

VIA CFTC Portal

15 February 2021

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

Dear Mr Kirkpatrick

NDFs in new currency pairs

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 the following Non-Deliverable Forwards (“NDFs”) currency pairs for determination of whether mandatory clearing should apply.

- USD/Canadian Dollar (“CAD”)
- USD/Swedish Krona (“SEK”)
- USD/Danish Krone (“DKK”)
- USD/Norwegian Krone (“NOK”)
- USD/South African Rand (“ZAR”)
- USD/Singapore Dollar (“SGD”)
- USD/Mexican Peso (MXN)

Background

The ForexClear service currently clears NDFs on five G10 currency pairs and 12 emerging market (“EM”) currency pairs. LCH intends to extend the current ForexClear product offering to include NDF contracts on the above currency pairs to meet Clearing Members’ demand. The technical deployment will be completed on 15 February 2021 and the business launch will be on 22 February 2021. These dates have been communicated to Clearing Members.

Factors for determination

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

The FX market is fast paced, global and well established with a clear product set. The majority of FX transactions are short dated and volume has grown considerably over the last ten years. Table 1 shows total average daily volumes for the proposed currency pairs (Source: BIS Triennial FX Survey 2019); although it should be noted that the bulk of the volume on the proposed currency pairs currently trades as deliverable FX, with a small proportion being traded as non-deliverable, as further

set out below. Expanding the clearing eligibility to non-deliverable contracts may help in increasing exposures and trading liquidity in this new currency pairs.

Table 1

Currency Pair	USD/CAD	USD/DKK	USD/NOK	USD/SEK	USD/SGD	USD/ZAR	USD/MXN	Total
Total ADV (USD \$bn)	332	42	119	134	119	72	114	932

The price data currently used in the ForexClear service is provided real-time directly by clearing members. Price data includes FX spot rates and swap points for specified tenors as well as implied volatility points for specified tenors and deltas for all currency pairs.

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 FX transactions. LCH will continue to leverage this existing operational capability to clear the new NDF currency pairs.

In order to prepare for the launch of this product, LCH has been performing testing, including capacity testing.

Further to this, LCH have notified its Clearing Members of a number of changes to the Product Specific Contract Terms and Eligibility Criteria Manuals (or referred to as “Product Manuals”) applicable to Clearing Members that are Futures Commission Merchants (“FCM Clearing Members”) and non FCM Clearing Members. The changes have been submitted for self-certification to the CFTC and are 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

The operational capability to manage the additional NDF currency pairs is already in place in LCH.

LCH expects current ForexClear Clearing Members to start clearing the new currency pairs following the go-live date. A subset of existing Clearing Members will be ready on the go live date and plan to execute a few trades. More existing Clearing Members are expected to be ready in the near future where volumes/open interest in the additional currency pairs are expected to increase.

Based on the statistics of the latest Triennial Survey of the Bank for International Settlements, the daily average turnover of the new currencies represents around 9% of the global FX market daily turnover, although only a very small proportion of this 9% is traded as Non-Deliverable Forwards. Therefore, allowing clearing of Non-Deliverable Forwards on these additional currency pairs is unlikely to have a significant impact on the risk profile or total resources held by the ForexClear service. As such, the systemic risk profile of LCH remains unchanged as a result of the new product offering.

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

CME Clearing offers clearing of Cash Settled Forwards in all of the additional currency pairs. LCH is not aware of other competitors clearing NDFs on these currency pairs.

Following the business launch, scheduled for 22 February 2021, the additional NDF currency pairs will be subject to the current fee plan applicable to the ForexClear non-deliverable service. The fees will differ according to the tariff chosen by Clearing Members and may consist of an annual charge and a charge based on the clearing activity.

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 NDF Contracts in the additional currency pairs is in all material respects the same as that of the products already cleared in the ForexClear 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)

The specifications of products eligible for clearing in the ForexClear service are set out in the LCH Product Specific Contract Terms and Eligibility Criteria Manuals, which are publicly available on the LCH website ([link](#)). These will be updated with the specifications of the new NDF Contracts.

The participant eligibility standards for the new NDFs are the same as those for existing ForexClear Clearing Members.

As noted above, the market data is provided real-time directly by Clearing Members.

There are no material changes within the service. In particular, there are no changes to the operational model or material risk management changes. Initial Margin calculation, Variation Margin and settlement will all be in USD in line with the current NDF offering. ForexClear will be making updates and changes to the stress scenarios for each new currency pair, as per usual process for the extensions of product offering.

As noted above, LCH will update the following sections of the Product Specific Contract Terms and Eligibility Criteria Manuals accordingly:

- Contract terms
- Contract eligibility criteria
- Contract Templates

For the existing emerging market currencies ForexClear follows the contract templates published by EMTA¹ (the “EMTA Contract Templates”) on its website on the relevant Trade Date and for other currencies LCH includes its contract templates in the Product Manuals. Currently, the latter are referred to as “LCH G10 NDF Contract Templates”. This will now change to “Non-EMTA NDF Contract Templates” to cover all the new currency pairs.

The above updates have been submitted to the CFTC for self-certification pursuant to §40.6(a).

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 the Product Manuals.

Notice of this submission under CFTC regulation §39.5(b) was given to ForexClear Clearing Members on 28 January 2021 and a copy of this notice is provided at Appendix A. Furthermore, this submission is publicly available².

LCH intends to launch these products with its Clearing Members and clients on, or after, 22 February 2021.

Should you have questions please contact me.

Yours sincerely

P.P. 

Julian Oliver
Chief Compliance Officer
LCH Limited

¹ Emerging Markets Trade Association.

² <https://www.lch.com/resources/rules-and-regulations/regulatory-responses>

Appendix A

Notice to Clearing Members regarding the 39.5 (b) submission on new NDF currencies

Memo

To	ForexClear Clearing Members
From	Loic Moreau, Head of In-Business Risk ForexClear
Date	28 January 2021
Subject	Submission on new NDF currency pairs for determination of clearing requirements

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 the following Non-Deliverable Forwards (“NDFs”) currency pairs for determination of whether mandatory clearing should apply.

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As per CFTC regulation §39.5(b)(viii), LCH is required to notify Clearing 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 may be published separately.

The ForexClear service currently clears NDFs on five G10 currency pairs and 12 emerging market (“EM”) currency pairs. LCH intends to extend the current ForexClear product offering to include NDF contracts on the above currency pairs to meet Clearing Members’ demand.

Factors for determination

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

The FX market is fast paced, global and well established with a clear product set. The majority of FX transactions are short dated and volume has grown considerably over the last ten years. Table 1 shows total average daily volumes for the proposed currency pairs (Source: BIS Triennial FX Survey 2019).

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LCH has a well-developed rule framework and support infrastructure for clearing FX transactions. LCH will continue to leverage this existing operational capability to clear the new NDF currency pairs.

In order to prepare for the launch of this product, LCH has been performing testing, including capacity testing.

Further to this, LCH have notified its Clearing Members of a number of changes to the Product Specific Contract Terms and Eligibility Criteria Manuals (or referred to as “Product Manuals”) applicable to Clearing Members that are Futures Commission Merchants (“FCM Clearing Members”) and non FCM Clearing Members. The changes will be submitted for self-certification to the CFTC and will be made available on the LCH website in due course.

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The operational capability to manage the additional NDF currency pairs is already in place in LCH.

LCH expects current ForexClear Clearing Members to start clearing the new currency pairs following the go-live date. A subset of existing Clearing Members will be ready on the go live date and plan to execute a few trades. More existing Clearing Members are expected to be ready in the near future where volumes/open interest in the additional currency pairs are expected to increase.

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referred to as “LCH G10 NDF Contract Templates”. This will now change to “Non-EMTA NDF Contract Templates” to cover all the new currency pairs.

The above updates will be submitted to the CFTC pursuant to §40.6(a) ahead of the launching date expected to be 15 February 2021.

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 the Product Manuals.

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

Please do not hesitate to contact me regarding any questions raised by this submission.