

**VIA CFTC PORTAL**

January 12, 2024

Mr. Christopher Kirkpatrick  
Commodity Futures Trading Commission  
1155 21<sup>st</sup> Street NW  
Three Lafayette Centre  
Washington, DC 20581

**LCH Limited self-certification: New Brazilian national holiday**

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 amendments to its rules (“LCH Rules”) in response to a new national holiday created in Brazil, which has affected the value of certain SwapClear Contracts and FCM SwapClear Contracts.

**Part I: Explanation and analysis**

On December 22, 2023, a new holiday was created in Brazil for the celebration of the National Day of Zumbi and Black Consciousness and occurring on November 20 of each year. This affected the value of non-deliverable interest rate swap SwapClear Contracts and FCM SwapClear Contracts that (i) reference the BRL-CDI index, (ii) were registered on or before December 22, 2023, and (iii) have a termination date beyond November 20, 2024 (each, an “Affected Contract”). This is because, unlike other types of SwapClear contracts, payments under an Affected Contract accrue each business (not calendar) day during the term of the contract.

The consensus amongst market participants is that it is preferable to amend the terms of Affected Contracts to restore the value to that which they would have in the absence of the new holiday.

To facilitate this, LCH is amending Procedure 2C and the FCM Procedures of the LCH Rules in order to grant LCH the ability to amend the terms of SwapClear Contracts and FCM SwapClear Contracts and/or require the SwapClear Clearing Member or FCM SwapClear Clearing Member that is party to such SwapClear Contract or FCM SwapClear Contract, respectively, to comply with any directions issued by the Clearing House regarding such SwapClear Contract or FCM SwapClear Contract.

**Part II: Description of the rule changes**

LCH will include a new section 1.8.13 of Procedure 2C to provide that, if the government of any nation, state or territory, or any institution or agency of such government, has created or announced a new holiday, which has affected, or is likely to affect, the value of a SwapClear Contract, then the Clearing House may amend the terms of such SwapClear Contract and/or require the SCM that is party to such SwapClear Contract to comply with any directions issued by the Clearing House regarding such SwapClear Contract, in each case, in order to seek to ensure such SwapClear Contract will have the

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same or similar value to that which it would have in the absence of such new holiday. LCH will also include a parallel new section 2.1.8(o) within the FCM Procedures, for FCM SwapClear Contracts.

The changes to the LCH Rules are included as **Appendices I-II** in black line form. The changes will be effective not earlier than January 29, 2024.

### **Part III: Core Principle Compliance**

LCH has reviewed the proposed rule changes against the requirements of the Core Principles and finds it will continue to comply with all requirements and standards set forth therein. Specifically, this rule change has potential relevance to Core Principles C (Participant and Product Eligibility) and L (Public Information).

The changes described in this filing meet the objectives of Core Principle C, including that LCH has appropriate requirements for determining the eligibility of submitted transactions, taking into account LCH's ability to manage the associated risks. In determining whether to accept swaps, LCH considered factors that included trading volume, liquidity, availability of pricing data and the ability for LCH to manage any associated risks within LCH's existing operational, risk management and default management tools. LCH carefully considered these factors and determined that this clarification meets LCH's qualifications and the requirements of Core Principle C.

The changes described in this filing also ensure that LCH meets the objectives of Core Principle L, including that, in addition to the specified requirements of CFTC Regulation §39.21, LCH makes available any information that is relevant to participation in the clearing and settlement activities of LCH, including the terms and conditions of each contract. LCH considered its public information requirements and believes amending Procedures 2C within LCH Rules to include this clarification meets the requirements of Core Principle L.

As such, LCH believes these changes are consistent with the requirements of Core Principle C on Participant and Product Eligibility under CFTC Regulation §39.12 and Core Principle L on Public Information under CFTC Regulation §39.21.

### **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 that were not incorporated into this proposal.

### **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.

### **Definitions**

Words which begin with a capital letter, but are not defined, in this document shall have the meaning specified in the General Regulations of the LCH Rules, which rulebook is located at [www.lch.com](http://www.lch.com).

Should you have any questions, please contact me at [lavannyan.mahalingam@lseg.com](mailto:lavannyan.mahalingam@lseg.com).



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Yours sincerely,

Lavannyan Mahalingam  
Regulatory Advisor  
LCH Limited



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**Appendix I**  
Procedures 2C  
*Changed Pages*

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**PROCEDURES SECTION 2C**

**SWAPCLEAR CLEARING SERVICE**

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The Index level used for calculating the Floating Rate for an Inflation SwapClear Contract is determined according to the 2008 ISDA Inflation Definitions in respect of the Index applicable to such Inflation SwapClear Contract.

In the event an Index is not available to calculate the Index Final, the Clearing House will, in its sole discretion, determine a value for the Index Final.

#### 1.8.12 *Non-deliverable Interest Rate Swaps*

The Clearing House will calculate all coupon payments for SwapClear Contracts that are non-deliverable interest rate swaps, including the Fixed Amount or Floating Amount payable under any such SwapClear Contract, in USD, and all amounts due or payable under such SwapClear Contracts must be paid in USD.

#### 1.8.13 *New holiday affecting the value of SwapClear Contracts*

If the government of any nation, state or territory, or any institution or agency of such government, has created or announced a new holiday (“New Holiday”), which has affected, or is likely to affect, the value of a SwapClear Contract, then the Clearing House may amend the terms of such SwapClear Contract and/or require the SCM that is party to such SwapClear Contract to comply with any directions issued by the Clearing House regarding such SwapClear Contract, in each case, in order to seek to ensure such SwapClear Contract will have the same or similar value to that which it would have in the absence of such New Holiday.

### 1.9 **Initial Margin**

The Clearing House will require SCMs to transfer Collateral in respect of their initial margin obligations, which are not discharged. This amount will be determined by the prevailing market conditions and the expected time to close out the portfolio. The Portfolio Approach to Interest Rate Scenarios (PAIRS) will be used to calculate initial margin requirements for SwapClear Contracts.

Separate initial margin calculations are performed for an SCM's Proprietary Accounts and for each Individual Segregated Account, Custodial Segregated Account, Omnibus Segregated Account (other than an Omnibus Gross Segregated Account), and Indirect Gross Sub-Account within an Indirect Gross Account. In respect of each Omnibus Gross Segregated Clearing Client (other than a Combined Omnibus Gross Segregated Clearing Client) separate initial margin calculations are performed in respect of the SwapClear Contracts entered into by the relevant SCM on behalf of each such Omnibus Gross Segregated Clearing Client. In respect of a group of Combined Omnibus Gross Segregated Clearing Clients a single initial margin calculation is performed in respect of SwapClear Contracts entered into by the relevant SCM on behalf of each such group of Combined Omnibus Gross Segregated Clearing Clients.

No offset between the "C" and the "H" accounts is allowed (except (i) pursuant to Rule 8(d) of the Default Rules or any Insufficient Resources Determination Rule, or (ii) in relation to the transfer of House Excess or Client Buffer in accordance with the



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**Appendix II**  
FCM Procedures  
*Changed Pages*

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**FCM PROCEDURES OF THE CLEARING HOUSE**

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Inflation Definitions in respect of the Index applicable to such Inflation FCM SwapClear Contract.

In the event an Index is no available to calculate the Index Final, the Clearing House will, in its sole discretion, determine a value for the Index Final.

(n) *Non-deliverable Interest Rate Swaps*

The Clearing House will calculate all coupon payments for FCM SwapClear Contracts that are non-deliverable interest rate swaps, including the Fixed Amount or Floating Amount payable under any such FCM SwapClear Contract, in USD, and all amounts due or payable under such FCM SwapClear Contracts must be paid in USD.

(o) *New holiday affecting the value of FCM SwapClear Contracts*

If the government of any nation, state or territory, or any institution or agency of such government, has created or announced a new holiday (“**New Holiday**”), which has affected, or is likely to affect, the value of an FCM SwapClear Contract, then the Clearing House may amend the terms of such FCM SwapClear Contract and/or require the FCM Clearing Member that is party to such FCM SwapClear Contract to comply with any directions issued by the Clearing House regarding such FCM SwapClear Contract, in each case, in order to seek to ensure such FCM SwapClear Contract will have the same or similar value to that which it would have in the absence of such New Holiday.

2.1.9 *Initial Margin*

The Clearing House will require FCM Clearing Members to furnish it with Initial Margin. This amount will be determined by the prevailing market conditions and the expected time to close out the portfolio. The Portfolio Approach to Interest Rate Scenarios (PAIRS) will be used to calculate Initial Margin requirements for FCM SwapClear Contracts.

Separate Initial Margin calculations are performed for an FCM Clearing Member's house “H” and client “C” accounts and, within a “C” account, separately in respect of each FCM Client Sub-Account therein. No offset between the “C” and “H” accounts is permitted.

The Clearing House reserves the right to require additional amounts of Margin from a specific FCM Clearing Member or from all FCM Clearing Members in accordance with FCM Regulation 14 (*Margin and Collateral*).

(a) *Liquidity Risk Margin*

The Clearing House may require an FCM Clearing Member to transfer Collateral to the Clearing House to meet the liquidity risk margin requirement applicable to such FCM Clearing Member. This requirement is based on the risk profile of the FCM Clearing Member