David A. Stawick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

3rd December 2010

Dear Mr Stawick,

Re: RIN 3038-AC15 – 17 CFR Parts 1 and 30
"Investment of Customer Funds and Funds Held in an Account for Foreign Futures and Foreign Options Transactions"

The LCH.Clearnet Group ("LCH.Clearnet") is pleased to submit this comment letter in response to the Commodity Futures Trading Commission's ("Commission's") request for comment on the proposed amendments to Commission Regulation 1.25, "Investment of Customer Funds", and Regulation 30.7, "Treatment of Foreign Futures or Foreign Options Secured Amount".

The Group shares the Commission's goals in seeking to ensure that the rules governing the investment of customer assets by Derivatives Clearing Organizations ("DCOs") be consistent with the objectives of preserving principal and maintaining liquidity. As the Commission indicates in its notice of November 3, customer segregated funds should always be invested in a manner that minimizes their exposure to credit, liquidity and market risks so as to ensure that the investments can be quickly converted to cash at a predictable value, with little or no risk to principal. The prudential standards under which the Group operates all its investment operations are specifically designed to uphold such requirements.

The Group understands that in its proposed rule change the Commission is seeking to simplify the regulation and impose requirements that can better ensure the preservation of principal and maintenance of liquidity.

The Group is fully supportive of the Commission's aims in this regard and would uphold the introduction of any rule changes that eliminated the potential use of any instruments that might pose an unacceptable level of risk.

The overriding objective of the Group is always to robustly and prudently risk manage, in order to provide Clearing Members and their customers with central counterparties of the highest quality and to reduce risk in the system.

LCH.Clearnet Group Limited Aldgate House, 33 Aldgate High Street, London EC3N 1EA
Tel: +44 (0)20 7426 7000 Fax: +44 (0)20 7426 7001 www.lchclearnet.com
LCH.Clearnet Group Limited | LCH.Clearnet Limited | LCH.Clearnet SA

Although the Group supports the Commission's overall objectives in proposing these rule changes, it is concerned by two specific measures: the restriction on foreign sovereign debt investment, and the counterparty concentration limits for agreements to repurchase.

Foreign Sovereign Debt

LCH.Clearnet is deeply concerned by the Commission's proposal to disallow the investment of customer segregated funds in foreign sovereign debt. The Group believes that such a prohibition would have the unintended consequence of introducing an unwarranted foreign exchange exposure, either at the customer, the FCM or the DCO level, thereby increasing rather than decreasing risks in the system. The Group is also concerned that the imposition of such a rule in the US would very likely result in one or more foreign jurisdictions taking retaliatory action, thereby further increasing risks in the system and raising the cost of business at the expense of the end customer. The imposition of such restrictions would be particularly troublesome for established global market infrastructures such as LCH.Clearnet.

The Group also believes that this proposal is unnecessarily restrictive given the very conservative investment policies under which DCOs operate. The Group's rules, for instance, prescribe that any cash received by its clearing houses to cover initial margin (whether from Clearing Members or from their customers) is invested in three prudently limited ways: in the direct purchase of government securities from a limited range of issuers; in securities purchased subject to agreements to resell through tri-party repo service providers; and finally, to a minimal level, in overnight unsecured deposits with a limited range of banks.

More specifically, the Group's current rules for its clearing houses provide that:

- a minimum of 90% of investments are made on a secured basis;

- any outright purchases of securities are made in a limited range of high quality European issuers and the US government. All securities are less than 3 years in maturity and highly liquid instruments;

- participation in repo market is conducted through tri-party repo service providers in the US and Europe, with acceptable collateral being limited to that issued only by a limited range of high quality European governments, the US government and quasi-government agencies;

- all securities held through tri-party are marked-to-market at least daily and are subject to prudent haircuts to cover both risk on the bond, its liquidity and any potential foreign exchange risk; and

- unsecured money market deposits are used as a tool to ensure sufficient liquidity is available at all times. All deposits are within 90% of the capital base of the company and with bank institutions rated AA- or higher.

The Group recognizes the risks that the Commission is seeking to address, but believes that the imposition of a wholesale restriction on foreign sovereign debt investment is unnecessarily restrictive. We would therefore urge the Commission either to leave its existing rule in place

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allowing foreign sovereign debt as a permissible investment, or instead that it modify its existing rule, such as to limit permissible investments in foreign sovereign debt to high quality sovereign issuers.

Repurchase and Reverse Repurchase Transactions

The Commission proposes to introduce a counterparty concentration limit on securities purchased by a DCO from a single counterparty subject to agreements to resell to that same counterparty. In its release the Commission proposes that these should not exceed 5 percent of total assets held in segregation by the DCO.

LCH.Clearnet believes that it is wholly appropriate that the Commission require counterparty concentration limits such that a DCO could never have its segregated funds invested with a single counterpart.

A counterparty concentration limit of just 5 percent is, in the Group's view, too onerous a requirement given that the credit risk between a DCO and its reverse repo counterparts will always be significantly mitigated by the fact that in exchange for cash the DCO is holding permissible securities of an equivalent or greater value. LCH.Clearnet is particularly concerned that a 5 percent concentration limit will give rise to increased operational risks and costs that would ultimately need to be borne by consumers and end investors. It would therefore recommend that the Commission instead look to impose a 10 or 20 percent concentration limit for such secured transactions.

LCH.Clearnet strongly supports the policy goals underpinned by the Proposing Release. We recognize the hard work undertaken by the Commission in order to develop this proposed rule change and value its thoughtful approach in this task.

LCH.Clearnet appreciates the opportunity to comment on these important issues and would be pleased to enter into a further dialogue with the Commission and its staff. Please contact Simon Wheatley at (+44) 20 7426 7622 regarding any questions raised by this letter or to discuss these comments in greater detail.

Yours sincerely,

Roger Liddell

Chief Executive