

*Via electronic submission*

July 18, 2016

Mr. Christopher Kirkpatrick  
Secretary  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21<sup>st</sup> Street, NW  
Washington, DC 20581

**Re: Clearing Requirement Determination Under Section 2(h) of the CEA for Interest Rate Swaps; Proposed Rule; RIN 3038-AE20**

Dear Mr. Kirkpatrick:

LCH Group Limited (“LCH”)<sup>1</sup> welcomes the opportunity to respond to this request for comment from the Commodity Futures Trading Commission (“CFTC” or “Commission”) on the proposed Clearing Requirement Determination under Section 2(h) of the CEA for Interest Rate Swaps (“Proposed Determination”).<sup>2</sup>

We commend the Commission on this initiative to update the scope of clearing determination and harmonize the U.S. clearing requirements with similar requirements in other jurisdictions. Our specific responses to the Proposed Determination are included below.

### **Review of Swap Submissions**

#### ***Consistency With Core Principles for DCOs***

*The Commission requests comment as to whether the proposed clearing requirement determination would adversely affect CME’s, Eurex’s, LCH’s, or SGX’s ability to comply with the DCO core principles.*<sup>3</sup>

LCH does not believe the determination will adversely affect our ability to comply with the DCO core principles or similar regulations in other jurisdictions.

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<sup>1</sup> LCH Group Limited is majority owned by the London Stock Exchange Group (LSEG), a diversified international exchange group. Link to Legal and Regulatory Structure of the LCH Group: [http://www.lchclearnet.com/about\\_us/corporate\\_governance/legal\\_and\\_regulatory\\_structure.asp](http://www.lchclearnet.com/about_us/corporate_governance/legal_and_regulatory_structure.asp).

<sup>2</sup> Clearing Requirement Determination Under Section 2(h) of the CEA for Interest Rate Swaps; Proposed Rule, 81 Fed. Reg. 81 at 39506, <http://www.cftc.gov/idc/groups/public/@lrfederalregister/documents/file/2016-14035a.pdf>

<sup>3</sup> *Id.* at 39512.

## **Consideration of the Five Statutory Factors for Clearing Requirement Determinations**

*Factor (I) – Outstanding notional exposures, trading liquidity, and adequate pricing data.*

*The Commission requests comment regarding whether there is adequate pricing data for DCO risk and default management of the products subject to this proposal.<sup>4</sup>*

LCH assesses all the products it makes eligible for clearing according to its ability to manage the risks to which they give rise upon any participant's default, including the adequacy of pricing data. LCH believes that all the products subject to this Proposed Determination possess the necessary characteristics, including adequate pricing data for DCO risk and default management.

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*Factor (II) – Availability of rule framework, capacity, operational expertise and resources, and credit support infrastructure.*

*The Commission requests comments concerning all aspects of this factor, including whether commenters agree that CME, Eurex, LCH, and SGX can satisfy the factor's requirements. In particular, the Commission seeks comment regarding whether CME, Eurex, LCH, and SGX have the ability to clear the swaps subject to this proposed clearing requirement during times of market stress.<sup>5</sup>*

LCH has a rule framework, capacity, operational expertise, resources and credit support infrastructure to clear the swaps subject to this proposal, including during times of market stress.

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*Factor (III)—Effect on the mitigation of systemic risk.*

*The Commission requests comments concerning the proposed clearing requirement's effect on reducing systemic risk. Would the proposed clearing requirement increase the risk to CME, Eurex, LCH, SGX, or any other entity? The Commission also requests comment on whether CME, Eurex, LCH, and SGX are each capable of handling any increased risk that would result from the proposed clearing requirement, including in stressed market conditions.<sup>6</sup>*

LCH believes that its risk management framework accounts for and responds to the individual characteristics of all products subject to this Proposed Determination. LCH is capable of handling any increased risk that could potentially result from the Proposed Determination, including during stressed market conditions.

## **Proposed Implementation Schedule**

*The Commission requests comment on not using regulation 50.25 to phase in compliance with the proposed clearing requirement. In addition, the Commission requests comment on the two proposed implementation scenarios, the advantages and disadvantages of each of the options*

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<sup>4</sup> *Id.* at 39520.

<sup>5</sup> *Id.* at 39523.

<sup>6</sup> *Id.* at 39524.

*discussed above and whether market participants have a preference for one over the other. In particular, the Commission is seeking feedback on whether all proposed clearing requirements should become effective at the same time or whether the compliance date for a clearing requirement should be related to the date that an analogous clearing requirement becomes effective in a non-U.S. jurisdiction.<sup>7</sup>*

LCH notes the success associated with the CFTC's approach to introducing the first clearing requirement determination, which categorized market participants and used a phase-in method. While we do not believe that a categorization by market participant would be equally beneficial in this instance, we do believe that an alternative use of phase-in periods may be appropriate. On this basis, we support Implementation Scenario II.<sup>8</sup> We agree with the Commission that this approach provides flexibility and certainty and believe this will foster further international harmonization in the adoption of clearing requirements.

The CFTC's prior use of phase-in periods successfully distributed pressure on OTC derivatives market participants and infrastructure. A similar approach here would enable a more graduated step-up in clearing activity in each of the new product classes and reduce the risk of a surge if a number of new clearing requirements were concentrated on or around a single date.

### **Cost Benefit Considerations**

*The Commission requests comment on whether benefits will result from the proposed rule, and, if so, the expected magnitude of such benefits. Also, would the proposed rule provide benefits by furthering international harmonization of clearing requirements?<sup>9</sup>*

As per our previous comments, we support this initiative and the Commission's leadership to foster international harmonization. The OTC derivatives marketplace is global in nature and LCH supports this Proposed Determination which will promote certainty and international consistency for all market participants.

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We appreciate the opportunity to comment on the Proposed Determination. Please do not hesitate to contact us regarding any questions raised by this submission or to discuss our comments in greater detail.

Sincerely,



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

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<sup>7</sup> *Id.* at 39527.

<sup>8</sup> *Id.*

<sup>9</sup> *Id.* at 39532.