

VIA EMAIL

6 October 2017

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

Dear Mr Kirkpatrick

### **CHF denominated OIS referencing the SARON index**

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 Swiss Franc (“CHF”) denominated overnight interest rate swaps (“OIS”) referencing the SARON index for determination of whether mandatory clearing should apply.

#### Background

The current market standard OIS index for CHF is TOIS, but the market participants have been notified that the publication of this index will cease at the end of 2017. The Swiss National Working Group recommended SARON as the replacement index<sup>1</sup>. SARON is a market trade weighted measure using the overnight Swiss Franc (CHF) repo market. In order to support this change SwapClear discontinued eligibility for OIS TOIS trades and will offer eligibility for OIS SARON trades from 16<sup>th</sup> October 2017. LCH has worked with Clearing Members to ensure a smooth transition from TOIS to SARON.

#### Factors for determination

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

Current market volume is relatively low as market participants go through the necessary governance to trade the new index, but it is expected to grow. Clearing of the product will also be highly beneficial to the market growth and evolution.

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<sup>1</sup> SARON is published by the SIX Swiss Exchange and further details can be obtained from: [https://www.six-swiss-exchange.com/downloads/indexinfo/online/swiss\\_reference\\_rates/swiss\\_reference\\_rates\\_factsheet\\_en.pdf](https://www.six-swiss-exchange.com/downloads/indexinfo/online/swiss_reference_rates/swiss_reference_rates_factsheet_en.pdf)

Market data is available from a number of brokers, including ICAP and Gottex, with quotes available to at least 30y, and 50y in some cases.

***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 OIS. LCH intends to leverage this existing operational capability when extending its offering to SARON linked OIS trades.

In order to prepare for the launch of this product, 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 notified its Clearing Members of a number of minor rule changes which will be made in order to support the clearing of SARON linked OIS. The rule 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***

SARON linked OIS do not introduce any novel risks to LCH, as the operational capability to manage the product is already in place.

LCH expects most current SwapClear Clearing Members who are currently active in CHF markets to clear SARON linked OIS trades, once the service is live.

The outstanding notional on all Swiss products within the SwapClear service is around 3% of that held in USD denominated products, including both OIS and LIBOR based products. The introduction of SARON eligibility is unlikely to have a significant impact on this ratio. 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***

LCH's offering supports a market driven change and ensures that the CHF denominated OIS market continues to be cleared. We expect another European based CCP to offer eligibility of the SARON linked OIS trades.

LCH's fees and charges for the above product 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 SARON linked OIS is in all material respects the same as that of the products already cleared in the SwapClear 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)***

Product terms for SARON linked OIS are market standard and follow **Supplement number 52 of the 2006 ISDA Definitions** and are covered by the Financial products Markup Language (FpML) standard (specifically <http://www.fpml.org/coding-scheme/floating-rate-index-2-20.xml> published on 28th July 2017), which is a protocol for sharing information on derivatives and other products.

The participant eligibility standards for SARON linked OIS are the same as those for existing SwapClear Clearing Members.

There are no additional price sources required as the product will be valued using prices that have already been added to the price sources already used by LCH.

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

- SARON 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 SARON linked OIS.
- Stress testing scenarios have been added to the scenario framework used to size the default fund to capture a potential de-correlation between SARON and CHF-LIBOR indices.

LCH is making a number of minor changes to its Rulebook to enable clearing of SARON linked OIS in the following sections:

- FCM Product Specific Contract Terms and Eligibility Criteria Manual
- Product Specific Contract Terms and Eligibility Criteria Manual
- FCM Procedures
- Procedures Section 2C

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 of 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 1 September 2017 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 16<sup>th</sup> October 2017.

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

Yours sincerely



Daniel Maguire  
Group Chief Operating Officer  
LCH Limited

cc. Parisa Abadi

**Appendix A**

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

# Memo

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To	SwapClear Clearing Members
From	David Horner, Head of In-Business Risk Rates and FX Derivatives
Date	1 September 2017
Subject	<b>SARON linked OIS submission for determination of clearing requirements</b>

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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 Swiss Average Rate Overnight (SARON) linked Overnight Index Swaps (OIS) for determination of whether mandatory clearing should apply.

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 date 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***

The current market standard OIS index for CHF is TOIS, but the market participants have been notified that the publication of this index will cease at the end of 2017. The Swiss National Bank (SNB) has stated a preference for its replacement with the SARON index<sup>1</sup>; a market trade weighted measure using the overnight Swiss Franc (CHF) repo market. In order to support this change SwapClear will discontinue eligibility for OIS TOIS trades and offer eligibility for OIS SARON trades.

Current market volume is relatively low as market participants go through the necessary governance to trade the new index, but it is expected to grow. Clearing of the product will also be highly beneficial to the market growth and evolution.

Market data is available from a number of brokers, including ICAP and Gottex, with quotes available to at least 30y, and 50y in some cases.

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<sup>1</sup> SARON comprises the Swiss Average Rates (SAR®) and the Swiss Current Rates (SCR®), covering a term spectrum ranging from overnight (ON) to 12 months (12M). The first publication takes place at 8.30a.m. and the last at the end of the trading day (6p.m. at the earliest). The SIX Swiss Exchange calculates and publishes the reference rates.

In order to prepare for the launch of this product, 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 minor rule changes which will be made in order to support the clearing of SARON linked OIS. The rule changes will be certified with the CFTC and be 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***

SARON linked OIS do not introduce any novel risks to LCH, as the operational capability to manage the product is already in place.

LCH expects current SwapClear Clearing Members who are currently active in CHF markets to start clearing SARON linked OIS trades, once the service is live.

The outstanding notional on all Swiss products within the SwapClear service is around 3% of that held in USD denominated products, including both OIS and LIBOR based products. The introduction of SARON eligibility is unlikely to have a significant impact on this ratio. As such, the systemic risk profile of LCH remains unchanged as a result of the new product offering.

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Further information will form part of the full §39.5 filing which will be publicly 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.