

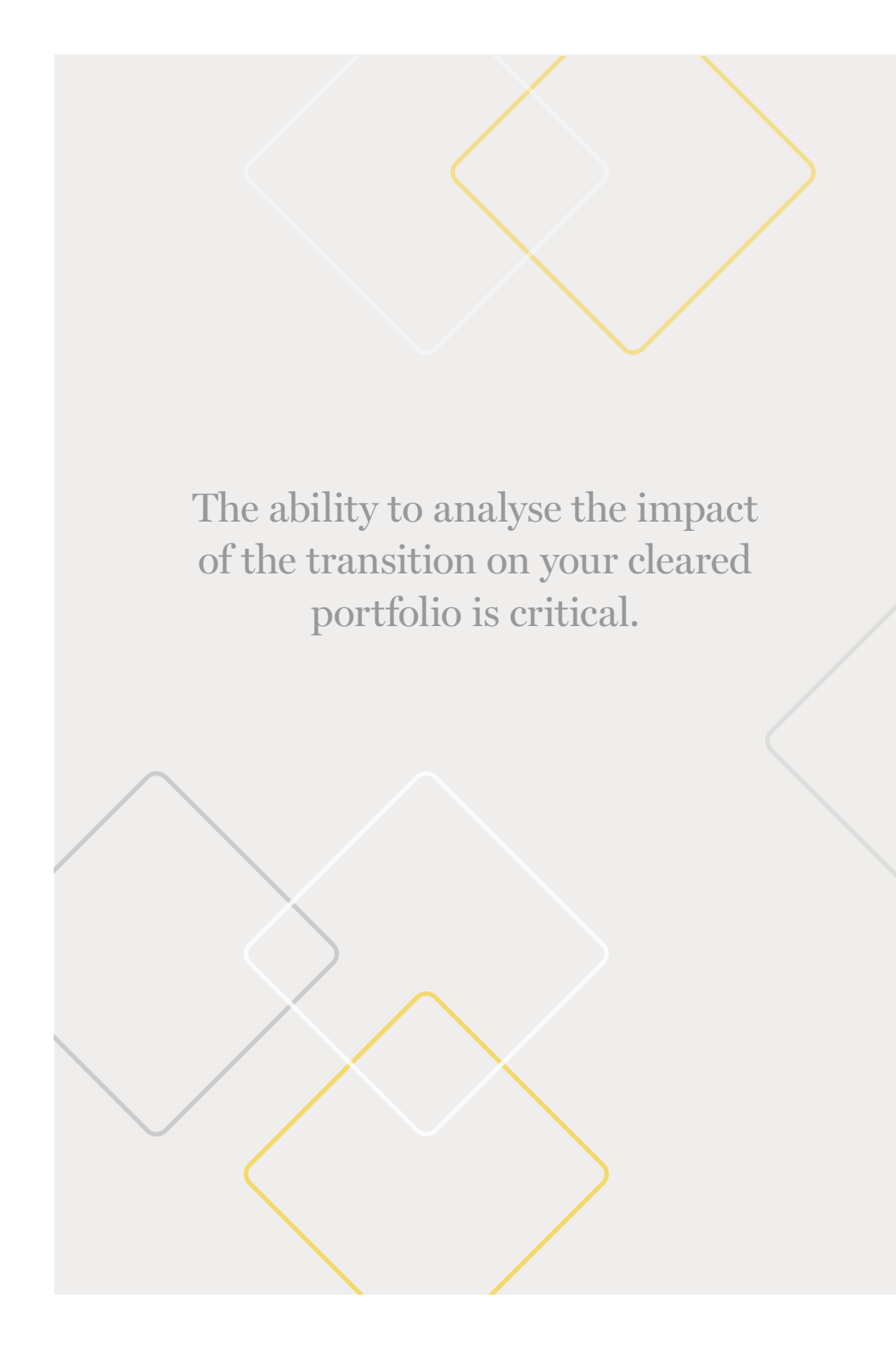
# Benchmark Reform

Transitioning to €STR & SOFR Discounting

**LCH** The Markets'  
Partner

SwapClear





The ability to analyse the impact  
of the transition on your cleared  
portfolio is critical.

## Supporting the Transition to €STR and SOFR Discounting

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LCH Group (“LCH”) and its SwapClear business support the continuing industry-wide initiatives regarding the transition of risk-free rates (“RFRs”), including the adoption of ISDA fall-backs and the switch to discounting in Euro Short-Term Rate (“€STR”) and Secured Overnight Financing Rate (“SOFR”).

The switch to discounting in €STR and SOFR is a crucial step toward ensuring that the swap market successfully transitions to the new RFRs. Given the importance of implementing discounting changes in EUR and USD, market participants must be able to understand the potential impact of the discount transition on their cleared portfolio. LCH equips SwapClear members and clients with the tools and information they need to perform this critical analysis.

# A Planned Approach

LCH's planned approach will help ensure members and clients are prepared for the transition to €STR and SOFR discounting at SwapClear.

<b>EUR Market</b> Transition to €STR Discounting and PAI/PAA <sup>1</sup>	<b>USD Market</b> Transition to SOFR Discounting and PAI/PAA <sup>1</sup>
<b>Changes will apply to all SwapClear EUR-denominated products</b> (including inflation) from EONIA to €STR flat	<b>Changes will apply to all SwapClear USD-discounted products</b> (including inflation, MXN and non-deliverable currencies <sup>2</sup> ) from Fed-Funds to SOFR
<b>Cash compensation payments for all accounts containing open EUR-denominated positions</b> on the conversion date	<b>Cash and swap compensation to all accounts with open USD-discounted positions</b> (including inflation, MXN and non-deliverable currencies <sup>2</sup> ) on the conversion date  <b>Client accounts will be able to elect for cash-only compensation</b> , in lieu of the swap compensation, by notifying LCH via their clearing broker  <b>A Cash Settlement Process ("CSP")</b> will be used to close out the unwanted compensating swaps and to provide a reference for cash compensation calculations across the whole service
Dress rehearsal to test the existing messaging and reporting functionality to be executed on <b>25–28 April 2020</b>	Dress rehearsal to test the existing messaging and reporting functionality in place and to allow participants to rehearse participation in the SOFR auction planned for <b>30 May–2 June 2020</b>
<b>Target Conversion Date:</b> 24 July 2020	<b>Target Conversion Date:</b> 16 October 2020

<sup>1</sup>Price Alignment Interest/Price Alignment Amount.

<sup>2</sup>The eight non-deliverable currencies are KRW, CNY, INR, BRL, COP, CLP, THB, TWD.



# Enhanced Reporting and Analysis Capabilities

In preparation for the €STR and SOFR discounting transitions, LCH has enhanced the Portal and SMART margin estimation tool with new functionality to provide customers with visibility into the potential impact of the discounting change on their portfolio.

## EXISTING REPORTS

Existing reports providing trade details and tenor sensitivities have been enhanced as outlined on page 7.

## NEW REPORT

A new report has been created to provide the indicative compensation amount based on today's portfolio with a granular view of the compensation per trade.

## ACCESSING REPORTS

For client access to reports via Direct Client Reporting, please contact the Onboarding team at [SwapClear.ClientOnboarding@lch.com](mailto:SwapClear.ClientOnboarding@lch.com).

## EXISTING REPORTS

Report No.	Title	Description	Accessibility
REP00306/c	<b>Trade Level Swap Valuation Report</b> (€STR/SOFR Discounting Regime)	<b>Trade Level Report</b> <ul style="list-style-type: none"> <li>Provides NPV and DV01 under €STR and SOFR discounting regimes</li> <li>RFR version of the REP84 (Trade Level Report)</li> <li>Produced: EOD</li> </ul>	Member access via Portal/SFTP Client access via Direct Client Reporting
REP00307/c	<b>Trade Level FRA Valuation Report</b> (€STR/SOFR Discounting Regime)	<b>FRA Level Report</b> <ul style="list-style-type: none"> <li>Provides NPV and DV01 under €STR and SOFR discounting regimes</li> <li>RFR version of the REP105 (FRA Trades)</li> <li>Produced: EOD</li> </ul>	
REP00308/c	<b>RFR Tenor Sensitivity Report</b> (€STR/SOFR Discounting Regime)	<b>Uses Risk Interpolation</b> <ul style="list-style-type: none"> <li>RFR version of the REP103 (Tenor Sensitivity Report)</li> <li>Produced: EOD</li> </ul>	

## NEW REPORT

Report No.	Title	Description	Accessibility
REP00315/c	<b>Trade Level Compensation Reports</b> (€STR/SOFR Discounting Regime)	<b>Trade Level Report</b> <ul style="list-style-type: none"> <li>Provides the computed cash compensation under an RFR scenario</li> <li>Compensation is calculated as the difference between the NPV of all future cash flows under the EONIA/Fed Funds discount regime and the €STR/SOFR discount regimes</li> <li>NPVs under EONIA/Fed Funds can be found in REP84 and REP105</li> <li>NPVs under €STR/SOFR can be found in REP306 and REP307</li> <li>Produced: EOD</li> </ul>	Member access via Portal/SFTP Client access via Direct Client Reporting

## New LCH Portal Functionality

A new Portal screen provides visibility into the indicative impact of the transition, enabling members, clients and clearing brokers to view their indicative risk compensating swaps based on today's portfolio. This includes the notional of the swaps to be booked for the 2Y, 5Y, 10Y, 15Y, 20Y and 30Y buckets and the direction of the swaps (SOFR only).

Clearing brokers are now able to make elections for clients to opt out of the risk compensating swaps in favour of the cash compensation (SOFR only).

### PORTAL ACCESS

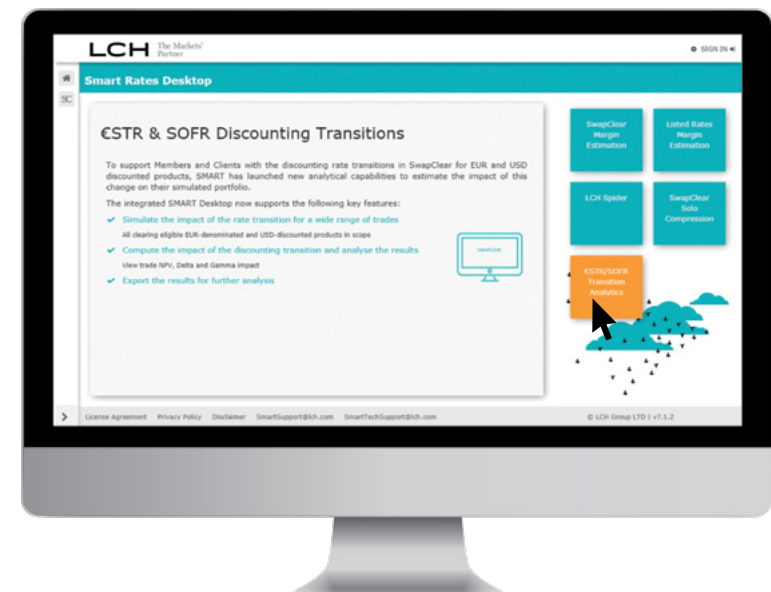
Log in to the [LCH Portal](#) or email the Onboarding team at [SwapClear.ClientOnboarding@lch.com](mailto:SwapClear.ClientOnboarding@lch.com) to request access.

## Enhanced SMART Capabilities

The LCH SMART margin estimation desktop tool has been enhanced to provide the ability to view the NPV of EUR-denominated and USD-discounted swaps under the EONIA/€STR discount regime and Fed-Funds/SOFR discount regime. The SMART API tool (Command Line tool) now allows users to calculate the proposed compensating swaps for their portfolios ahead of the SOFR transition.

### SMART ACCESS

Log in to the [LCH Portal](#) or contact the dedicated support team at [SMARTTechSupport@lch.com](mailto:SMARTTechSupport@lch.com) to request access.



# Messaging and Reporting

Members will receive information regarding the compensation via ClearLink API messaging and reports, which will be provided via existing delivery methods. Members and clients will also be able to extract the details of the compensating swaps via the LCH Portal.

Messaging and Reporting	Direct Member	Clearing Broker	Clients
Clearing Confirmed Message via ClearLink API	✓	✓	
LCH Portal	✓	✓	✓
Reporting	✓	✓	✓
ATSS Synchronisation	✓		✓

## ATSS SYNCHRONISATION

ATSS Synchronisation allows SwapClear users to synchronise their cleared portfolio and their MarkitWire trade population. This functionality is being enhanced to include the results of discounting transitions, allowing the cash (€STR and SOFR) and risk (SOFR only) compensating swaps to be communicated to MarkitWire.

Customers are required to submit the relevant onboarding forms via the [LCH Secure Area](#) to gain access to this functionality:

- 01. Direct members with existing access:** Members are required to submit an amended onboarding form requesting to receive messages for new transactions resulting from the discounting transition. The Markit Sync .csv form requesting to receive new trade messaging is also required. Members should also contact MarkitWire with their onboarding request.
- 02. Direct members without existing access:** Members wishing to be onboarded to this functionality are required to submit an ATSS election form to LCH and MarkitWire. The Markit Sync .csv form requesting to receive new trade messaging is also required. The LCH form can be found on the [LCH Secure Area](#).
- 03. Clients with existing access:** Onboarding to the enhanced functionality is handled via an online submission by each clearing broker with whom the client has a relationship. Clients are to request that each clearing broker submit an enhancement request to LCH via the existing LCH Onboarding tool.
- 04. Clients without existing access:** Clients wishing to be onboarded to the functionality are to request that each clearing broker they have a relationship with submit an onboarding request form via the existing LCH Onboarding tool. Clients should also contact MarkitWire with their onboarding request.

More information regarding the MarkitWire implementation can be found in their document "MarkitWire Rates Clearing: IBOR Compensation Trades" on the MarkitWire documentation portal.

For onboarding to MarkitWire, the "Netting Synchronization – Onboarding Instructions" form should be used to request to be set up for cash and/or risk compensating swaps.

It is crucial that market participants are properly equipped to manage a smooth and orderly transition to the alternative risk-free reference rates (RFRs).

## SwapClear at a Glance<sup>1</sup>

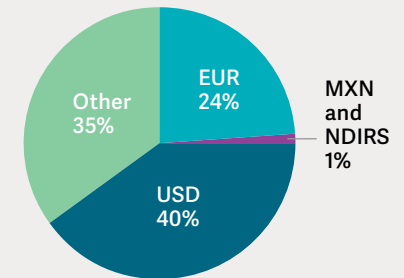
### LIVE PARTICIPANTS

Over **790** buy-side participants have live positions in affected currencies across **54** clearing brokers.

**108** members  
brokers

**795** clients

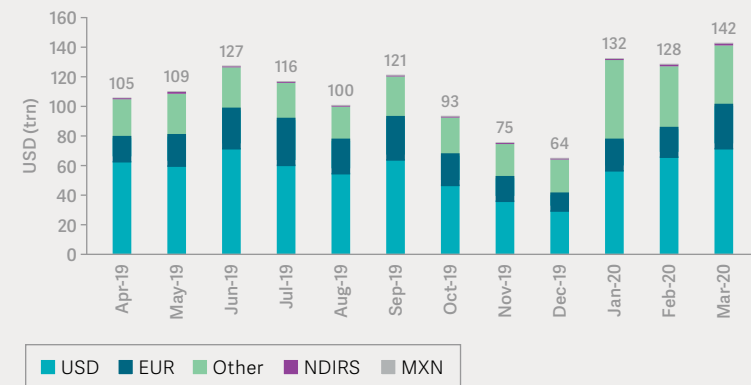
### NOTIONAL OUTSTANDING



**NDIRS CCYs:** BRL, CLP, CNY, INR, KRW, CLP, COP, THB, TWD

### CLEARING VOLUMES

On average, **73%** of monthly registered flow at SwapClear is against currencies affected by the transition to €STR and SOFR discounting.



<sup>1</sup>As of 31 March 2020.

# Contact Us

## SWAPCLEAR

### Rates Client Services

RatesClientServices@lch.com

## MARKITWIRE

### MarkitWire Production

markitserv.support@ihsmarkit.com

### MarkitWire UAT

mserv\_uat@ihsmarkit.com

## WEBSITE

[lch.com/services/swapclear](http://lch.com/services/swapclear)

## ABOUT LCH AND SWAPCLEAR

LCH has always built strong partnerships across the global markets to deliver best-in-class risk management. With our accumulated experience and expertise, we are uniquely positioned to help participants increase capital and operational efficiency, while adhering to an expanding and complex set of cross-border regulations.

SwapClear is the world's leading OTC interest rate derivatives clearing service, and provides access to the deepest pool of dealer liquidity. Trusted for more than two decades by our members, it is now the clearing service of choice for many of the world's leading buy-side participants.

Working together with our stakeholders, SwapClear and the other LCH services have helped the market transition to central clearing by introducing an array of innovative enhancements. These include solo compression with blended rate, an expanded set of customer protection options, and LCH Spider — our portfolio margining tool. When combined with an uncompromising commitment to service delivery, it is no surprise that LCH is the natural choice of the world's leading market participants.

LCH works across a range of execution venues and is majority-owned by the London Stock Exchange Group (LSEG), a diversified international exchange group that sits at the heart of the world's financial community.

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