

*Via electronic submission*

September 30, 2017

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

**Re: RIN 3038-AE55, Project KISS**

Dear Mr. Kirkpatrick:

LCH Group (“LCH”) welcomes the opportunity to respond to this request for comment from the Commodity Futures Trading Commission (“CFTC” or “Commission”) on Project KISS.<sup>1</sup> We commend the Commission on initiating Project KISS and conducting an agency-wide review of its rules, regulations, and practices to make them simpler, less burdensome, and less costly.

LCH is an international, multi-asset class group of clearing houses, or central counterparties (“CCPs”), that clears a diverse portfolio of derivatives among other asset classes. LCH has supported regulatory reform enhancements to the global structure governing derivatives markets that have resulted in a comprehensive, stronger, and more robust risk management framework for CCPs, clearing members, and end-users of derivatives.

We have included comments on the five work streams contained in Project KISS below.

\* \* \*

---

<sup>1</sup> CFTC “Project KISS,” May 9, 2017, 82 FR 23765,  
<http://www.cftc.gov/idc/groups/public/@Irfederalregister/documents/file/2017-10622a.pdf>.

## **I. Registration**

### *Derivatives Clearing Organization Registration*

LCH operates three clearing houses that are registered with the CFTC as Derivatives Clearing Organizations (“DCO”).

1. LCH Ltd (London), our largest entity, has been registered as a DCO with the CFTC since 2001. LCH Ltd is licensed to clear interest rate swaps (“IRS”), non-deliverable foreign exchange forwards, and futures. LCH Ltd has 106 clearing members, of which 14 are registered with the CFTC as Futures Commission Merchants (“FCMs”).
2. LCH LLC (New York) been registered with the CFTC as a DCO since 2008 to clear IRS.
3. LCH SA (Paris) has been registered as a DCO with the CFTC since 2013 to clear Credit Default Swaps (“CDS”).

We support the Commission’s direct registration model with the application of deference to home country and other foreign regulators, as appropriate. For the clearing services offered in the U.S., LCH complies with all relevant CFTC regulations and provides annual certification through a Chief Compliance Officer’s report. LCH is subject to CFTC Division of Clearing and Risk (“DCR”) direct supervision and examinations. This locally compliant, yet internationally integrated model, has allowed clients, all around the world, to safely access deeper pools of liquidity to cover their risks. We believe this approach provides legal certainty for our clearing members and clients.

## **II. Reporting**

### *Swaps Reporting Requirements*

As stated in our response to the Division of Market Oversight (“DMO”) swaps reporting review,<sup>2</sup> LCH believes Project KISS and DMO’s review provide an opportunity to evaluate whether components of CFTC swaps reporting requirements, such as those under Part 39, could be considered in conjunction with Parts 43, 45, and 49 of the Commission regulations. There are many data fields common to two or more areas of the Commodity Exchange Act (“CEA”) and there may be opportunities to receive and manager these data fields in a more efficient manner.

We commend international reporting standards that have been formed with the support of the Commission in order to strengthen harmonization. We strongly support the continued efforts of the Commission to work with non-U.S. regulators to issue equivalence determinations and substituted compliance to ensure the financial markets

---

<sup>2</sup> See LCH Response to DMO Swaps Reporting Review, August 21, 2017, <https://comments.cftc.gov/PublicComments/ViewComment.aspx?id=61296&SearchText=>

are robust and secure for the benefit of the global market infrastructure and participants. Resolving differences between EU and U.S. requirements in key areas, such as reporting timing, while ensuring continued support of the CFTC's specific regulatory objectives is critical.

### **III. Clearing**

#### *CCP Resiliency, Recovery, and Resolution*

Post-crisis regulatory reforms have already done much to strengthen the resilience of the financial system, and banks in particular. LCH fully supports the continued efforts of CPM-HOSCO, Financial Stability Board ("FSB"), and policymakers around the world to create a regulatory framework that will further enhance the resiliency of CCPs.

We believe CCP resiliency, recovery, and resolution regulations should be globally harmonized in order to best protect customer collateral and facilitate the CCP's recovery. Domestic frameworks should not significantly diverge from the international work streams. Coordination between authorities will play a key role in avoiding contagion across jurisdictions. In addition, it is essential to ensure the applicability and enforceability of CCP recovery and resolution plans on a cross-border basis as it would condition the effectiveness of any recovery or resolution tools.

LCH has supported the CFTC's efforts to evaluate these issues and coordinate with foreign regulatory counterparts, both in timing and substance, on implementation of rulebook changes and other policy decisions in this area. We encourage the CFTC to continue this path to ensure an appropriate level of harmonization with other major jurisdictions.<sup>3</sup>

### **IV. Executing**

#### *a. Void Ab Initio Requirement*

LCH is supportive of eliminating or restructuring the *void ab initio* requirement<sup>4</sup> in order to allow for the correction of clerical or operational errors. Maintaining the current *void ab initio* policy could introduce more risk into the marketplace rather than reduce risk. This occurs when a participant enters into a series of swaps in order to hedge risk. If a swap is declared *void ab initio*, the participant will not be correctly hedged because the swap will be deemed void. The unanticipated voiding of such hedge trades would increase market and execution risk.

---

<sup>3</sup> LCH supports the continued work of the Market Risk Advisory Committee ("MRAC"), which has developed policy recommendations in this area.

<sup>4</sup> *CFTC Staff Guidance on Swaps Straight-Through Processing*, September 26, 2013, available at <http://www.cftc.gov/idc/groups/public/@newsroom/documents/file/stpguidance.pdf>.

We encourage the Commission to make permanent its no action letter regarding *void ab initio*.<sup>5</sup>

*b. Compression*

Compression provides efficiencies by reducing operational risks, simplifying portfolio management and default management, and providing capital savings. In Q1 2017, LCH removed over \$160 trillion from the market through compression activities. By comparison, only \$97 trillion was compressed for all of 2013. In order to provide more clarity in the rules and regulations, the Commission should confirm that made-available-to-trade (“MAT”) swaps resulting from portfolio compression are not required to be executed on a SEF, as this is not aligned with the policy goals of the Commission.

**V. Miscellaneous**

*Cybersecurity Testing*

Cybersecurity testing is crucial to efforts to strengthen CCP cyber defences and maintain cyber resilience. We support the Commission’s existing DCO System Safeguards Rule<sup>6</sup> that established clear requirements for testing by a DCO of its system safeguards.

In our increasingly global and interconnected marketplace, we believe international coordination in applying consistent standards for system safeguards testing across jurisdictions for CCP cybersecurity is essential. We believe the leadership of the Commission and regulatory counterparts in other jurisdictions will contribute to a stronger and more efficient international framework for cyber security testing and safeguards for global CCPs.

\* \* \*

LCH is grateful for the opportunity to comment on this initiative and would be happy to provide further information related to the issues described in this letter at the Commission’s request.

---

<sup>5</sup> CFTC Staff Letter 16-58, *No-Action Relief for Swap Execution Facilities and Designated Contract Markets in Connection with Swaps with Operational or Clerical Errors Executed on a Swap Execution Facility or Designated Contract Market*, June 10, 2016.

<sup>6</sup> 17 C.F.R. Part 39.18.

Sincerely,

A handwritten signature in black ink, appearing to read "Jonathan Jachym". The signature is fluid and cursive, with the first name "Jonathan" and last name "Jachym" clearly distinguishable.

Jonathan Jachym  
U.S. Country Head  
Head of North America Government Relations and Regulatory Strategy  
London Stock Exchange Group

cc: Mike Gill, *Chief of Staff to Chairman J. Christopher Giancarlo*  
Sayee Srinivasan, *Senior Economic Advisor, Office of the Chairman*  
Richard Danker, *Special Advisor, Office of the Chairman*