context of objective and prudent risk management standards and finds that the possibility could arise whereby publicly-announced changes such as BdM's amendments to the BAX trading day rule could materially impair LCH's ability to net or properly risk manage trades. LCH therefore believes that inserting provisions to mitigate these potential impacts on LCH's risk management processes is consistent with Core Principle C and CFTC Rule 39.13, and ultimately constitutes a further 'additional authority' tool under 39.13(h)(6).

Part IV: Public information

LCH has posted a notice of pending certification with the CFTC and a copy of the submission on LCH's website at: <https://www.lch.com/resources/rulebooks/proposed-rule-changes>.

Part V: Opposing views

There were no opposing views expressed to LCH by any governing board or committee members, members of LCH or market participants that were not incorporated into this proposal.

Certification

LCH hereby certifies to the CFTC, pursuant to the procedures set forth in CFTC Regulation §40.6, that the attached submission complies with the Commodity Exchange Act, as amended, and the regulations promulgated thereunder.



Should you have any questions, please contact me at james.woolley@lseg.com

Yours sincerely,

James Woolley

Regulatory Compliance Analyst

LCH Limited



Appendix I

FCM Procedures of the Clearing House LCH Limited

FCM PROCEDURES OF THE CLEARING HOUSE

LCH LIMITED

such FCM SwapClear Contract, in USD, and all amounts due or payable under such FCM SwapClear Contracts must be paid in USD.

(p) *New holiday affecting the value of FCM SwapClear Contracts*

If the government of any nation, state or territory, or any institution or agency of such government, has created or announced a new holiday (“**New Holiday**”), which has affected, or is likely to affect, the value of an FCM SwapClear Contract, then the Clearing House may amend the terms of such FCM SwapClear Contract and/or require the FCM Clearing Member that is party to such FCM SwapClear Contract to comply with any directions issued by the Clearing House regarding such FCM SwapClear Contract, in each case, in order to seek to ensure such FCM SwapClear Contract will have the same or similar value to that which it would have in the absence of such New Holiday.

(q) *Impact on netting and/or risk management*

If there is a public statement or publication of information, which the Clearing House determines (in its sole discretion) has affected, or is likely to affect, the Clearing House’s ability to net two or more FCM SwapClear Contracts and/or Non-FCM SwapClear Contracts, and/or risk manage one or more FCM SwapClear Contract(s), then the Clearing House may amend the terms of any such FCM SwapClear Contract as it determines necessary (in its sole discretion) to ensure that Clearing House is able to (as applicable) net such FCM SwapClear Contracts and/or Non-FCM SwapClear Contracts and/or risk manage such FCM SwapClear Contracts, and may require the FCM Clearing Member that is party to any such FCM SwapClear Contract to comply with such directions issued by the Clearing House as are reasonably connected with such amendments.

2.1.10 *Initial Margin*

The Clearing House will require FCM Clearing Members to furnish it with Initial Margin. This amount will be determined by the prevailing market conditions and the expected time to close out the portfolio. The Portfolio Approach to Interest Rate Scenarios (PAIRS) will be used to calculate Initial Margin requirements for FCM SwapClear Contracts.

Separate Initial Margin calculations are performed for an FCM Clearing Member's house “H” and client “C” accounts and, within a “C” account, separately in respect of each FCM Client Sub-Account therein. No offset between the “C” and “H” accounts is permitted.

The Clearing House reserves the right to require additional amounts of Margin from a specific FCM Clearing Member or from all FCM Clearing Members in accordance with FCM Regulation 14 (*Margin and Collateral*).



Appendix II

Procedures 2C – SwapClear Clearing Service

LCH LIMITED
PROCEDURES SECTION 2C
SWAPCLEAR CLEARING SERVICE

regarding the performance of, or any other direction in respect of, such SwapClear Contracts.

Accounts shall be made up by the Clearing House for each SwapClear Clearing Member that is a party to any such SwapClear Contract invoiced back pursuant to Regulation 39. Settlement of such accounts shall be due immediately and settlement thereof shall be made forthwith in discharge of such SwapClear Contracts invoiced back notwithstanding any further change of circumstances.

1.8.12 *Calculation of Inflation Indices*

The Index level used for calculating the Floating Rate for an Inflation SwapClear Contract is determined according to the 2008 ISDA Inflation Definitions in respect of the Index applicable to such Inflation SwapClear Contract.

In the event an Index is not available to calculate the Index Final, the Clearing House will, in its sole discretion, determine a value for the Index Final.

1.8.13 *Non-deliverable Interest Rate Swaps*

The Clearing House will calculate all coupon payments for SwapClear Contracts that are non-deliverable interest rate swaps, including the Fixed Amount or Floating Amount payable under any such SwapClear Contract, in USD, and all amounts due or payable under such SwapClear Contracts must be paid in USD.

1.8.14 *New holiday affecting the value of SwapClear Contracts*

If the government of any nation, state or territory, or any institution or agency of such government, has created or announced a new holiday (“**New Holiday**”), which has affected, or is likely to affect, the value of a SwapClear Contract, then the Clearing House may amend the terms of such SwapClear Contract and/or require the SCM that is party to such SwapClear Contract to comply with any directions issued by the Clearing House regarding such SwapClear Contract, in each case, in order to seek to ensure such SwapClear Contract will have the same or similar value to that which it would have in the absence of such New Holiday.

1.8.15 *Impact on netting and/or risk management*

If there is a public statement or publication of information, which the Clearing House determines (in its sole discretion) has affected, or is likely to affect, the Clearing House’s ability to net two or more SwapClear Contracts and/or FCM SwapClear Contracts, and/or risk manage one or more SwapClear Contract(s), then the Clearing House may amend the terms of any such SwapClear Contract as it determines necessary (in its sole discretion) to ensure that the Clearing House is able to (as applicable) net such SwapClear Contracts and/or FCM SwapClear Contracts and/or risk manage such SwapClear Contract(s), and may require the SCM that is party to any such amended SwapClear Contract to

comply with such directions issued by the Clearing House as are reasonably connected with such amendments.

1.9 Initial Margin

The Clearing House will require SCMs to transfer Collateral in respect of their initial margin obligations, which are not discharged. This amount will be determined by the prevailing market conditions and the expected time to close out the portfolio. The Portfolio Approach to Interest Rate Scenarios (PAIRS) will be used to calculate initial margin requirements for SwapClear Contracts.

Separate initial margin calculations are performed for an SCM's Proprietary Accounts and for each Individual Segregated Account, Custodial Segregated Account, Omnibus Segregated Account (other than an Omnibus Gross Segregated Account), Indirect Gross Sub-Account within an Indirect Gross Account and Omnibus Gross Segregated Sub-Account within an Omnibus Gross Segregated Account.

No offset between the "C" and the "H" accounts is allowed (except (i) pursuant to Rule 8(d) of the Default Rules or any Insufficient Resources Determination Rule, or (ii) in relation to the transfer of House Excess or Client Buffer in accordance with the Rulebook) and no offset between any Client Accounts is allowed (except pursuant to Rule 15(a)(ii) of the Default Rules, a Cross-ISA Client Excess Deduction or any Insufficient Resources Determination Rule).

1.9.1 *Margin Parameters*

The Clearing House Risk Management Department uses appropriate yield curve scenarios, both in terms of shape and magnitude of movement, to capture potential losses based on an observed history - the primary component of the initial margin calculation. These scenarios will be continually monitored and reviewed periodically or on an ad hoc basis according to market conditions. However, in accordance with the Regulations, the Clearing House retains the right at its discretion to vary the rates for the whole market or for a specific SCM's Proprietary Account and/or Client Accounts.

1.9.2 *Counterparty Risk Multiplier*

The Clearing House reserves the right to require additional amounts of Collateral from a specific SCM or from all SCMs in accordance with Regulation 20 (*Margin and Collateral*).

1.9.3 *Liquidity Risk Margin*

The Clearing House may require an SCM to transfer Collateral to the Clearing House to meet the liquidity risk margin requirement applicable to such SCM. This requirement is based on the risk profile of the SCM (or account) and the expected cost of hedging in a default scenario. The parameters applicable to the model are reviewed on an ongoing basis.

The Clearing House undertakes periodic liquidity surveys for the purpose of calculating liquidity risk margin requirements. SCMs are required to respond to



Appendix III

Circular 4308 (Treatment of IMM CAD SwapClear Contracts)



Treatment of IMM CAD SwapClear Contract

Wed, 22/05/2024

Background

Under ISDA's 2021 interest rate derivatives definitions (**2021 Definitions**), which are applicable to SwapClear Contracts [1], "IMM CAD" roll dates in respect of a calculation period are defined as "the last trading day of the Canadian Derivatives Exchange (Bourse de Montréal) 3-Month Canadian Bankers' Acceptance Futures contract" (**BAX Contract**). Bourse de Montréal has amended the "last trading day" of BAX Contracts expiring after 28 June 2024 from the second London banking day preceding the third Wednesday of the settlement month to the third Wednesday of the settlement month [2]. This change causes the "IMM CAD" roll date applicable to SwapClear Contracts to differ for calculation periods occurring before 28 June 2024 from those occurring after such date.

In October 2023, LCH Limited (**LCH**) decided to isolate the CAD CDOR conversion event [3] from the complications resulting from the changes in the "IMM CAD" roll date articulated above and to deal with these changes separately from, and subsequent to, the conversion event. This circular articulates LCH's approach to address the changes in the "IMM CAD" roll date. The process described below will be implemented after the CAD CDOR conversion event, in line with the different timings mentioned below, and hence is not relevant for CAD CDOR conversion purposes [4].

Treatment of IMM CAD SwapClear Contracts

LCH will implement the following approach for all outstanding IMM CAD SwapClear Contracts (each, an **Affected Contract**):

1. Contractually, the terms of each Affected Contract will be amended such that:
 - (a) if an Affected Contract references “IMM CAD” in its terms, this will be construed as a reference to “IMM Settlement Dates” as defined under the 2021 ISDA Definitions [5]; and
 - (b) if not already, its effective date and termination date will be the third Wednesday of the relevant month.
2. Operationally, each Affected Contract will be re-booked with roll dates as well as an effective date and a termination date in line with the above contractual amendments.

This approach takes into account various elements that are relevant to the changes in the “IMM CAD” roll date. First, it addresses that ISDA will delete the definition of “IMM CAD” from the 2021 Definitions after the expiry of remaining BAX Contracts in June 2024 [6]. Second, it ensures fungibility and compressibility of Affected Contracts (existing and future). Third, it maximises alignment of Affected Contracts with corresponding CORRA futures traded by our users in a wider hedging context [7]. Finally, it takes into consideration operational and risk management factors that are relevant to the LCH SwapClear service.

Cash compensation

LCH will calculate cash compensation payable by, or to, a SwapClear member or FCM SwapClear member in relation to any NPV differences between its original Affected Contract and its amended Affected Contract.

Timing

The LCH amendment process will occur on 9 July 2024 for all Affected Contracts.

Eligibility

Please note that SwapClear Transactions [8] that reference “IMM CAD” will no longer be eligible for clearing with the LCH SwapClear service from and including 1 July 2024. Therefore, SwapClear users that wish to actively manage and/or optimise outstanding SwapClear Contracts that reference “IMM CAD” are requested to do so before this date.

Next Steps

LCH will release further operational details and arrange briefing calls to allow SwapClear users to

familiarise themselves with the process articulated above in preparation for the amendment exercise on 9 July 2024. LCH will not apply any charges in relation to the process described above (except that cash compensation will be payable by, or to, a SwapClear member or FCM SwapClear member as described in the paragraph above entitled “Cash compensation”).

The approach and process described herein remains subject to risk governance and legal and regulatory review. Should you have any questions or if you require further information, please do not hesitate to contact RatesClientServices@lch.com and lchsales@lseg.com.

[1] “SwapClear Contract” includes an “FCM SwapClear Contract” for the purposes of this circular. SwapClear Contract and FCM SwapClear Contract have the meaning assigned to them in the General Regulations and FCM Regulations, respectively, which are available at <https://www.lch.com/resources/rulebooks/lch-limited>.

[2] [TMX - Montréal Exchange - Three-Month Canadian Bankers' Acceptance Futures \(BAX\) \(m-x.ca\)](#)

[3] LCH CAD CDOR conversion event is scheduled on 8 June 2024. Additional information available at [LCH Consultation on Conversion of Outstanding Cleared CAD CDOR Contracts | LCH Group](#)

[4] Any “IMM CAD” trade in scope for CAD CDOR conversion will be converted as per logic described in our consultation outcome, available at [LCH Consultation on Conversion of Outstanding Cleared CAD CDOR Contracts | LCH Group](#)

[5] As per amendments made to the ISDA 2021 Definitions on 26 April 2024, “IMM Settlement Dates” means, in respect of a date, or a Calculation Period and a currency or a Floating Rate Option, the third Wednesday of the calendar month or each calendar month specified in the Confirmation. References in the Confirmation to “IMM” shall be construed as a reference to IMM Settlement Dates.

[6] <https://www.isda.org/2024/05/15/imm-cad-market-practice-note/>

[7] 3M CORRA futures have Reference Quarters running between the third Wednesdays of the relevant months, hence they are based on International Money Market “IMM” dates. Further details available at: [TMX - Montréal Exchange - Three-Month CORRA Futures \(CRA\) \(m-x.ca\)](#)

[8] “SwapClear Transaction” includes an “FCM SwapClear Transaction” for the purposes of this circular. SwapClear Transaction and FCM SwapClear Transaction have the meaning assigned to them in the General Regulations and FCM Regulations, respectively, which are available at <https://www.lch.com/resources/rulebooks/lch-limited>.

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