

VIA ELECTRONIC EMAIL

9 January 2020

**Mr Christopher Kirkpatrick
Commodity Futures Trading Commission
1155 21st Street NW
Three Lafayette Centre
Washington DC 20581
USA**

Dear Mr Kirkpatrick,

Pursuant to CFTC regulation 39.5(b), LCH SA ("**LCH SA**"), a derivatives clearing organization registered ("**DCO**") with the Commodity Futures Trading Commission (the "**CFTC**"), is making the present submission for determination of whether mandatory clearing should apply.

iTraxx Europe Subordinated Financials Index initiative

LCH SA intends to add to the list of eligible instruments iTraxx Europe Subordinated Financials indices from series 28 onwards on 5Y and 10Y tenors, denominated in EUR.

Eligibility to clear swaps and ability to maintain compliance under a mandatory clearing determination

LCH SA is launching iTraxx Europe Subordinated Financials indices as part of its CDSClear service, as an extension to its current product offering in the week of January 27th, 2020 subject to any relevant regulatory review or approval process duly completed. Under CFTC regulation, LCH SA is eligible to clear these swaps and will be able to maintain compliance with section 5b(c)2 of the Act in the event.

Factors for determination

The existence of significant outstanding notional exposures, trading liquidity, and adequate pricing data.

In Q1 2019 ICE CLEAR CREDIT and ICE CLEAR EUROPE had a total open interest of €6.9 billion in iTraxx Subordinated Financials Index CDS with a total of €7.7 billion in terms of Notional volume.

Looking at the currently eligible iTraxx Subordinated Financials Index CDS trade notional registered in DTCC's TIW amongst LCH SA's existing members, we have a total of €6 billion.

Looking at the currently eligible Single Name bilateral trade notional registered in DTCC's TIW amongst LCH SA's existing members, we have a total of €18.3 billion. It is interesting to note that these notional volumes doubled between 2017 and 2018 from €2 billion to €4 billion respectively. This trend has continued with a total of €8.5 billion traded as of September 12, 2019.

These figures are all one sided.

Pricing data is available from Markit and other standard price sources. However, to ensure that LCH SA always has access to the best prices, even on illiquid products, we have implemented a process whereby members of the CDS Clear service (with open interest in a product) contribute prices on a daily basis. These prices are aggregated to create our settlement prices.

The availability of rule framework, capacity, operational expertise and credit support infrastructure to clear the contract on terms that are consistent with the material terms and trading conventions on which the contract is then traded.

LCH SA already has a well-developed rule framework and support infrastructure for clearing CDS indices. LCH SA intends to leverage this existing operational capability when extending its offering to cover iTraxx Europe Subordinated Financials indices.

In order to prepare for the launch of iTraxx Europe Subordinated Financials, LCH SA has performed testing to ensure that it is able to clear iTraxx Europe Subordinated Financials indices in a manner that is consistent with the terms on which iTraxx Europe Subordinated Financials indices contracts are traded. Testing for iTraxx Europe Subordinated Financials indices has included involvement from clearing members who will be actively clearing the product from its go-live.

As for the other CDS indices currently cleared through LCH SA, the clearing documentation applicable to the CDS cleared contract is based on the market standard documentation.

The effect on the mitigation of systemic risk, taking into account the size of the market for such contract and the resources of the derivatives clearing organization available to clear the contract

For any newly cleared product, the CCP's default management protocols, processes and technology are modified to allow clearing of the new product.

The CCP's risk management framework has been calibrated to handle an expected volume of activity.

The effect on competition, including appropriate fees and charges applied to clearing

To the best of our knowledge, iTraxx Europe Subordinated Financials indices are already offered to clearing in the US and in the UK. The extension of the CDS Clearing service offered by LCH SA should allow more competition on this market and could down the line lead the European authorities to submit the iTraxx Europe Subordinated Financials indices to mandatory clearing.

The fees applicable to the clearing of iTraxx Europe Subordinated Financials indices will be the same as the fees applicable to other European indices cleared on the platform as denominated in EUR¹. The current fees for Euro denominated products have been certified with the CFTC².

The existence of reasonable legal certainty in the event of insolvency of the relevant derivatives clearing organization or one or more of its clearing members with regard to the treatment of customer and swap counterparty positions, funds and property

The level of legal certainty around the clearing of iTraxx Europe Subordinated Financials is the same as that of any other CDS currently cleared by LCH SA.

Insofar as legal certainty in the event of the insolvency of the DCO is concerned, LCH SA would be wound up under French law and has provided opinions on the treatment of cleared swaps customer funds as part of its DCO registration in 2013.

Product specifications, including copies of any standardized legal documentation, generally accepted contract terms, standard practices for managing any life cycle events associated with the swap, and the extent to which the swap is electronically confirmable.

The clearing documentation applicable to iTraxx Europe Subordinated Financials indices is based on the market standard iTraxx Europe Untranchured Transactions Standard Terms Supplement published by Markit. This covers the standardized legal documentation and generally accepted contract terms.

Standard practices for managing any life cycle events are based on the credit events as defined under the 2014 ISDA Credit Derivatives Definitions as applicable, and as determined by the ISDA EMEA Determination Committee.

Only standardized CDS are eligible to clearing and as a result, they are all electronically confirmable.

Participant eligibility standards, if different from the derivatives clearing organization's general participant eligibility standards

The participant eligibility standards have not been modified.

Pricing sources, models, and procedures, demonstrating an ability to obtain sufficient price data to measure credit exposures in a timely and accurate manner, including any agreements with clearing members to provide price data and copies of executed agreements with third party price vendors, and information about any price reference index used, such as the name of the index, the source that calculates it, the methodology used to calculate the price reference index and when and where it is published publicly

¹ <https://www.lch.com/index.php/services/cdsclear/fees>

² https://www.lch.com/system/files/media_root/Fee%20grid%20changes_20%20Dec%202018.pdf
https://www.lch.com/system/files/media_root/LCH_CDSClear_Client%20Fee%20Incentive%20scheme_CFTC%20SelfCertification_Formal_17%20Oct%202018.pdf

LCH SA will continue using a price contribution process as described under Section 5.18 of the CDS Clearing Procedures. All members are required to contribute on contracts on which they have open interest.

Risk management procedures including measurement and monitoring of credit exposures, initial and variation margin methodology, methodologies for stress testing and back testing, settlement procedures, and default management procedures

No changes.

Applicable rules, manuals, policies or procedures

LCH SA has made some amendments to the CDS clearing documentation to take into account the introduction of the iTraxx Europe Subordinated Financials. In particular:

- The CDS Clearing Supplement has been updated to take into account the characteristics of iTraxx Europe Subordinated Financials indices,
- Section 4 of the Procedures has been amended to adapt eligibility criteria to the clearing of iTraxx Europe Subordinated Financials indices.

A description of the manner in which the derivatives clearing organization has provided notice of the submission to its members and a summary of any views on the submission expressed by the members

The proposed CDS clearing documentation provided to legal working group of CDSClear members and submitted to consultation is attached to the self-certification available on LCH's website³.

Clearing members have been informed via the notice attached in Appendix.

No specific comments have been expressed by the clearing members except for one clearing member (US parent) that has indicated that it would be supportive of iTraxx Europe Subordinated Financials Index CDS included as part of mandatory clearing scope mainly for reducing capital requirements.

Yours sincerely,



Frank Soussan
Global Head of CDSClear
LCH SA

³https://www.lch.com/system/files/media_root/LCH%20SA_CDSClear_SubFins%20%26%20WWR_CFTC%20Self%20Certif_Formal_11%20Oct%202019.pdf

APPENDIX

Notice of the submission to CDSClear members

Memo

To	Clearing Members
From	CDSClear
Date	25 September 2019
Subject	CFTC Clearing Mandate Determination for iTraxx Europe Subordinated Financials Index CDS

Introduction

Pursuant to CFTC regulation 39.5(b), LCH SA (“**LCH**”), a derivatives clearing organization registered (“**DCO**”) with the Commodity Futures Trading Commission (the “**CFTC**”), is making the present submission for determination of whether mandatory clearing should apply.

Factors for determination

The existence of significant outstanding notional exposures, trading liquidity, and adequate pricing data.

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The availability of rule framework, capacity, operational expertise and credit support infrastructure to clear the contract on terms that are consistent with the material terms and trading conventions on which the contract is then traded

LCH already has a well-developed rule framework and support infrastructure for clearing CDS indices. LCH intends to leverage this existing operational capability when extending its offering to cover iTraxx Europe Subordinated Financials indices.

In order to prepare for the launch of iTraxx Europe Subordinated Financials, LCH has performed testing to ensure that it is able to clear iTraxx Europe Subordinated Financials indices in a manner which is consistent with the terms on which iTraxx Europe Subordinated Financials indices contracts are traded. Testing for

iTraxx Europe Subordinated Financials indices has included involvement from clearing members who will be actively clearing the product from its go-live.

As for the other CDS indices currently cleared through LCH, the clearing documentation applicable to the CDS cleared contract is based on the market standard documentation.

The effect on the mitigation of systemic risk, taking into account the size of the market for such contract and the resources of the derivatives clearing organization available to clear the contract

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The effect on competition, including appropriate fees and charges applied to clearing

To the best of our knowledge, iTraxx Europe Subordinated Financials indices are already offered to clearing by two clearing houses, one in the US and one in the UK. The extension of the CDS Clearing service offered by LCH should allow more competition on this market and could down the line lead the European authorities to submit the iTraxx Europe Subordinated Financials indices to mandatory clearing.

The fees applicable to the clearing of iTraxx Europe Subordinated Financials indices will be the same as the fees applicable to other European indices cleared on the platform as denominated in EUR¹. The current fees for Euro denominated products have been certified with the CFTC.

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A description of the manner in which the derivatives clearing organization has provided notice of the submission to its members and a summary of any views on the submission expressed by the members

The proposed CDS clearing documentation provided to the legal working group of CDSClear members and submitted to consultation for the iTraxx Europe Subordinated Financials initiative will be rule certified with the CFTC and will be available on LCH's website.