

*Via electronic submission*

March 15, 2019

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

**Re: Swap Execution Facilities and Trade Execution Requirement; RIN 3038-AE25**

Dear Mr. Kirkpatrick:

LCH Ltd, LCH SA, and LCH LLC (together “LCH Group”) welcomes the opportunity to respond to this request for comment from the Commodity Futures Trading Commission (“CFTC” or “Commission”) regarding the Swaps Execution Facilities (“SEFs”) and Trade Execution Requirement rule proposal (“Proposal”).<sup>1</sup> We commend the CFTC on this initiative to further the Dodd-Frank Act’s statutory goals of promoting more SEF trading and pre-trade price transparency in the market.

LCH Group is an international, multi-asset class group of clearing houses, or central counterparties (“CCPs”), that manage risk of many diverse portfolios of cleared derivatives.<sup>2</sup> LCH Ltd’s SwapClear service clears swap trades executed from 13 CFTC registered SEFs.<sup>3</sup> Approximately one-third of SwapClear’s cleared interest rate swap volume consists of trades executed on SEFs.<sup>4</sup>

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<sup>1</sup> CFTC “Swap Execution Facilities and Trade Execution Requirement,” November 30, 2018, (“Proposal”), 83 FR 61946, <https://www.govinfo.gov/content/pkg/FR-2018-11-30/pdf/2018-24642.pdf>.

<sup>2</sup> LCH Ltd, LCH SA, and LCH LLC are all registered Derivatives Clearing Organizations (“DCO”) supervised by the CFTC under the Commodity Exchange Act and Commission Regulations. LCH SA is also registered with the Securities and Exchange Commission as a Clearing Agency. LCH Group is the leading multi-asset class and multi-national group of clearing houses, serving major international exchanges and platforms as well as a range of OTC markets. LCH Group clears a broad range of asset classes including securities, exchange-traded derivatives, foreign exchange derivatives, interest rate swaps, credit default swaps, and euro and sterling denominated bonds and repos. LCH Group Limited is majority owned by the London Stock Exchange Group (“LSEG”), a diversified international exchange group.

<sup>3</sup> See <https://www.lch.com/services/swapclear/essentials>.

<sup>4</sup> In addition to SwapClear’s SEF connectivity, SwapClear is connected to 20 Multilateral Trading Facilities (MTFs) and Organised Trading Facilities (OTFs) and LCH SA’s CDSClear service is connected to nine MTFs and OTFs and is in the process of connecting to two SEFs.

LCH provides the following comments in response to specific sections of the Proposal which directly impact DCO operations:

### **Error Trade Policy**

The proposal would (a) allow SEFs to create their own rules for dealing with trades rejected for clerical errors; and (b) mandate that SEFs deem trades rejected for credit reasons as void.<sup>5</sup> In general, LCH supports the Proposal's approach to error trades. In response to the CFTC's specific question:

*(58) Should a DCO be required to notify a SEF of the reason why a trade was rejected from clearing? If so, what type of information should the Commission require the DCO to provide to the SEF in such a circumstance?*

If the CFTC imposes requirements on a DCO to notify a SEF of the reason why a trade was rejected from clearing, those requirements should be minimal. Detailed requirements could delay the DCO's acceptance or rejection of a trade. Additionally, DCO's have policies and procedures in place to address error trades, including those rejected for credit reasons. To ensure trades are cleared expeditiously, DCOs should only be required to provide a SEF with a broad reason why a trade was rejected, i.e., for clerical errors or for insufficient credit.

### **Participant and Product Eligibility – AQATP Standards**

The proposal (a) codifies by reference existing practices for the 10-second requirement for DCOs to accept/reject a trade; (b) clarifies the timer starts when a DCO receives a trade, not when the trade is executed; and (c) does not apply a quantitative standard (e.g., 10-second or 10-minute timeframe) for SEFs submitting trades to DCOs. This would relax the timeframe for SEFs to submit trades to DCO.<sup>6</sup>

In general, LCH does not support the removal of a definitive timeline for SEFs to submit trades to a DCO under the proposed §37.701.<sup>7</sup> This could lead to operational issues, including having to process a large group of trades which are submitted late in the trading day. For example, if a block trade is submitted late in the trading day when it may be difficult for clearing members to meet margin calls, it could lead to higher costs that are passed on to the end users and increased risk of trades being deemed void *ab initio*.

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LCH appreciates the opportunity to comment on this Proposal and look forward to contributing further to this important initiative.

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<sup>5</sup> 83 FR 61946 at 61999.

<sup>6</sup> *Id.* at 62019.

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

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  
Head of North America Government Relations and Regulatory Strategy  
London Stock Exchange Group