



March 7, 2016

Mr. Christopher Kirkpatrick
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street NW
Washington, DC 20581

Re: Draft Technical Specifications for Certain Swap Data Elements

Dear Mr. Kirkpatrick,

LCH.Clearnet Limited, LCH.Clearnet SA and LCH.Clearnet LLC (together "LCH") are each Derivatives Clearing Organizations ("DCOs") registered with the Commodity Futures Trading Commission (the "CFTC" or "Commission").¹

LCH welcomes the opportunity to respond to the proposed draft technical specifications for certain of the swap data elements that are reportable under Part 43 and 45 of the Commission's regulations. LCH has supported the Commission's efforts to review, enhance and standardize the swap data reporting and recordkeeping rules.² We commend the Commission on this continued effort to increase the regulatory utility of the data and to lessen reporting burdens on market participants through further clarification and standardization.

We have included answers to specific questions in the attached appendix and have two general comments:

International Harmonization

Reporting of cleared and uncleared swap transactions is a key requirement of Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act and one of the pillars of the G20 commitments on derivatives. We are reporting or anticipate reporting cleared swaps in many different in jurisdictions around the world.

¹ The LCH.Clearnet Group is the leading multi-asset class and multi-national group of clearinghouses, serving major international exchanges and platforms as well as a range of OTC markets. It clears a broad range of asset classes including securities, exchange-traded derivatives, commodities, energy, freight, foreign exchange derivatives, interest rate swaps, credit default swaps, and euro and sterling denominated bonds and repos. LCH.Clearnet Group Limited is majority owned by the London Stock Exchange Group (LSEG), a diversified international exchange group.

² LCH.Clearnet response to RIN 3038-AE12, Review of Swap Data Recordkeeping and Reporting Requirements, 79 FR 16689 (March 26, 2014), <http://comments.cftc.gov/PublicComments/ViewComment.aspx?id=59891&SearchText=LCH>

International harmonization of these data elements is critical to fulfilling the objectives of the G20 reporting mandate. We commend the work of CPMI-IOSCO in developing global standards to facilitate the goal of standardization and harmonization. As many of these international initiatives are currently in process, we urge the Commission to align the timeline for any changes to the CFTC guidance and rules with the development of relevant standards at the global level.

New Specifications Should Focus on Risk Changes in Cleared Transactions

The request for comment introduces several new elements into the existing data reporting framework, adding additional complexity to the current level of event information. One of the primary objectives of data reporting for cleared transactions is to monitor and identify risks. Reporting every single element of an event chain for a cleared transaction may significantly increase the number of data points, but may not enhance the information that the Commission has regarding the broader risk picture. This is particularly true where reporting involves different clearing models and technical specifications across major jurisdictions. We recommend the Commission ensure that new technical specifications applying to cleared transactions focus on capturing the core risk changes resulting from an event rather than simply capturing every step in the transaction.

* * *

We appreciate the opportunity to share our views on the Commission's swap data reporting rules and are available to discuss these comments further at your convenience.

Sincerely,



Jonathan Jachym
Head of North America Regulatory Strategy & Government Relations
London Stock Exchange Group

Appendix

LCH.Clearnet Answers to Specific Questions

A. Counterparty-Related Data Elements

1. Are there challenges associated with identifying the Ultimate Parent and/or Ultimate Guarantor of a swap counterparty? If so, how might those challenges be addressed?

LCH is seeking clarity on the Ultimate Parent/Guarantor, especially under certain scenarios:

1. Members/House account - LCH understands the member as the Ultimate Guarantor. For structures such as SwapClear Dealer, LCH also knows the member as the Ultimate Guarantor. We anticipate no problems here.
2. LCH understands that for agency client clearing the member (FCM) is the ultimate guarantor of the swap counterparty. This is also true for FCM affiliate trades. LCH is asking for the Commission to confirm this understanding.
3. Under the client clearing principal model, LCH interprets this only from the perspective of the SwapClear contract with the clearing member, i.e. ignores the end client. The Commission should also consider how this impacts the representation of client cleared transactions within the SDR i.e. where a transaction is a principal client clearing transaction, who is the Ultimate Parent and Guarantor of which leg of the client cleared transaction?
4. LCH understands that the FCM is the ultimate guarantor of the bunched order. LCH is asking for the Commission to confirm this understanding.
5. In some scenarios, the client may be identified within the CCP as a party who is acting as representative of the client e.g. a trust bank in the case of Japanese clients. In these scenarios LCH may not always be aware of the Ultimate Parent of the positions, that may only be known by the relevant clearing broker.

4. Are there situations in which a natural person is the Ultimate Parent of a swap counterparty? If so, is it clear who should and should not be reported?

Yes, there are situations in which a natural person may be the Ultimate Parent of a Swap counterparty. LCH would request the Commission to provide clarity on how this scenario should be reported and would encourage harmonization with the other major G20 jurisdictions on this matter.

5. Should the allowable values for Counterparty ID be modified for counterparties that are natural persons? If so, how?

LCH suggests that any modification should align with other major G20 jurisdictions.

B. Product

16. Please provide feedback on any aspect of the draft technical specifications for the data elements presented below.

For the element Asset Class, some SDRs are already consuming Product Type which shows the asset class as part of that. As such, we may not need Asset Class if participants are already reporting product types which infer Asset Class.

C. Price

No comments.

D. Notional Amount

23. What challenges exist for reporting of static and/or varying notional amounts, such as a schedule for accreting or amortizing swaps? Do you have recommendations for addressing these challenges?

FpML supports the capture of the whole notional schedule for a Swap. This information is already provided by execution and affirmation venues to CCPs and in turn should be provided to SDRs. Contract intrinsic events, such as changes to notional amounts agreed at time of trade execution, should not need to be reported as lifecycle events. They are a component of the primary economic terms of the trade.

Our recommendation to address FX transactions with two notionals however is to report it as follows:

- Notional Amount 1
- Notional CCY 1
- Notional Amount 2
- Notional CCY 2

E. Additional Fixed Payments

No comments.

F. Options

28. Do the allowable values for Option Type clearly and properly reflect the possible outcomes resulting from an option exercise as they relate to the underlying contract?

Yes.³

³ Responses to questions 28 – 31 refer only to our experience with FX options.

29. Do the allowable values for Option Strike Type properly reflect the range of appropriate entries for this data element?

Yes.

30. Does the definition of Option Strike adequately describe the range of entries for this data element?

Yes.

31. Do the allowable values for Option Premium Amount Type properly reflect the range of appropriate entries for this data element?

Yes.

G. Orders

36. Please provide feedback on any aspect of the draft technical specifications for the data elements presented below.

Order related fields should not be required to be populated for cleared transactions. The Commission should receive the necessary data with the report of the alpha transaction.

H. Package Transactions

39. Should the data elements provide pricing for each component of a package transaction, or is it sufficient to only provide (1) pricing for the swap components only; or (2) price for the entire package?

Order related fields should not be required to be populated for cleared transactions. LCH expects that this information would be reported with the alpha transactions.

40. Should the data elements specifically identify the types of non-swap instrument component legs in the package transaction?

Order related fields should not be required to be populated for cleared transactions. LCH expects that this information would be reported with the alpha transactions.

41. Please provide feedback on any aspect of the draft technical specifications for the data elements presented below.

As per previous responses in this section, order related fields should not be required to be populated for cleared transactions, or package transactions in this case. The Commission should receive the necessary data with the report of the alpha transactions. Further, while LCH may receive a “package,” we will not know what the package contained at the point of

execution. Rather, LCH will only see those elements which are submitted to LCH. Consequently, LCH will not know information such as whether the package contained a Non-CFTC swap. Where provided however, LCH may send the Package ID.

I. Clearing

43. Please provide feedback on any aspect of the draft technical specifications for the data elements presented below.

“Mandatory Clearing Indicator”– LCH does not believe that this attribute should be reported for a cleared transaction, but only in the context of the alpha transaction that is submitted for clearing.

J. Periodic Reporting

(a) Reconciliation

45. Please provide feedback on any aspect of the draft technical specifications for the data elements presented below.

“Data Accuracy Confirmation by Counterparty” - LCH assumes this element will be populated by the SDR, but requests additional clarity on this point.

(b) Next Reset Date

46. Are there any challenges for reporting the updated next reset date as the floating leg resets over time?

Such contract intrinsic events have not previously been reportable and are not reportable under other jurisdictions. While such information could be reported, it is unnecessary to do so if the relevant core attributes (see Question 47) have been reported as a part of the trade details, which today is market practice. Also the extension of reporting of such events would not align with other regimes and would create further disparity between reporting regimes globally.

47. Is there a different methodology for Staff to know the updated next reset date that is more efficient than the reporting of the Next Reset Date data element?

Reset date multipliers, periods, and conventions are all standard elements of FpML representation of swap transactions and should be included in the information reported to SDRs. This gives sufficient information for the reset dates to be calculated for a given swap.

(c) Valuation

46. Are there any challenges for reporting the updated next reset date as the floating leg resets over time?

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47. Is there a different methodology for Staff to know the updated next reset date that is more efficient than the reporting of the Next Reset Date data element?

Reset date multipliers, periods, and conventions are all standard elements of FpML representation of swap transactions and should be included in the information reported to SDRs. This gives sufficient information for the reset dates to be calculated for a given swap.

52. Please provide feedback on any aspect of the draft technical specifications for the data elements presented below.

As per our response to Questions 49 and 50, it is unclear what value data elements Leg NPV and Leg NPV Currency would provide.

(d) Collateral/Margin

53. What are the challenges to reporting the following collateral information:

- (a) eligible currencies, securities and haircuts;*
- (b) other types of eligible collateral and valuation;*

Reporting of eligible criteria would be very difficult as there are no industry wide conventions today on how this information is communicated across parties. Further, eligible collateral does not frequently change at the CCP and is publically available to participants.

- (c) rehypothecation election; and*
- (d) segregation of posted collateral in a triparty custodial account?*

Segregation of collateral can be achieved in various ways. LCH is unclear as to why the Commission is explicitly referring to segregation in a triparty custodial account and would ask the Commission to provide more clarity on this question.

56. Should Netting Set valuation, collateral and margin information be reported at the transaction level or only at the aggregated portfolio level?

Netting Set information should be supplied at transaction or portfolio level according to the data element in question. Valuation should be reported at transaction level. Variation Margin should also be reported at transaction level, but could be reported at currency sub-portfolio level. Initial Margin and Collateral should be reported at portfolio level.

57. Are the data described in the data element Close Out Netting Set Portfolio and Collateral Valuation Currency all denominated in the same currency? If not, should there be additional data elements to capture the currencies?

For cleared IRS, Variation Margin is in the underlying currency of the transaction. Consequently, for Variation Margin, multiple currencies should be supported in order to provide a full and complete picture. Initial Margin will be baselined into a single currency with collateral also baselined into the same currency for cover distribution purposes.

58. Please provide feedback on any aspect of the draft technical specifications for the data elements presented below.

“Collateral Posted Valuation” – for CCP margining the CCP never posts collateral. For cleared transactions, where the DCO is the reporting party, the reporting should require the report to detail the “collateral received” by the CCP.

“Mark To Market Valuation Date/Time” – the proposals are unclear on the frequency with which the data is required.

K. Events

60. Are there other ways to resolve the challenges encountered by Staff in understanding swap events? If so, please provide details regarding how these potential solutions illustrate both: (i) all of the events impacting a swap and (ii) the current status of a transaction?

Linking trades through Event IDs and a general Event type would address the Commission's challenge of understanding swap events.

LCH questions whether the Commission requires the same level of detail on the events impacting a Swap pre and post clearing. Post clearing it may be more efficient and relevant for the Commission to focus on events that change risk rather than tracking what happens to a Swap through multiple generations of its ‘family’.

61. What are some of the challenges with the Event Types listed below? If so, please provide suggestions to address them.

As a general observation the event types are very detailed and specific to current market infrastructure (e.g. different compression types). This prescriptive approach is unlikely to keep pace with industry innovation which will create further uncertainty in reporting. Generalizing Event Types would facilitate easier implementation and less confusion.

Comments on Specific Event Types:

“Compression” – we suggest using an Event Type of ‘COMPRESSION’ instead of

'COMPRESSION|BILAT_NETTING', 'COMPRESSION|BILAT_BLENDING',
'COMPRESSION|MULTI_NETTING', 'COMPRESSION|MULTI_BLENDING'.

Capturing such a level of Event Type distinction would also require significant work. It would be beneficial to understand how the Commission envisions these separate events would benefit its analysis of market risk and surveillance. There could also be scope for confusion when an overlap across events occurs, meaning distinctions cannot be easily captured and reported.

LCH urges the CFTC to move towards a standardised global list of Event Types as it would be difficult for a party to capture in their systems a jurisdiction-specific event type and maintain and report different event types for the same transaction across different jurisdictions.

“Maturity” – This is another contract intrinsic event that should not need to be reported as a lifecycle event. It is part of the PETs.

“Clearing|Principal” vs “Clearing|Agency” – the respective definitions suggests that the Commission is seeking to identify different client clearing models. This raises the question as to whether reporting to SDRs should represent agency and principal transactions differently and, for principal transactions in a client clearing model, which principal transactions should be reported by whom. We encourage the Commission to seek greater alignment of reporting methodologies for agency and principal trades across jurisdictions.

65. Please provide feedback on any aspect of the draft technical specifications for the data elements presented below.

“Event IDs” – LCH currently stores event identifiers relating to the below events. LCH would be able to present an 'Event ID' within our SDR messaging using these existing identifiers:

- For Solo Compression, a Netting ID
- For Transfers, an ID that links all the offsets for a Transferor and new trades for a Transferee is assigned
- For Multilateral compression an ID is assigned at run level, across all participants
- For Package transactions, a Package ID is assigned at the Package level

“USI Impact” – If a new Swap is executed, or a new swap results from an event on another swap, then it is reported using a new USI. It is not clear whether any value is derived from indicating that a USI has a USI Impact of 'Create' when that USI has not previously been reported. Similarly, if an event does not result in a new USI, then a prior USI will not be indicated on the message and no additional information is provided by reporting a value of 'None'.

LCH sees potential benefit to a new field indicating “Compression provider.” LCH suggests that an allocation of a bunched order should not constitute an Event as these are regular transactions which flow into clearing.

L. Rates

No comments.

M. Foreign Exchange

69. How should the spot component of a jurisdictional foreign exchange swap transaction be represented?

One option would be to report both legs of a swap, as a forward, regardless of tenor and populate with a Swap Link ID with each leg's USI.

In addition, it would be helpful if the Commission would explicitly state an outright spot (settling in 2 business days) is not required to be reported under Part 45.

70. What are the swap data elements best suited to link the spot and forward components of a foreign exchange swap?

Two forwards have their own USI and populate with a Swap Link ID with each leg's USI.

N. Other Data Elements

No comments.

O. General Questions

73. Are any of the Data Elements listed herein unclear? Do any Data elements require greater standardization?

Following this consultation, LCH asks the Commission to provide a full and exhaustive list of fields. Guidance should also identify whether fields are required in all cases or are conditional.

77. Should "date" related Data Elements be adjusted or unadjusted?

IRS is typically represented with unadjusted dates, the exception being FRAs. Industry conventions should be followed where possible.

78. Is the Day Count Convention list of allowable values sufficient?

Yes.

* * *