

VIA CFTC PORTAL

5 April 2018

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

LCH Limited Self Certification: Rule Changes amending the GBP-WMBA-OIS-COMPOUND reference rate to GBP-SONIA-COMPOUND.

Dear Mr Kirkpatrick

Pursuant to CFTC regulation §40.6(a), LCH Limited ("LCH"), a derivatives clearing organization registered with the Commodity Futures Trading Commission (the "CFTC"), is submitting for self-certification changes to its rules amending the Reference rate associated with the Sterling Basis and Overnight Index Swap (OIS) Swap products.

Part I: Explanation and Analysis

The Sterling Overnight Index Average (SONIA) is the existing unsecured reference rate for the Sterling Overnight Indexed Swap (OIS) market. The Bank of England (BoE), the administrator of the SONIA rate benchmark, are implementing reforms of SONIA which will take effect on Monday April 23, 2018. Following which, SONIA will cease to be calculated and published by the Wholesale Market Brokers' Association (WMBA) on behalf of the BoE, and will be calculated by the BoE using the reformed methodology.

LCH proposes to amend both the FCM procedures and associated Product Specific Contract Terms along with the general SwapClear Procedures and associated Product Specific Contract Terms to replace the GBP-WMBA-OIS-COMPOUND reference rate with GBP-SONIA-COMPOUND reference rate to reflect the reform of SONIA.

The rule changes will go live on, or after, 23 April 2018.

Part II: Description of Rule Changes

Section 1.8.4 (OIS Coupon calculation) of the SwapClear Procedures and Section 2.1.8(d) (OIS Coupon Calculation) of the FCM Procedures amends the rate used for the GBP OIS rate from GBP-WMBA-OIS-COMPOUND reference rate to GBP-SONIA-COMPOUND reference rate.

Similarly Part B(1.2)(SwapClear Product Eligibility Criteria for a SwapClear Transaction) of the SwapClear Product Specific Contracts Terms and Eligibility Criteria Manual and Part B(1.1)(FCM

SwapClear Product Eligibility Criteria for an FCM SwapClear Transaction) of the FCM Product Specific Contracts Terms and Eligibility Criteria Manual amends the rate used for the GBP OIS and Basis Swap products from the GBP-WMBA-OIS-COMPOUND reference rate to GBP-SONIA-COMPOUND reference rate.

The texts of the changes are attached hereto as:

- i. **Appendix I**, Procedures Section 2C (SwapClear)
- ii. **Appendix II**, FCM Procedures
- iii. **Appendix III**, SwapClear Product Specific Contracts Terms and Eligibility Criteria Manual
- iv. **Appendix IV**, FCM Product Specific Contracts Terms and Eligibility Criteria Manual

Part III: Core Principle Compliance

LCH has reviewed the changes against the requirements of the Core Principles and finds that they will continue to comply with all the requirements and standards therein.

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:

<http://www.lch.com/rules-regulations/proposed-rules-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 the rule.

Certification

LCH hereby certifies to the Commodity Futures Trading Commission, pursuant to the procedures set forth in the Commission regulation § 40.6, that attached rule submission complies with the Commodity Exchange Act, as amended, and the regulations promulgated there under.

Should you have any questions please contact me at julian.oliver@lch.com.

Yours sincerely



Julian Oliver
Chief Compliance Officer
LCH Limited

Appendix I
Procedures Section 2C (SwapClear)



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PROCEDURES SECTION 2C

SWAPCLEAR CLEARING SERVICE

1.8.2 Calculation of Fixed Amount

The Clearing House will calculate the Fixed Amount payable by a party on a Payment Date as either:

- (a) if an amount is specified for the SwapClear Contract as the Fixed Amount payable by that party for that Payment Date or for the related Calculation Period, such amount; or
- (b) if an amount is not specified for the SwapClear Contract as the Fixed Amount payable by that party for that Payment Date or for the related Calculation Period, an amount calculated on a formula basis for that Payment date or for the related Calculation Period as follows:

$$\text{Fixed Amount} = \text{Calculation Amount} \times \text{Fixed Rate} \times \text{Fixed Rate Day Count Fraction}$$

1.8.3 Calculation of Floating Amount

The Clearing House will calculate the Floating Amount payable by a party on a Payment Date as an amount calculated on a formula basis for that Payment Date or for the related Calculation Period as follows:

$$\text{Floating Amount (+/- Spread)} = \text{Calculation Amount} \times \text{Floating Rate} \times \text{Floating Rate Day Count Fraction}$$

1.8.4 OIS coupon calculation

Compounding Rate Calculations

The rate used for the OIS rate is calculated according to the methodology and formulation stated in the ISDA 2006 Definitions in respect of the following floating rate options:

- (a) USD-Federal Funds-H.15-OIS-COMPOUND
- (b) CHF-SARON-OIS-COMPOUND
- (c) GBP-~~WMBA~~-SONIA-COMPOUND
- (d) EUR-EONIA-OIS-COMPOUND
- (e) CAD-CORRA-OIS-COMPOUND
- (f) JPY-TONA-OIS-COMPOUND
- (g) USD-Federal Funds-H.15-LIBOR-BBA
- (h) AUD-AONIA-OIS-COMPOUND

Appendix II
FCM Procedures



FCM PROCEDURES OF THE CLEARING HOUSE

LCH LIMITED

Separate Variation Settlement calculations are performed in respect of an FCM Clearing Member's house "H" account and in respect of an FCM Clearing Member's client "C" account. No offset between the "C" and the "H" accounts is permitted. The Clearing House shall make or receive a separate Variation Settlement payment in respect of each house "H" account and each client "C" account (subject to the netting provisions of FCM Regulation 47 and the Default Rules) of each FCM Clearing Member.

(e) *Price Alignment Amount (PAA)*

In order to compensate for the payment of changes in NPV on a daily basis for FCM SwapClear Transactions cleared through the Clearing House, the Clearing House will for each FCM Clearing Member either charge or pay Price Alignment Amount in accordance with Section ~~3.5.23-5.2~~ 3.5.23-5.2. PAA is debited, credited and netted in accordance with FCM Regulation 47 and the Clearing House's normal practices.

2.1.8 *Coupon Payments*

(a) *Calendars and Coupons*

Payment dates for coupon payments will be set based on the SwapsMonitor Financial Calendar (see Section 2.1.2(c)). Changes to the calendar that affect FCM SwapClear Contracts will be published and made available to FCM Clearing Members by the Clearing House in an FCM Clearing Member Report. The central control and publication of these calendars will assist the reconciliation of coupon payments between FCM Clearing Members and the Clearing House. Coupon payments will be adjusted, in the event of a holiday amendment, in accordance with the FCM SwapClear Contract Terms.

(b) *Calculation of Fixed Amount*

The Clearing House will calculate the Fixed Amount payable by a party on a Payment Date as either:

- (i) if an amount is specified for the FCM SwapClear Contract as the Fixed Amount payable by that party for that Payment Date or for the related Calculation Period, such amount; or
- (ii) if an amount is not specified for the FCM SwapClear Contract as the Fixed Amount payable by that party for that Payment Date or for the related Calculation Period, an amount calculated on a formula basis for that Payment date or for the related Calculation Period as follows:

$$\text{Fixed Amount} = \text{Calculation Amount} \times \text{Fixed Rate} \times \text{Fixed Rate Day Count Fraction}$$

(c) *Calculation of Floating Amount*

The Clearing House will calculate the Floating Amount payable by a party on a Payment Date as an amount calculated on a formula basis for that Payment Date or for the related Calculation Period as follows:

Floating Amount = Calculation Amount x Floating Rate x Fixed Rate Day Count Fraction (+/- Spread)

(d) *OIS Coupon Calculation*

Compounding Rate Calculations

The rate used for the OIS rate is calculated according to the methodology and formulation stated in the ISDA 2006 Definitions in respect of the following floating rate options:

- (i) USD-Federal Funds-H.15-OIS-COMPOUND
- (ii) CHF-SARON-OIS-COMPOUND
- (iii) GBP-~~WMBA~~-SONIA-COMPOUND
- (iv) EUR-EONIA-OIS-COMPOUND
- (v) CAD-CORRA-OIS-COMPOUND
- (vi) JPY-TONA-OIS-COMPOUND
- (vii) USD-Federal Funds-H.15-LIBOR-BBA
- (viii) AUD-AONIA-OIS-COMPOUND

(e) *Calculation of Compounded Amount*

Depending on whether the FCM SwapClear Contract is submitted under ISDA 2000 or ISDA 2006 Definitions, the Clearing House will calculate the compounded floating amount payable by an FCM Clearing Member on a Payment Date as an amount calculated in accordance with Articles 6.1 to 6.3 inclusive of the relevant definitions.

(f) *Calculation of FRA Discounting (Article 8.4 of the 2006 ISDA Definitions)*

Where FRA Discounting is specified for CAD, CHF, CZK, DKK, EUR, HUF, JPY, NOK, PLN, SEK, USD, ZAR the FRA Amount will be calculated in accordance with formulae found in the relevant definitions.

(g) *Business Day and Business Day Convention*

In determining whether a day is a Business Day the Clearing House will only apply the Financial Centers specified in the matched FCM

LCH website at the following link:
http://www.lch.com/fees/ltd/custody_services.asp; and

(c) Default Fund Rate.

Rates are available from the Member Reporting Website.

The Clearing House reserves the right to alter the basis of calculating each above listed interest rates. Any alteration will be effective on the date notified.

Where the Clearing House provides FCM Clearing Members with at least three days written notice (which may be way of member circular), the Clearing House may increase or decrease the LDR by up to 10bps. The foregoing shall not apply in the event of extreme market conditions, during which the Clearing House may freely and without notice increase or decrease the LDR for up to five consecutive Business Days.

Where the Clearing House provides FCM Clearing Members with two weeks' written notice (which may be way of member circular), the Clearing House may increase or decrease the CDR. In the event of extreme market conditions, the Clearing House may freely and without notice increase or decrease the CDR for up to five consecutive Business Days.

3.5.2 **Price Alignment Amount (PAA) Rate**

To minimize the impact of daily cash Variation Settlement payments on the pricing of interest rate swaps and inflation swaps, the Clearing House will charge or pay PAA in respect of these instruments.

The calculation of PAA shall use the PAA rates specified as below. The amount of PAA for each currency shall be calculated as:

The Cumulative Variation Settlement in such currency from the previous Business Day's close of business multiplied by:

- (a) The relevant PAA rate in effect for that day; divided by
- (b) 360; or in the case of AUD, CAD, GBP, HKD, JPY, NZD, PLN, SGD and ZAR, 365.

In the case of the currencies marked below with an asterisk, the Clearing House, as provided in FCM Regulation 36(b) (*Alteration of FCM Regulations and the FCM Procedures*), specifies that it will not change the PAA rate without the consent of all SwapClear Clearing Members and applicable FCM Clearing Members holding open contracts in such currencies.

| Currency | PAA Rate |
|-----------------|--|
| USD* | The rate used shall be the Effective Federal Funds rate, the rate published by the Board of Governors of the Federal Reserve System as such rate appears on Reuters page "FEDFUNDS1" |

| <u>Currency</u> | <u>PAA Rate</u> |
|-----------------|---|
| | or Telerate 120 or on any successor page(s) thereto. |
| EUR* | The rate used shall be the EONIA rate, the rate published by the European Banking Federation and ACI – The Financial Market Association as such rate appears on Reuters page “EONIA” or Telerate 247 or on any successor page(s) thereto. |
| GBP* | The rate used shall be the SONIA rate, the rate published by the Wholesale Markets Broker Association Bank of England as such rate appears on Reuters page “SONIA” or on any successor page(s) thereto. |
| JPY* | The rate used shall be the Mutan call rate, the rate published by the Bank of Japan as such rate appears on Reuters page “TONAR” or on any successor page(s) thereto. |
| CHF* | The rate used shall be the SARON rate, the rate published by SIX Swiss Exchange Ltd. as such rate appears on Reuters page “SARON.S” or any successor page(s) thereto. |
| AUD | The rate used shall be the “AONIA” rate, the rate published by the Reserve Bank of Australia – as such rate appears on Reuters page “RBA30” or any successor page(s) thereto. |
| CAD | The rate used shall be the “CORRA” rate, the rate published by the Bank of Canada website – as such rate appears on Reuters page “CORRA” or any successor page(s) thereto. |
| DKK | The rate used shall be the “DKKOIS” rate, the rate published by the Danish Central Bank – as such rate appears on Reuters page “DKNA14” or any successor page(s) thereto. |
| HKD | The rate used shall be the “HONIX” rate, the rate published by the Hong Kong Brokers Association – as such rate appears on Reuters page “HONIX” or any successor page(s) thereto. |
| NZD | The rate used shall be the “NZIONA” rate, the rate published by the Reserve bank of New Zealand – as such rate appears on Reuters page “RBNZ02” or any successor page(s) thereto. |
| PLN | The rate used shall be the “POLONIA” rate, the rate published by the National Bank of Poland – as such rate appears on Reuters page “NBPS” or any successor page(s) thereto. |
| SEK | The rate used shall be the “SIOR” rate, the rate published by the OMX Exchange – as such rate appears on Reuters page “SIOR” or any successor page(s) thereto. |
| ZAR | The rate used shall be the SFX ZAR OND rate, the rate published by SAFEX JIBAR – as such rate appears on Reuters |

Appendix III
SwapClear Product Specific Contracts Terms and Eligibility Criteria Manual



**PRODUCT SPECIFIC CONTRACT TERMS AND ELIGIBILITY CRITERIA
MANUAL**

PART B PRODUCT ELIGIBILITY CRITERIA FOR REGISTRATION OF A SWAPCLEAR CONTRACT

1. SwapClear Transaction

Without prejudice to the Regulations and the Procedures, the Clearing House will only register a SwapClear Contract pursuant to receipt of particulars of a transaction where at the time of the particulars being presented:

- (a) the transaction meets the eligibility criteria, set out in paragraphs 1.2(a), (b) or (c) below for a SwapClear Transaction; and
- (b) each party to the transaction is either a SwapClear Dealer or a SwapClear Clearing Member (including an SCM Branch),

and the requirements of (a) and (b) continue to be satisfied at Registration Time.

1.2 SwapClear Product Eligibility Criteria for a SwapClear Transaction

- (a) Vanilla interest rate swaps and notional interest rate swaps having the characteristics set out in the table below:

| <u>Instrument</u> | <u>Currency</u> | <u>Leg 1</u> | <u>Leg 2</u> | <u>Variable Notional</u> | <u>Maximum Tenor</u> | <u>Notional Amount</u> |
|--------------------|-----------------|---|---|--------------------------|----------------------|------------------------|
| Interest rate swap | GBP | Fixed | GBP-LIBOR-BBA | Yes | 18,675 days | 0.01-99,999,999,999.99 |
| Basis Swap | GBP | GBP-LIBOR-BBA | GBP-LIBOR-BBA | Yes | 18,675 days | 0.01-99,999,999,999.99 |
| Basis swap | GBP | GBP-WMBA-OIS-COMPOUND GBP-SONIA-COMPOUND | GBP-LIBOR-BBA | No | 18,675 days | 0.01-99,999,999,999.99 |
| OIS | GBP | Fixed | GBP-WMBA-OIS-COMPOUND GBP-SONIA-COMPOUND | No | 18,675 days | 0.01-99,999,999,999.99 |
| Interest rate swap | USD | Fixed | USD-LIBOR-BBA | Yes | 18,675 days | 0.01-99,999,999,999.99 |
| Basis swap | USD | USD-LIBOR-BBA | USD-LIBOR-BBA | Yes | 18,675 days | 0.01-99,999,999,999.99 |
| Basis swap | USD | USD-FEDERAL FUNDS-H.15 | USD-LIBOR-BBA | No | 11,375 days | 0.01-99,999,999,999.99 |
| OIS | USD | Fixed | USD-Federal Funds H.15-OIS-COMPOUND | No | 11,375 days | 0.01-99,999,999,999.99 |
| Interest rate swap | EUR | Fixed | EUR-LIBOR-BBA | Yes | 18,675 days | 0.01-99,999,999,999.99 |
| Interest rate swap | EUR | Fixed | EUR-EURIBOR-Telerate | Yes | 18,675 days | 0.01-99,999,999,999.99 |
| Interest rate swap | EUR | Fixed | EUR-EURIBOR-Reuters | Yes | 18,675 days | 0.01-99,999,999,999.99 |

Appendix IV
FCM Product Specific Contracts Terms and Eligibility Criteria Manual



FCM PRODUCT SPECIFIC CONTRACT TERMS AND ELIGIBILITY CRITERIA
MANUAL

PART B
PRODUCT ELIGIBILITY CRITERIA FOR REGISTRATION OF AN FCM
SWAPCLEAR CONTRACT

1. FCM SwapClear Transaction

Without prejudice to the FCM Regulations and the FCM Procedures, the Clearing House will only register an FCM SwapClear Contract pursuant to receipt of particulars of a transaction where at the time of the particulars being presented:

- (a) the transaction meets the FCM SwapClear Product Eligibility Criteria for registration as an FCM SwapClear Transaction; and
- (b) each party to the transaction is an Executing Party;

and the requirements of (a) and (b) continue to be satisfied at Registration Time.

1.1 FCM SwapClear Product Eligibility Criteria for an FCM SwapClear Transaction

- (a) Vanilla interest rate swaps and notional interest rate swaps having the characteristics set out in the table below:

| <u>Instrument</u> | <u>Currency</u> | <u>Leg 1</u> | <u>Leg 2</u> | <u>Variable Notional</u> | <u>Maximum Tenor</u> | <u>Notional Amount</u> |
|--------------------|-----------------|--|--|--------------------------|----------------------|------------------------|
| Interest rate swap | GBP | Fixed | GBP-LIBOR-BBA | Yes | 18,675 days | 0.01-99,999,999,999.99 |
| Basis Swap | GBP | GBP-LIBOR-BBA | GBP-LIBOR-BBA | Yes | 18,675 days | 0.01-99,999,999,999.99 |
| Basis swap | GBP | GBP-WMBA-OIS-COMPOUND GBP-SONIA-COMPOUND | GBP-LIBOR-BBA | No | 18,675 days | 0.01-99,999,999,999.99 |
| OIS | GBP | Fixed | GBP-WMBA-OIS-COMPOUND GBP-SONIA-COMPOUND | No | 18,675 days | 0.01-99,999,999,999.99 |
| Interest rate swap | USD | Fixed | USD-LIBOR-BBA | Yes | 18,675 days | 0.01-99,999,999,999.99 |
| Basis swap | USD | USD-LIBOR-BBA | USD-LIBOR-BBA | Yes | 18,675 days | 0.01-99,999,999,999.99 |
| Basis swap | USD | USD-FEDERAL FUNDS-H.15 | USD-LIBOR-BBA | No | 11,375 days | 0.01-99,999,999,999.99 |
| OIS | USD | Fixed | USD-Federal Funds H.15-OIS-COMPOUND | No | 11,375 days | 0.01-99,999,999,999.99 |
| Interest rate swap | EUR | Fixed | EUR-LIBOR-BBA | Yes | 18,675 days | 0.01-99,999,999,999.99 |
| Interest rate swap | EUR | Fixed | EUR-EURIBOR-Telerate | Yes | 18,675 days | 0.01-99,999,999,999.99 |
| Interest rate swap | EUR | Fixed | EUR-EURIBOR-Reuters | Yes | 18,675 days | 0.01-99,999,999,999.99 |