

Via electronic submission

November 22, 2019

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

Re: Exemption from Derivatives Clearing Organization Registration, RIN Number 3038-AE65

Dear Mr. Kirkpatrick:

LCH Group Limited (“LCH”) welcomes the opportunity to respond to this request for comment from the U.S. Commodity Futures Trading Commission (“CFTC” or “Commission”) regarding the supplemental proposed rule on Exemption from Derivatives Clearing Organization (“DCO”) Registration (“Exempt Proposal”).¹ LCH commends the CFTC’s ongoing efforts to promote international cooperation, further enhance global harmonization of derivatives regulation, and provide an appropriate level of deference to regulatory counterparts in other jurisdictions.

LCH is an international, multi-asset class group of clearing houses, or central counterparties (“CCPs”), that manage risk of many diverse portfolios of cleared derivatives.² LCH has supported regulatory enhancements to the global structure governing derivatives markets that have resulted in a comprehensive and robust risk management framework for CCPs, clearing members, and end-users of derivatives.

LCH is majority owned by the London Stock Exchange Group (“LSEG”), a diversified international financial market infrastructure business.³ The combined LSEG post-trade offering covers a wide range of products, asset classes, and clearing services on an open access basis in partnership with our customers and stakeholders.

¹ CFTC, “Exemption from Derivatives Clearing Organization Registration,” 84 FR 35456, available at <https://www.cftc.gov/sites/default/files/2019/07/2019-15258a.pdf>.

² 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 Ltd’s home regulator is the Bank of England (“BoE”). LCH SA’s home regulators are the Autorité des marchés financiers (“AMF”) and Autorité de Contrôle Prudentiel et de Résolution (“ACPR”).

³ LSEG’s post-trade division also includes the Italian securities settlement system, Monte Titoli, and clearing house, Cassa di Compensazione e Garanzia (“CC&G”).

LCH Ltd, our UK-based CCP, has been a registered DCO since 2001, supervised by the CFTC under the Commodity Exchange Act (“CEA”) and Commission Regulations. LCH SA, our Paris-based CCP, has been a registered DCO since 2013.⁴

We support the CFTC’s objectives to strike the optimal balance between robust customer protections and promoting cross-border market access as set out in the G20 post-financial crisis international framework.

We commend the CFTC’s focus and dialogue with regulators globally regarding two key questions:

1. how to measure a foreign CCP’s relevance and systemic importance in a host jurisdiction; and
2. the proportionate regulatory oversight approach to CCPs domiciled in other jurisdictions and the related financial stability tools required to promote a host jurisdiction’s customer protection and financial stability objectives.

We elaborate on the following key points below in response to the Proposal:

1. **Defining substantial risk** – Initial margin is one key indicator for measuring the amount of risk a CCP manages in a jurisdiction. The overall assessment and categorization of CCPs must be transparent and flexible and regulators should work to harmonize their approaches to categorization across jurisdictions to the greatest extent possible.
2. **Enhanced international cooperation and reciprocity** – As the CFTC works with its counterparts around the world to enhance the cross-border regulatory framework for cleared swaps, we believe that principles of proportionality and reciprocity should be applied consistently across jurisdictions in defining the regulatory oversight mechanisms needed to supervise those clearing houses.

Defining “Substantial Risk”

The Commission requests comment on whether the proposed test for “substantial risk to the U.S. financial system” is the best measure of such risk.⁵ We believe initial margin is a sound measure for assessing risk.⁶ Determinations of “substantial risk to the U.S. financial system” must be transparent and flexible and any factors that are used to support the CFTC’s analysis should be measurable and relevant to addressing risk in the U.S. financial system.

⁴ LCH SA has also been registered with the U.S. Securities and Exchange Commission (“SEC”) as a Clearing Agency since 2017.

⁵ See 84 FR 34546 at 35465.

⁶ See LCH Group response to CFTC, “Registration with Alternative Compliance for Non-U.S. Derivatives Clearing Organizations,” November 18, 2019, available at <https://comments.cftc.gov/PublicComments/ViewComment.aspx?id=62254&SearchText=>.

LCH Ltd plays a significant risk management role in the U.S. financial markets. As recently presented to the U.S. Congress,⁷ LCH continues to support the direct registration of LCH Ltd with the CFTC and the legal certainty this has provided for our clearing members and customers under the CFTC's customer protection rules.

We believe the CFTC's customer protection framework for cleared swaps, including the LSOC model, serve as an important cornerstone of the CFTC's mission. We also believe the cooperative relationship between LCH Ltd's home regulator, the Bank of England, and the CFTC is a strong example to follow for oversight of swaps CCPs that play a substantial risk management role in multiple jurisdictions.

Enhanced international cooperation and reciprocity

Although LCH believes the CFTC's direct registration model remains appropriate for LCH Ltd, we recognize that other models may be more proportionate for CCPs that do not manage the same level of risk in a foreign jurisdiction.

We support the CFTC's goal to promote and encourage international comity by showing deference to regulatory counterparts in other jurisdictions.⁸ We believe an appropriate level of deference to home country authorities is essential and should include a comprehensive assessment of reciprocal measures which promote a level playing field for the global cleared swaps markets.

The CFTC appropriately recognizes many factors that should be considered in the context of this Proposal, including customer protection, competition, international comity, legal certainty, operational efficiency, and financial stability.⁹ As many commenters have noted, the Proposal represents a significant departure from the current CFTC cleared swaps regulatory regime. We encourage the CFTC to continue its comprehensive and deliberative approach to this important topic.

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

Sincerely,



Jonathan Jachym
Head of Government Relations and Regulatory Strategy, Americas
London Stock Exchange Group

⁷ See Written Testimony Daniel Maguire, LCH Group CEO, June 26, 2019, U.S. House Committee on Agriculture, Subcommittee on Commodity Exchanges, Energy, and Credit, available at <https://agriculture.house.gov/uploadedfiles/hhrg-116-ag22-wstate-maguired-20190626.pdf>.

⁸ See 84 FR 35456 at 35460.

⁹ *Id.* at 35468-69.