

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

8 March 2011

Dear Mr Stawick:

Re: RIN 3038 AD18 Core Principles and Other Requirements for Swap Execution Facilities

LCH.Clearnet Group Limited (“LCH.Clearnet” or “the Group”)¹ is pleased to respond to the Commodity Futures Trading Commission’s (“Commission’s”) request for comments on proposed Regulation RIN 3038-AD18, which would implement core principles and other requirements for Swap Execution Facilities (“SEFs”).

LCH.Clearnet was very supportive of the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act, including those provisions designed to ensure greater transparency in the Swap and Security-Based Swap markets. The Group fully supports the proposed rulemaking on Core Principles and Other Requirements for Swap Execution Facilities, and commends the Commission for the careful thought and consideration that it has given the rulemaking process, as well as for the open way in which it has consulted with market participants and other interested parties.

In Section 37.3(b) of the proposed rulemaking, the Commission provides temporary grandfather relief from registration to those entities that currently provide a marketplace for the listing and trading of Swaps. Such entities may be required to be registered as Swap Execution Facilities (“SEFs”) as of the effective date of the SEF rules.

¹ LCH.Clearnet is the world’s leading independent clearinghouse group. It serves major international exchanges and platforms, as well as a range of Over-the-Counter (“OTC”) markets. It clears a broad range of asset classes, including cash equities, exchange-traded derivatives, energy, freight, interest rate swaps and euro- and British pound-denominated bonds and repos. LCH.Clearnet Limited currently clears more than forty percent of the interest rate swap market representing trades with a total notional principal of over \$248 trillion in 14 currencies. Of that amount, approximately \$89 trillion is in U.S. dollars. LCH.Clearnet was formed out of the merger of The London Clearing House Limited and Clearnet SA and continues to operate two clearinghouses, LCH.Clearnet Limited in London and LCH.Clearnet SA in Paris. LCH.Clearnet Ltd is regulated by, *inter alia*, the UK Financial Services Authority and by the US Commodity Futures Trading Commission (as a derivatives clearing organization). LCH.Clearnet SA is regulated as a Credit Institution and Clearing House by a regulatory college consisting of, amongst others, the market regulators and central banks from the jurisdictions of: France, Netherlands, Belgium and Portugal. It is also regulated as a Recognised Overseas Clearing House by the UK Financial Services Authority.



LCH.Clearnet agrees that the relief laid out by the Commission under Proposed Rule 37.3(b) is necessary to ensure continuity of the business operations of an existing entity which, at the time that Part 37 becomes effective, is providing a marketplace for the trading of Swaps. The Group would nonetheless observe that for such relief to be properly effective, the Derivatives Clearing Organizations (“DCOs”) and other market participants that support such Swaps trading systems, must also be granted parallel relief.

LCH.Clearnet currently provides clearing services for the Nodal Exchange², an Exempt Commercial Market (“ECM”), for cash-settled contracts in power and natural gas. Currently, only one of the ten LCH.Clearnet clearing members that provide clearing services for Nodal Exchange is registered with the Commission as a Futures Commission Merchant (“FCM”). Should Nodal Exchange successfully apply to become a SEF, LCH.Clearnet and its members that clear Nodal Exchange contracts will require time to come into compliance with the rules that will apply to the clearing of Swaps traded on SEFs - in particular, the requirement that all such contracts cleared on behalf of customers be carried by a registered FCM. If LCH.Clearnet clearing members are obliged to comply with the requirement that they be registered as FCMs upon the effective date of the Part 37 rules, rather than on the date that the Nodal Exchange would be granted registration as a SEF (if approved), trading on that market may be adversely affected and create undue uncertainty for market participants.

The Group therefore respectfully requests that the Commission grant temporary grandfather relief to LCH.Clearnet and to its clearing members from the requirement that Swaps traded on a SEF and cleared on a registered DCO be cleared by a registered FCM. In the Group’s view this relief should apply until such time as a trading system that has qualified for temporary relief from registration as a SEF under proposed rule 37.3(b) is granted registration as a SEF. In the Group’s view this temporary relief is consistent with the Commission’s ‘Orders Regarding the Treatment of Petitions Seeking Grandfather Relief for Exempt Commercial Markets and Exempt Boards of Trade’,³ as published September 16th, 2010.

LCH.Clearnet recognizes the hard work undertaken by the Commission in order to develop these proposed rules, and appreciates the opportunity to comment on these important issues. We would be pleased to enter into a further dialogue with the Commission and its staff. Please do not hesitate to contact Simon Wheatley at +44 (0)20 7426 7622 regarding any questions raised by this letter or to discuss these comments in greater detail.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'R Liddell'.

Roger Liddell
Chief Executive

² **Nodal Exchange, LLC** is the first commodities exchange dedicated to offering locational (nodal) futures contracts and related services to participants in the organized North American electric power markets. Nodal Exchange builds on the success of the existing Regional Transmission Organization/Independent System Operator (RTO/ISO) Day Ahead and Real Time markets by offering cash-settled futures contracts in a cleared market enabling Nodal Exchange participants to effectively manage basis and credit risk. Daily auctions are held on over 90 key locations and weekly auctions on over 1,800 hubs, zones and nodes. The Nodal Exchange platform also accepts for clearing over-the-counter (OTC) cash settled trades for power and natural gas contracts submitted by participants and brokers. Nodal Exchange is an independent, privately held company. For more information, visit www.nodalexchange.com.

³ <http://www.cftc.gov/ucm/groups/public/@lrfederalregister/documents/file/2010-23142a.pdf>