

## FX Smart Clearing overview

### What is FX Smart Clearing?

Since the implementation of SA-CCR in June 2021, the FX industry has struggled to cope with the sharp increases in risk-weighted asset (RWA)/leverage ratio capital requirements.

**FX Smart Clearing** is the intelligent, purposeful, selective and optimised clearing of FX Swaps and FX Forwards for the purpose of financial resource optimisation, particularly counterparty credit risk capital under SA-CCR.

As these products are not subject to bilateral initial margin (IM) under Uncleared Margin Rules (UMR), clearing all trades would create a higher IM cost, potentially negating the capital benefits achieved. Therefore, FX Smart Clearing involves clearing only those trades (risk) that maximise capital savings, without materially increasing IM.

**FX Smart Clearing** can be achieved bilaterally or multilaterally, with or without an intermediate optimiser algorithm: essentially, it is agnostic to how the cleared trades reach LCH ForexClear.

The value proposition from a recent proof of concept suggests >60% savings when run on real data. Any residual FX risks can be subsequently sent to SwapAgent.

**FX Smart Clearing** also provides significant benefits for other target capital measures.

**Benefit from the strong network, improved capital efficiency and further optimisation benefits from facing a CCP.**

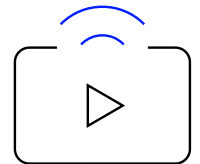
### In a recent proof of concept with Quantile Technologies:

#### 01.

13 member groups showed an average **51%** potential capital reduction, without increasing IM significantly, which has the scope to increase to >**70%** as the clearing network and eligible products grow (see charts on % capital saving of bilateral vs cleared optimisation below).

#### 02.

**US\$2.7trn** of notional was identified for backloading, of which **71%** could be further compressed.



#### 03.

Members with larger cleared NDF and FX Option portfolios registered larger potential savings than the average.

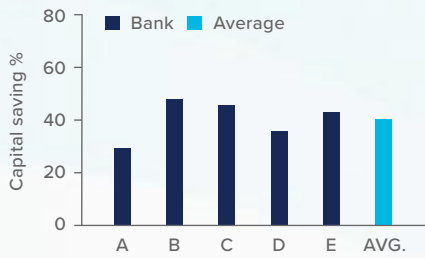
#### 04.

The proof of concept (PoC) proved the network of banks would have made a **US\$240m** real-world saving in profit and loss (P&L) cost of capital.

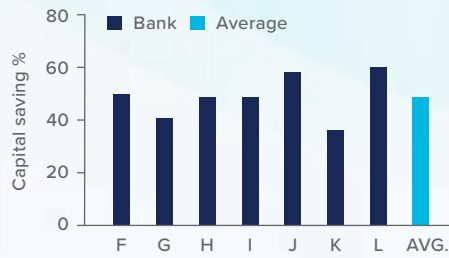
Attribute	PoC
Participants	13 banks/19 entities
Effective notional reduction	US\$484bn
<b>Capital % reduction (target measure)</b>	<b>51%</b>
Cleared notional (backload + overlays)	US\$2.7trn
Additional compression potential	US\$1.9trn (71%)
Capital P&L saving across the network	US\$240m p.a.

# FX Clearing just got smarter – the more you clear, the more efficient optimisation becomes:

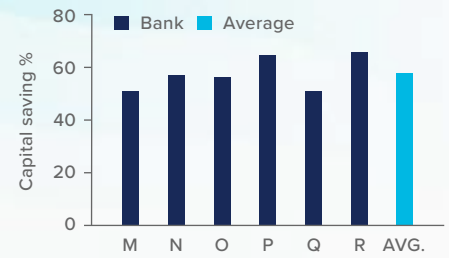
## NON-CLEARING BANKS (41% average saving)



## BANKS CLEARING NDF (49% average saving)



## BANKS CLEARING NDF AND FXO (58% average saving)



## How does FX Smart Clearing work?

### A. Trade selection

FX Smart Clearing is facilitated through the introduction of an **Approved Trade Selection Provider (ATSP)**, where existing FX portfolios can be assessed for selection to be sent to the most appropriate LCH service (i.e., LCH ForexClear or SwapAgent).

### B. Trade booking

FX Smart Clearing acts on existing bilateral portfolios, creating the first utility to manage **bulk novations and backloads for FX products**:

- The solution sends the **maximum amount of risk to LCH ForexClear within counterparty-defined IM tolerances**
- The residual risk is sent to SwapAgent to realise all of the benefits of our bilateral service

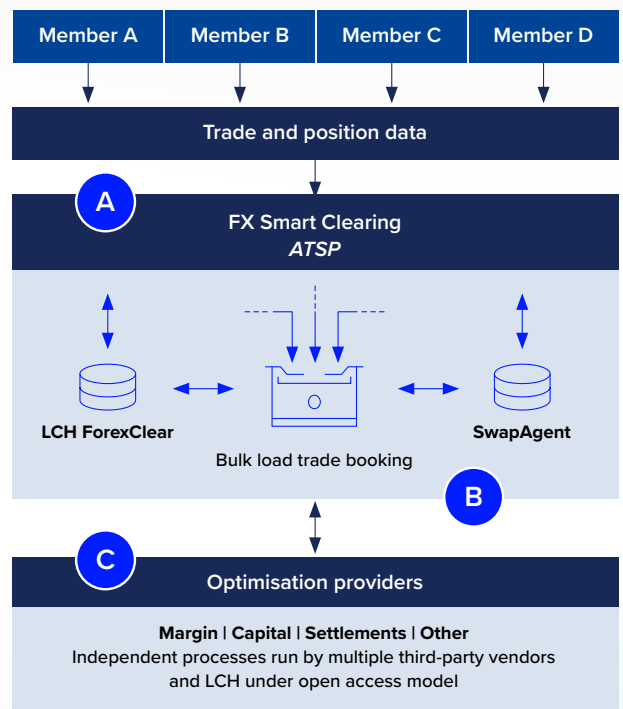
### C. Ongoing management

In order for FX Smart Clearing to realise its potential in the target state, LCH will maintain its **open access model** so that optimisation providers can continue to treat each LCH service as a 'node' within their own processes to further optimise.

### D. Go-to-market/Staging

Prototyping/real trades can be smart cleared via current 'flat file' backloads to LCH ForexClear. The current PoC group of banks support of this process during the build phase.

## FX SMART CLEARING IN ACTION



**LSEG** POST TRADE

Contact us

Email [lchsales@lseg.com](mailto:lchsales@lseg.com)

Website [lch.com/services/forexclear](https://lch.com/services/forexclear)

To opt in to newsletters, visit: <https://solutions.lseg.com/Regular-ClearingVolumes-Update>

## Disclaimer

This document has been provided to you for informational purposes only and is intended as an overview of certain aspects of, or proposed changes to, the SwapClear, Listed Interest Rates, SwapAgent and/or any other service provided by LCH Group Holdings Limited ("LCH Group") or any of its group undertakings (group undertakings shall be construed in accordance with section 1161 of the Companies Act 2006; each an ("LCH Group Company").

LCH Limited is supervised by the Bank of England within the UK regulatory framework, registered as a derivatives clearing organisation with the U.S. Commodity Futures Trading Commission ("CFTC") and recognised as a third-country CCP under Regulation (EU) No. 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories ("EMIR"). LCH S.A. is regulated and supervised in France by the Autorité des Marchés Financiers, the Autorité de Contrôle Prudentiel et de Résolution and the Banque de France, authorised as an E.U. CCP under EMIR, registered as a derivatives clearing organisation with the CFTC and as a clearing agency with the U.S. Securities and Exchange Commission. LCH Limited and LCH S.A. also hold licenses or authorisations in other jurisdictions in which they offer their services. More information is available at [www.lch.com](http://www.lch.com).

The relationship of an LCH Group Company with its members is governed solely by its rulebook and certain other ancillary documentation, as applicable. This document does not, and does not purport to, contain a detailed description of any aspect of a service provided by an LCH Group Company or any other topics discussed in this document, and it has not been prepared for any specific person. This document does not, and does not seek to, constitute advice of any nature. You may not rely upon the contents of this document under any circumstance and should seek your own independent legal, investment, tax and other advice. The information and any opinion contained in this document does not constitute a recommendation or offer with respect to any derivative contract, financial instrument, security or service. No LCH Group Company makes any representation, warranty, condition or guarantee (whether express or implied) that the contents of this document are accurate, complete or up-to-date, and makes no commitment to offer any particular product or service. No LCH Group Company shall have any liability for any losses, claims, demands, actions, proceedings, damages, costs or expenses arising out of, or in any way connected with, the information contained in this document, except that each LCH Group Company accepts liability that cannot be excluded by applicable law.

Copyright © LCH Limited 2023. All rights reserved. Copyright © LCH S.A. 2023. All rights reserved. LCH SwapClear, LCH CDSClear, LCH ForexClear, LCH RepoClear, LCH EquityClear, LCH SwapAgent and €GCPlus are registered trademarks of LCH.