



## VIA CFTC PORTAL

June 21, 2024

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

### **LCH Limited Self-Certification: Termination of Outstanding BSBY Positions**

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 amendments to its rules (“LCH Rules”) related to the termination of outstanding Bloomberg Short-Term Bank Yield Index (“BSBY”) positions.

#### **Part I: Explanation and Analysis**

##### *Background*

On November 15, 2023, Bloomberg Index Services Limited (“BISL”) issued a statement announcing the cessation of BSBY following its final publication on November 15, 2024<sup>1</sup>. On November 20, 2023, ISDA confirmed that BISL’s announcement constitutes an “Index Cessation Event” for the purposes of the 2021 ISDA Interest Rate Derivatives Definitions, the 2006 ISDA Definitions and the 2018 ISDA Benchmarks Supplement<sup>2</sup>.

As stated in LCH Circular No. 4284 (“USD BSBY Cessation”)<sup>3</sup>, these announcements are relevant to LCH since its SwapClear service provides clearing of eligible USD BSBY swaps<sup>4</sup>. LCH noted that BISL’s decision not to recommend a fallback replacement rate for BSBY significantly complicated any potential conversion approach and as a result, LCH confirmed that, in its view, such an approach is not feasible and continued to strongly encourage all SwapClear users with outstanding BSBY swap positions cleared at LCH (“BSBY Positions”) to actively consider reducing and/or closing out their exposures at their earliest convenience.

Under LCH Circular No. 4300<sup>5</sup>, LCH announced that its SwapClear service would terminate all outstanding BSBY positions in a process originally scheduled to occur on 13 May 2024. Following consultation with affected SwapClear participants, LCH decided not to proceed with this process on that date. Instead, LCH outlined its revised plans to exercise its powers under the SwapClear

<sup>1</sup> <https://assets.bbhub.io/professional/sites/10/BSBY-Future-Cessation-Announcement-.pdf>

<sup>2</sup> <https://www.isda.org/a/vbqgE/Future-Cessation-of-the-Bloomberg-Short-Term-Bank-Yield-Index-Final.pdf>

<sup>3</sup> <https://www.lch.com/membership/ltd-membership/ltd-member-updates/usd-bsby-cessation-1>

<sup>4</sup> <https://www.lch.com/services/swapclear/what-we-clear>

<sup>5</sup> <https://www.lch.com/membership/ltd-membership/ltd-member-updates/usd-bsby-cessation>

Procedures to determine an alternative rate for BSBY, to allow LCH to make use of available BSBY fixings provided by the administrator for BSBY (“BSBY Bloomberg Rate”) until LCH runs its termination process, which will be scheduled to be just ahead of the cessation date for the BSBY Bloomberg Rate. LCH now wishes to establish the specific details of its plans with respect to BSBY positions.

### *Current Plan for Outstanding SwapClear Contracts*

Beginning from Monday, 8 July 2024 (or such other date as notified by LCH to its SwapClear participants), each open BSBY Position shall be construed such that, from and including the first Reset Date occurring after the Cessation Date<sup>6</sup>, any reference to USD-BSBY will be replaced for all purposes with the BSBY Alternative Rate<sup>7</sup> for the Designated Maturity applicable to such floating rate option, pursuant to section 1.8.10 of its SwapClear Procedures and section 2.1.9(j) of its FCM Procedures (collectively, “LCH Procedures”).

Furthermore, LCH will terminate, on Saturday, 2 November 2024, all BSBY Contracts that are outstanding as at 19:00 (New York time) on Friday, 1 November 2024, at the termination valuations determined by LCH, pursuant to LCH procedures. Termination amounts will either be payable to, or by, SwapClear Clearing Members that were a party to any such terminated BSBY Contract. Upon termination of all BSBY Contracts, any SwapClear Transaction that specifies USD-BSBY as a floating rate will no longer be eligible for clearing with the LCH SwapClear Service.

With effect on and from Monday 8 July 2024 (or such other date as notified by LCH to its SwapClear participants) until termination of all BSBY Contracts, LCH will calculate the daily net present value of each open BSBY Contract, where such BSBY Contract will be construed in accordance with the process set forth in LCH Circular No. 4313<sup>8</sup>, for the purposes of determining the daily variation margin or NPV Payment obligations (as applicable) in respect of each BSBY swap contract.

Notwithstanding the above, LCH continues to strongly encourage SwapClear participants to actively consider reducing and/or closing out their exposures in relation to BSBY Contracts.

## **Part II: Description of the Rule Changes**

LCH is proposing to remove any reference and related footnotes to BSBY in Section 1.2 (“SwapClear Product Eligibility Criteria for a SwapClear Transaction”) in the Product Specific Contract Terms and Eligibility Criteria Manual and Section 1.1 (“FCM SwapClear Product Eligibility Criteria for an FCM SwapClear Transaction”) in the FCM Product Specific Contract Terms and Eligibility Criteria Manual.

The changes to the FCM Product Specific Contract Terms and Eligibility Criteria Manual are included as Appendices I-II in red line form. The changes will be effective not earlier than 8 July 2024.

<sup>6</sup> Cessation Date means the final date on which the administrator for USD-BSBY publishes or provides a rate for USD-BSBY.

<sup>7</sup> Please see LCH Circular No. 4313 for additional detail regarding the definition and calculation of the BSBY Alternative Rate. Available at <https://www.lch.com/membership/ltd-membership/ltd-member-updates/usd-bsby-cessation-2>.

<sup>8</sup> *Id.*



### **Part III: Core Principles Compliance**

LCH has reviewed the decision to terminate outstanding BSBY Positions 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 G (Default Rules and Procedures).

LCH believes termination of outstanding BSBY Positions 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 organization establish appropriate standards for determining the eligibility of agreements, contracts, or transactions submitted to the derivatives clearing organization for clearing. Rule 39.12 further requires derivatives clearing organizations take into account its ability to manage the risks associated with such agreements, contracts, or transactions. Factors to be considered in determining product eligibility include trading volume, liquidity, the ability of the derivatives clearing organization and clearing members to gain access to the relevant market for purposes of creating, liquidating, transferring, auctioning, and/or allocating positions and the operational capacity of the derivatives clearing organization and clearing members to address any unusual risk characteristics of a product. LCH has reviewed the liquidity conditions in the underlying market and determined such conditions have had a material impact on LCH's ability to risk manage BSBY Positions. LCH therefore believes that terminating outstanding BSBY Positions is consistent with Core Principle C and CFTC Rule 39.12.

LCH also believes termination of outstanding BSBY Positions will not impact LCH's ongoing compliance with the objectives of Core Principle G and CFTC Rule 39.16. Core Principle G requires, among other things, each derivatives clearing organization have rules and procedures designed to allow for the efficient, fair, and safe management of events during which members or participants become insolvent or otherwise default on the obligations of the members or participants to the derivatives clearing organization. Core Principle G further states that the derivatives clearing organization ensure it can take timely action to contain losses and liquidity pressures and to continue meeting each obligation of the derivatives clearing organization. The LCH Rulebook contains default rule provisions ("Default Rules") that set out LCH's rights and obligations in the event of a clearing member default. The Default Rules establish the steps LCH may take with respect to a defaulter, including entering into contracts to hedge market risk, selling any security, porting client accounts of that clearing member to another clearing member, auctioning the defaulter's proprietary portfolio to other clearing members, otherwise closing out any open contracts, and generally taking such action as LCH may deem necessary for its protection. LCH determined that deteriorating liquidity conditions for BSBY Positions may impact its ability to carry out default management activities in accordance with the Default Rules. LCH therefore believes that terminating outstanding BSBY Positions is consistent with Core Principle G and CFTC Rule 39.16.

### **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 governing board or committee members, members of LCH or market participants that were not incorporated into this proposal.

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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 [ryan.hajen@lseg.com](mailto:ryan.hajen@lseg.com).

Yours sincerely,

*Ryan Hajen*

Ryan Hajen  
Senior Compliance Manager  
LCH Limited



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## **Appendix I**

Product Specific Contract Terms and Eligibility Criteria Manual



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## **Appendix II**

FCM Product Specific Contract Terms and Eligibility Criteria Manual