

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

11th October 2011

Dear Mr. Stawick:

Re: RIN Number 3038-AD51, Customer Clearing Documentation and Timing of Acceptance for Clearing

LCH.Clearnet Group Limited ("LCH.Clearnet" or "The Group") is pleased to respond to the request for comment by the Commodity Futures Trading Commission ("CFTC" or "Commission") on RIN 3038-AD51, Customer Clearing Documentation and Timing of Acceptance for Clearing ("Proposing Release").

The Group strongly supports the policy goals underpinned by both the Proposing Release and the related statutory provisions contained in Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank").

In the Proposing Release, the Commission is re-proposing rules governing the timing of acceptance or rejection of trades for clearing by derivatives clearing organizations ("DCOs") and clearing members. The Commission has made some changes to its original proposal in response to comments received, including a comment submitted by the Group. The previous version of proposed rules 39.12(b)(7)(ii) and (iii) required DCOs to accept or reject contracts for clearing "immediately upon execution". Commenters expressed concern that these provisions could undermine the integrity of a DCO. Specifically, the Group commented that a DCO should not be required to accept any trade for clearing before it has received sufficient margin from clearing members to cover the risk of the trade.

The Group is pleased that the Commission has responded to some of the concerns raised by commenters and has modified proposed rules 39.12(b)(7)(ii) and (iii) to allow DCOs to screen trades against product and risk filters. We are also pleased that the Commission has chosen to adopt a performance standard, rather than to prescribe a particular method of trade processing.

However, the Group remains concerned that the proposed standard: "as quickly as technologically practicable if fully automated systems were used" would not allow adequate time for a DCO to determine if it has sufficient margins for a trade before having to accept or reject it for clearing. The Group believes that it is fundamentally important for a DCO to have sufficient margin prior to accepting and confirming a trade for clearing. The understandable desire to minimize the time between submission of a trade to the DCO and its acceptance for clearing

should not be permitted to put the full system at risk. In our view, proposed 39.12(b)(7)(ii) and (iii), could undermine the integrity of the clearinghouse.

The Group would therefore urge the Commission to amend the initial paragraphs of proposed 39.12(7)(ii) and of proposed 39.12(b)(7)(iii), as indicated below.

- (ii) *Transactions executed competitively on or subject to the rules of a designated contract market or swap execution facility.* A derivatives clearing organization shall have rules that provide that the derivatives clearing organization will accept or reject for clearing as quickly after execution as would be technologically practicable if fully automated systems were used, all contracts that are listed for clearing by the derivatives clearing organization and are executed competitively on a designated contract market or a swap execution facility and for which sufficient margins have been received by the derivatives clearing organization. The derivatives clearing organization shall accept all trades:
- (iii) *Swaps not executed on or subject to the rules of a designated contract market or a swap execution facility or executed non-competitively on or subject to the rules of a designated contract market or a swap execution facility.* A derivatives clearing organization shall have rules that provide that the derivatives clearing organization will accept or reject for clearing as quickly after submission to the derivatives clearing organization as would be technologically practicable if fully automated systems were used, all swaps that are listed for clearing by the derivatives clearing organization and are not executed on a designated contract market or a swap execution facility and for which sufficient margins have been received by the derivatives clearing organization. The derivatives clearing organization shall accept all trades:

Adoption of proposed rule 39.12(b)(7)(ii) and (iii) without these changes would require the Group to make significant operational and systems modifications in order to comply with the final rules. Although not impossible, the implementation of these system changes will take time – and once effected, the changes will need testing. If the Commission does adopt 39.12(b)(7)(ii) and (iii) as proposed, we therefore strongly recommend that the Commission either delay the effective date of the rules for at least nine months after adoption, or delay requiring compliance with these provisions for that period of time. Such a delay would allow the Group to safely implement the required operational and systems changes.

LCH.Clearnet appreciates the opportunity to share our views on the proposed rule on the timing of acceptance of swaps for clearing. We look forward to working with the Commission as it continues to implement the Act. Please do not hesitate to contact Simon Wheatley at +44 (0)207 426 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 'Ian Axe', written over a white background.

Ian Axe
Chief Executive Officer