Benchmark Reform
Transitioning to €STR & SOFR Discounting
The ability to analyse the impact of the transition on your cleared portfolio is critical.

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.

<table>
<thead>
<tr>
<th>EUR Market</th>
<th>USD Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transition to €STR Discounting and PAI/PAA¹</td>
<td>Transition to SOFR Discounting and PAI/PAA¹</td>
</tr>
<tr>
<td>Changes will apply to all SwapClear EUR-denominated products (including inflation) from EONIA to €STR flat</td>
<td>Changes will apply to all SwapClear USD-discounted products (including inflation, MXN and non-deliverable currencies²) from Fed-Funds to SOFR</td>
</tr>
<tr>
<td>Cash compensation payments for all accounts containing open EUR-denominated positions on the conversion date</td>
<td>Cash and swap compensation to all accounts with open USD-discounted positions (including inflation, MXN and non-deliverable currencies²) on the conversion date</td>
</tr>
<tr>
<td>Client accounts will be able to elect for cash-only compensation, in lieu of the swap compensation, by notifying LCH via their clearing broker</td>
<td>A Cash Settlement Process (“CSP”) will be used to close out the unwanted compensating swaps and to provide a reference for cash compensation calculations across the whole service</td>
</tr>
<tr>
<td>Dress rehearsal to test the existing messaging and reporting functionality to be executed on 25–28 April 2020</td>
<td>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 30 May–2 June 2020</td>
</tr>
</tbody>
</table>

¹Price Alignment Interest/Price Alignment Amount.
²The eight non-deliverable currencies are KRW, CNY, INR, BRL, COP, CLP, THB, TWD.

Target Conversion Date: 24 July 2020
Target Conversion Date: 16 October 2020

LCH equips SwapClear members and clients with the tools and information they need to perform this critical analysis.
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.
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 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 to request access.
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.

<table>
<thead>
<tr>
<th>Messaging and Reporting</th>
<th>Direct Member</th>
<th>Clearing Broker</th>
<th>Clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clearing Confirmed Message via ClearLink API</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>LCH Portal</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Reporting</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>ATSS Synchronisation</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
</tbody>
</table>

**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

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

108 members
54 brokers
795 clients

**NOTIONAL OUTSTANDING**

- **EUR**: 24%
- **USD**: 40%
- **MXN**: 1%
- **Other**: 35%
- **NDIRS**: 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.

![](chart)

*As of 31 March 2020.*
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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