

VIA CFTC PORTAL

January 27, 2022

Mr. Christopher Kirkpatrick
Commodity Futures Trading Commission
1155 21st Street NW
Three Lafayette Centre
Washington DC 20581

LCH Limited Self-Certification: Amendments Related to Israeli Shekel Swap Contracts

Dear Mr. Kirkpatrick,

Pursuant to Commodity Futures Trading Commission (“CFTC”) Regulation §40.6(a), LCH Limited (“LCH”), a derivatives clearing organization registered with the CFTC, is submitting for self-certification revisions to the LCH rules to provide for unique features of swap contracts that reference the Israeli Shekel (“ILS”).

Part I: Explanation and Analysis

While Sunday is a good ‘Business Day’ for ILS swap contracts under the 2021 ISDA interest rate derivatives definitions, LCH treats it as a non-business day in line with generally accepted market practice. Consequently, LCH is submitting for self-certification revisions to its rules to correctly reflect this in all instances where ILS swap contracts are referenced. These revisions are in Section 2C of the LCH Procedures and the LCH FCM Procedures (jointly the “Procedures”).

Part II: Description of Rule Changes

LCH’s rules reflect the unique treatment of business days with respect to ILS swap contracts, with the exception of section 1.8.6 of Procedure 2C and sections 2.1.8(a) and (f) of the FCM Procedures, which are being amended for consistency. Separately, section 1.8.6 of Procedure 2C and section 2.1.8(f) of the FCM Procedures are being amended to reflect the exception applicable to standard coupon inflation swap contracts, whereby LCH will adjust the effective date of such swap contract to be the first Business Day of the relevant Reference Month.

The changes to the rules are included as **Appendices I-II** in black line form. The changes will be effective not earlier than February 10, 2022.

Part III: Core Principle Compliance

LCH reviewed the proposed rule changes against the requirements of the Core Principles and finds it will continue to comply with all the requirements and standards set forth therein. Specifically, these rule changes have potential relevance to Core Principle C (Participant and Product Eligibility).

The changes described in this filing ensure that LCH meets the objectives of Core Principle C, including that LCH have appropriate requirements for determining the eligibility of agreements, contracts, or transactions submitted for clearing, taking into account LCH’s ability to manage the risks associated with such agreements, contracts, or transactions. LCH considered its product

eligibility requirements, specifically those related to the maintenance of product terms and conditions, and determined that the changes outlined in this filing will not impact LCH's compliance with Core Principle C. Furthermore, LCH believes the proposed changes represent LCH's Procedures with greater clarity. As a result, LCH believes these changes are consistent with the requirements of Core Principle C on Participant and Product Eligibility under CFTC regulation §39.12.

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: <https://www.lch.com/resources/rulebooks/proposed-rule-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.

Certification

LCH hereby certifies to the CFTC, pursuant to the procedures set forth in CFTC Regulation §40.6, that the attached submission complies with the Commodity Exchange Act, as amended, and the regulations promulgated thereunder.

Should you have any questions please contact me at michelle.weiler@lseg.com.

Yours sincerely,



Michelle Weiler
Compliance Officer, US
LCH Limited

Appendix I
Section 2C of the LCH Procedures
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LCH LIMITED

PROCEDURES SECTION 2C

SWAPCLEAR CLEARING SERVICE

SCM has, on a cumulative net basis, paid NPV Payments to the Clearing House. In a negative interest rate environment where the applicable Price Alignment Amount Rate is negative, the Clearing House will, for a SCM, either (i) pay a Price Alignment Amount if that SCM has, on a cumulative net basis, received NPV Payments from the Clearing House, or (ii) charge a Price Alignment Amount if that SCM has, on a cumulative net basis, paid NPV Payments to the Clearing House.

1.7.6 *Non-deliverable Interest Rate Swaps*

The Clearing House will calculate variation margin, NPV Payments, Price Alignment Interest and Price Alignment Amount in relation to SwapClear Contracts that are non-deliverable interest rate swaps in USD, and all amounts due or payable under such SwapClear Contracts must be paid in USD.

1.8 **Coupon Payments**

1.8.1 *Calendars and Coupons*

Payment dates for coupon payments will be set based on the SwapsMonitor Financial Calendar (see Section 1.2.3). Changes to the calendar that affect SwapClear Contracts will be published and made available to SCMs by the Clearing House in a Clearing Member report. The central control and publication of these calendars will assist the reconciliation of coupon payments between SCMs and the Clearing House. Coupon payments will be adjusted, in the event of a holiday amendment, in accordance with the Contract Terms.

Notwithstanding the foregoing, with respect to SwapClear Contracts ~~denominated in where the Currency is~~ Israeli Shekel (~~ILS~~), the Clearing House will not recognize Sunday as a Business Day.

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 and in accordance with the ISDA Definitions:

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

1.8.3 Calculation of Floating Amount

Subject to Section 1.8.5, 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 and in accordance with the ISDA Definitions:

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

1.8.4 Calculation of Compounding Floating Amounts

If applicable, Clearing House will calculate the compounding floating amount payable in respect of a SwapClear Contract on a Payment Date as an amount calculated in accordance with Sections 6.2.2, 6.2.3 or 6.2.4 of the ISDA Definitions (as applicable).

1.8.5 Calculation of FRA Discounting (Section 4.7 of the ISDA Definitions)

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

1.8.6 Business Day and Business Day Convention

In determining whether a day is a Business Day, the Clearing House will only apply the Financial Centres specified in the matched SwapClear Transaction message, except that, with respect to SwapClear Contracts denominated in Israeli Shekel, the Clearing House will not recognise Sunday as a Business Day.

The Clearing House will, in the event of non-Business Days, apply the Business Day Conventions in accordance with, and as specified in, the matched SwapClear Transaction message, except that, with respect to the effective date of a SwapClear Contract, the Clearing House will adjust such effective date as specified under Section 3.10 of the SwapClear Contract Terms.

1.8.7 Payment of Coupons

If applicable, the Clearing House will credit or debit Clearing Members' accounts with the appropriate Fixed Amount or Floating Amount with a value date matching the related Payment Date, after adjustment in accordance with the applicable Business Day Conventions. In the event of SwapClear being closed on a Payment Date, it will pay the Fixed Amounts and Floating Amounts on the next business day following such Payment Date.

1.8.8 Calculation Periods

In respect of any Calculation Period that is not a whole calendar month (a stub period), the applicable rate for the Reset Date in respect of that Calculation

Appendix II
LCH FCM Procedures
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FCM PROCEDURES OF THE CLEARING HOUSE

LCH LIMITED

netting provisions of FCM Regulation 47 and the Default Rules) of each FCM Clearing Member.

(e) *Price Alignment Amount*

The payment of Variation Settlement by the applicable party on a daily basis would, without adjustment, distort the pricing for certain FCM SwapClear Transactions cleared through the Clearing House. In order to minimise the impact of such Variation Settlement payments, the Clearing House will, for an FCM Clearing Member, either (i) charge a Price Alignment Amount if that FCM Clearing Member has, on a cumulative net basis, received Variation Settlement from the Clearing House, or (ii) pay a Price Alignment Amount if that FCM Clearing Member has, on a cumulative net basis, paid Variation Settlement to the Clearing House. In a negative interest rate environment where the applicable Price Alignment Amount rate is negative, the Clearing House will, for an FCM Clearing Member, either (i) pay a Price Alignment Amount if that FCM Clearing Member has, on a cumulative net basis, received Variation Settlement from the Clearing House, or (ii) charge a Price Alignment Amount if that FCM Clearing Member has, on a cumulative net basis, paid Variation Settlement to the Clearing House.

(f) *Non-deliverable Interest Rate Swaps*

The Clearing House will calculate variation margin, NPV Payments and Price Alignment Amounts in relation to FCM SwapClear Contracts that are non-deliverable interest rate swaps in USD, and all amounts due or payable under such FCM SwapClear Contracts must be paid in USD.

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.

Notwithstanding the foregoing, with respect to FCM SwapClear Contracts denominated in Israeli Shekel, the Clearing House will not recognize Sunday as a Business Day.

(b) *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 FCM 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 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 and in accordance with the ISDA Definitions:

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

(c) *Calculation of Floating Amount*

Subject to (e) below, 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 and in accordance with the ISDA Definitions:

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

(d) *Calculation of Compounding Floating Amounts*

If applicable, the Clearing House will calculate the compounding floating amount payable in respect of an FCM SwapClear Contract on a Payment Date as an amount calculated in accordance with Sections 6.2.2, 6.2.3 or 6.2.4 of the ISDA Definitions (as applicable).

(e) *Calculation of FRA Discounting (Article 4.7 of the ISDA Definitions)*

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

(f) *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 SwapClear Transaction message, except that, with respect to FCM SwapClear Contracts denominated in Israeli Shekel, the Clearing House will not recognize Sunday as a Business Day.

The Clearing House will, in the event of non-Business Days, apply the Business Day Conventions in accordance with, and as specified in, the matched FCM SwapClear Transaction message, except that, with respect to the effective date of an FCM SwapClear Contract, the Clearing House will adjust such effective date as specified under Section 3.9 of the FCM SwapClear Contract Terms.

(g) *Payment of Coupons*

After adjustment in accordance with the applicable Business Day Conventions, the Clearing House will, subject to the netting provisions of FCM Regulation 47, credit or debit FCM Clearing Members' accounts with the appropriate Fixed Amount or Floating Amount with a value date matching the related Payment Date. In the event of SwapClear being closed on a Payment Date, it will pay the Fixed Amounts and Floating Amounts on the next Business Day following such Payment Date.

(h) *Calculation Periods*

In respect of any Calculation Period that is a not a whole calendar month (a stub period), the applicable rate for the Reset Date in respect of that Calculation Period shall be determined by the Clearing House with reference to the rate(s) specified in the matched format message.

(i) *Day Count Fraction*

Day count fractions will be applied to deal legs of an FCM SwapClear Contract independently, as they are communicated via the matched format message of the FCM SwapClear Transaction corresponding to such FCM SwapClear Contract and the Clearing House will determine and apply such day count fractions in accordance with the ISDA Definitions.

(j) *Floating Rate*

Subject always to the terms of any applicable Floating Rate Conversion Annex and Floating Rate Conversion Notice(s), the Floating Rate Options shall have the meanings given to them in the ISDA Definitions, provided that where the rate for a Reset Date (i) is unavailable (including where such rate ceases, or will cease, to be provided by its administrators), (ii) is not sufficiently robust, (iii) is not fit for purpose or (iv) has materially changed, in each case as determined by the Clearing House in its sole discretion, the Clearing House will determine an alternative rate at its sole discretion. Each such rate will be provided in regular reports by the Clearing House to members.

(k) *Applying Floating Rate Options*