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Bank of England
Threadneedle Street
London, EC2R 8AH

July 21, 2022

Re: Derivatives clearing obligation – modifications to reflect USD interest rate benchmark reform

We appreciate the opportunity to respond to the Bank of England (the "Bank") consultation paper on updating the UK derivatives clearing obligation to reflect the transition from USD Libor contracts to Secured Overnight Financing Rate ("SOFR") Overnight Index Swaps ("OIS").[1] We fully support the Proposal to update the scope of the clearing requirement to reflect the adoption of OIS contracts referencing SOFR and for these additions to go into force October 31, 2022.

As we described in our response to the Bank's May 20, 2021 Consultation Paper, the clearing requirement is a central pillar of the post-crisis reforms to the OTC derivatives markets. Central clearing is not only an important tool to mitigate systemic risk, it also promotes market liquidity, increases transparency, and protects investors. As the global interest rate derivatives market transitions away from referencing interbank offered rates (such as USD Libor) to referencing new risk-free reference rates ("RFRs"), it is critical that the post-crisis reforms, including the clearing requirement, are applied to these new OTC derivative contracts.

As a result, we strongly support the Bank's Proposal to:

- Add the contract type in the OIS class referencing SOFR, with an original maturity of 7 days to 50 years on October 31, 2022; and

- Remove the contract type referencing USD Libor from the Basis Swap, Fixed-to-Float Interest Rate Swap and Forward Rate Agreement classes around the same time as when central counterparties ("CCPs") contractually convert these contracts and remove instruments referencing USD Libor from their list of contracts eligible for clearing.

We agree with the Bank's determination that the relevant statutory factors are met. As noted in the Proposal, the volume and liquidity in SOFR OIS contracts has already reached a significant enough level to warrant mandatory clearing. According to the Bank's analysis of EMIR Trade Repository data, in January 2022 SOFR OIS represented 65% of the UK market (approximately $940 billion notional) compared to 35% in USD Libor contracts (approximately $500 billion notional).

With regard to the requirement to consider the operational processes of the relevant class of OTC derivates, we believe it is clear that market participants have in place the operational and technological infrastructure to support the clearing of USD SOFR OIS. As the Bank notes, almost

[1] "Derivatives clearing obligation – modifications to reflect USD interest rate benchmark reform: Amendments to BTS 2015/2205 (June 9, 2022) (the "Proposal").

all transactions in USD SOFR OIS today are cleared voluntarily.[2] Significant voluntary clearing demonstrates the confidence market participants have in the current cleared offerings.

We further believe the Bank's Proposal correctly maintains the clearing requirement for swaps referencing USD Libor and provides the Bank with flexibility to continue evaluating market developments for specific tenors and to adjust requirements as necessary. As noted in the Proposal, even with the continued adoption of SOFR, there is still a significant amount of trading in USD denominated swaps that reference Libor (approximately $250 billion notional in April 2022).[3] We agree that it is prudent to maintain the clearing requirement for swaps referencing USD Libor until CCPs' contractual conversion of USD Libor contracts or until trading activity substantially decreases.

Lastly, we applaud the Bank's efforts to harmonize clearing requirements with the U.S. Commodity Futures Trading Commission ("CFTC"). In May, the CFTC published a proposal that would similarly add to the clearing mandate SOFR OIS with a termination date range of 7 days to 50 years.[4] The CFTC's proposal would also remove from the clearing requirement USD denominated swaps that reference Libor from each of the fixed-to-floating swap, basis swap, and forward rate agreement classes, at such time as these USD Libor settings are expected to cease or become non representative (*e.g.*, July 1, 2023). Thus, the Bank's proposal is largely aligned with the CFTC's proposal, and this alignment will contribute to a smoother transition globally.

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We appreciate the opportunity to provide comments to the Bank on the clearing requirement and interest rate benchmark reform. Please feel free to call the undersigned with any questions regarding these comments.

Respectfully,

/s/ Stephen John Berger
Managing Director
Global Head of Government & Regulatory Policy

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2 Proposal at Section 2.2 (noting that 97% of SOFR OIS contracts were voluntarily cleared in April 2022 and that "the percentage of SOFR OIS contracts that have been subject to clearing has remained broadly consistent since the start of the year").

3 Proposal at Section 3.1.

4 "Clearing Requirement Determination Under Section 2(h) of the Commodity Exchange Act for Interest Rate Swaps To Account for the Transition From LIBOR and Other IBORs to Alternative Reference Rates," 87 Fed. Reg. 32,898 (May 31, 2022).