Group Public Affairs

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LLOYDS BANKING GROUP

13 August 2012

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

RE: RIN number 3038-AD85: 17 CFR Chapter I Exemptive Order Regarding Compliance With Certain Swap Regulations

Dear Secretary Stawick:

Lloyds Banking Group ('the Group') welcomes the opportunity to respond to the Commission's July 12 proposed Exemptive Order. The Group is a UK headquartered bank focusing primarily on retail and commercial banking in our domestic market, with a limited presence outside the EU. We believe our position is somewhat different from the majority of other respondents; however this does perhaps illustrate the wide-reaching implications of the Commission's proposals.

The Group understands the aim of the Commission to develop and implement effective regulation to ensure the protection of US investors and the US financial system. However, as a non-US person, the Group has identified a number of consequences arising from the Commission's approach which could prove difficult for cross-border activity by non-US banks which have even a moderate presence in the US.

The Group fully endorses the detailed submissions on the proposed rules which have been made by the International Institute of Bankers (IIB) on behalf of the wider industry. The purpose of this letter is to draw out those points which are of specific concern to us from our particular perspective:

Requirements to register

- For all institutions, the suggested compliance time period of the proposed rule does not reflect the practicalities of implementing changes to systems and procedures for either us or our customers. From the perspective of non-US persons such as the Group, the proposed rules also create complexity as we would need to ensure that we develop a compliance program to meet US requirements in tandem with compliance programs to meet EU and UK regulatory requirements. This further exacerbates the tightness of the timescales, particularly where there are conflicts between the jurisdictions.

- The Group's engagement with US counterparties has the main purpose of hedging our non-US mortgage and lending business. As such, our swap activity is materially different from the type of activity that is considered as contributing to the 2007-2008 crises. From our reading of the Commission's definitions, it appears that requiring the Group to comply with Title VII (as well as with our UK and EU requirements) is beyond the remit

and intentions of the rules. We would welcome further detail from the CFTC on the scope of the application

- The recent agreement of 'entity' and 'swap' definitions without the corresponding finalisation of the capital and margin requirements makes it difficult for the Group to crystallize the detail and extent of the impact to affected businesses. We would encourage the CFTC to provide sufficient support and guidance and, importantly, to allow a realistic timeframe for firms to meet these requirements.

- We welcome the proposed Exemptive Order allowing delayed compliance with certain entity level requirements for non-US registrations. However, registration by non-US persons will still be required even as the full set of implications of registration is unknown. This makes contemplation of key strategic and infrastructural decisions challenging.

- We welcome the CFTC determinations on what will constitute substituted compliance for non-US banks, although the provided guidance is untested and still uncertain. For example, it is unclear how the market and CFTC will determine what will be formally designated as comparable non-US regulations. This is especially relevant in the short term given that the European regulatory process surrounding equivalent derivatives regulations (in particular the EU's Market Infrastructure Regulation and revisions to the Markets in Financial Instruments Directive) and the arrangements of other key jurisdictions are not yet complete, though some aspects such as EU preparations for OTC clearing are certainly well on track to meet G20 commitments.

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We would suggest that the requirement for non-US SDs to register becomes effective 12 months **after** the date of the publication of the **final** cross-border guidance, with the computation of the *de minimis* thresholds starting from that date. Allowing non-US persons to register 12 months after the effective date will not have a negative impact on the US market because transactional level requirements will apply allowing for full transparency to the CFTC.

This time extension will allow the Group to coordinate with our home country regulator to secure all/any required approvals, and to make any required changes to ensure continuity for our customers.

We would welcome the opportunity to engage with the Commission staff to address our concerns. Please feel free to contact me (Jonathan.Gray2@lloydsbanking.com) or my colleague Cat Fereday (Cat.Fereday@lloydsbanking.com).

Yours sincerely,

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