

Via electronic submission

July 13, 2020

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

Re: Part 190 Bankruptcy Regulations; RIN 3038-AE67

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”) regarding the proposal to amend relevant bankruptcy regulations (“Proposal”).¹ We commend the CFTC’s efforts to comprehensively update these regulations to reflect current market practices and lessons learned from past bankruptcies.

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 strongly supports clearly defined bankruptcy regimes for CCPs and their clearing members in order to increase customer protections, mitigate systemic market risk, and promote orderly transfers. We welcome the CFTC’s thoughtful and industry informed approach to enhancing its bankruptcy regimes for Futures Commission Merchants (“FCMs”) and Derivatives Clearing Organizations (“DCOs”), drawing on lessons learned from past experiences. We recognize the considerable amount of time and attention dedicated to this Proposal and believe these amendments will clarify and strengthen bankruptcy regulations, which serve as one of the foundational elements of the CFTC’s customer protection framework.

¹ Commodity Futures Trading Commission, Bankruptcy Regulations, RIN 3038-AE67, 85 FR 36000, available at <https://www.cftc.gov/sites/default/files/2020/06/2020-08482a.pdf>.

² LCH Group is a 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. Subsidiaries of LCH Group include LCH Ltd, domiciled in the UK primarily regulated by the Bank of England, and LCH SA, domiciled in France and primarily regulated by the Autorité des marchés financiers and Autorité de Contrôle Prudentiel et de Résolution. LCH Group is majority owned by the London Stock Exchange Group (“LSEG”).

We provide the following specific comments in response to the Proposal:

- 1. Notification of Involuntary FCM Bankruptcy:** LCH supports the Proposal's requirement for FCMs to notify designated self-regulatory organizations ("DSROs"), in addition to the CFTC, of involuntary bankruptcy filings.³ Given the interconnectedness of the derivatives market, we recommend the CFTC also consider ways in which this information can be quickly transmitted to DCOs that may be impacted.
- 2. Protecting Close-Out Netting Rights:** LCH supports the Proposal's clarification that Part 190 would not interfere with close-out netting rights that are provided for under the U.S. Bankruptcy Code.⁴ Close-out netting is beneficial to the derivatives market by mitigating credit risks and exposures, which becomes more important during an FCM or DCO bankruptcy.
- 3. Valuation of Commodity Contracts Liquidated in Bulk Auctions:** LCH strongly supports the Proposal's clarification that the valuation of commodity contracts liquidated in bulk auctions will be the settlement price calculated by the DCO at the end of the settlement cycle during which the commodity contract was liquidated.⁵ This clarification endorses practical risk reduction approaches that have been taken in prior bankruptcy proceedings.

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We welcome the opportunity to comment on this important initiative and would be pleased to discuss any of our comments in more detail.

Sincerely,



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

³ See 85 FR 36000 at 36049.

⁴ *Id.* at 36085.

⁵ *Id.* at 36029.