



Mr. Zhong Li
IOSCO General Secretariat
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13 February 2015

LCH.Clearnet Group Limited response to IOSCO's consultation report on post-trade transparency in the credit default swaps market

LCH.Clearnet Group Limited ("LCH.Clearnet")¹ appreciates the opportunity to comment on the IOSCO's consultation report on post-trade transparency in the credit default swaps market.

LCH.Clearnet is a leading multi-asset class and multi-national clearing house, serving major international exchanges and platforms as well as a range of OTC markets. It clears a broad range of asset classes, including: securities, exchange-traded derivatives, commodities, energy, freight, foreign exchange derivatives, interest rate swaps, credit default swaps and euro, sterling and US dollar denominated bonds and repos. LCH.Clearnet works closely with market participants and exchanges to continually identify and develop innovative clearing services for new asset classes. LCH.Clearnet is majority owned by the London Stock Exchange Group ("LSEG"), a diversified international exchange group that sits at the heart of the world's financial community.

LCH.Ciearnet supports IOSCO's recommendation that jurisdictions should encourage greater post-trade transparency in the CDS market. We agree with IOSCO's analysis that increased transparency can help to improve the quality of financial markets, as it reduces the risk of manipulation, improves the dissemination of market information and gives market participants and the regulatory authorities confidence that a market is operating fairly.

Notwithstanding our support for market transparency, we would like to draw IOSCO's attention to the specific case of a clearing member default where public dissemination of market data for any asset class, including CDS, could have an adverse impact on market stability. LCH.Clearnet believes that transactions resulting from the CCPs' process of hedging the defaulting member's portfolio should be exempted from public dissemination as this could inhibit a CCPs' ability to adequately perform its core default management function in an efficient manner. Our response explains the rationale for such exemption.

¹ LCH.Clearnet Group Limited consists of three operating entities: LCH.Clearnet Limited, the UK entity, LCH.Clearnet SA, the Continental European entity, and LCH.Clearnet LLC, the US entity. Link to the Legal and Regulatory Structure of the Group:
http://www.lchclearnet.com/about_us/corporate_governance/legal_and_regulatory_structure.asp

Response to question 5

Should IOSCO make any additional or alternate recommendations? Please describe any such recommendations, explain why IOSCO should make them and provide supporting evidence.

LCH.Clearnet would like to suggest that IOSCO exempts hedge trades executed by a CCP as part of its default management process from public dissemination. We believe that this information should only be reported to authorised trade repositories, such that it is accessible to regulators but not the public. In our view public disclosure would inhibit the ability of a CCP to effectively fulfill its obligations to manage its exposures in stressed market conditions.

In the event of a clearing member default, CCPs must hedge the risk of the defaulting clearing member's portfolio as quickly as possible to reduce their exposure to that risk and to minimize the likelihood of variation margin losses on the portfolio. LCH.Clearnet is concerned that the public dissemination of CDS transaction data created by a CCP's hedging of the defaulting clearing member's portfolio could inhibit the CCP's ability to adequately perform this vital default management function in an expeditious and efficient manner.

Under the default management procedures of LCH.Clearnet, the non-defaulting clearing members will be the counterparties to the transactions to hedge the risk of the defaulting clearing member's portfolio. Given the potential size and scale of the risk of the defaulting clearing member's portfolio and the stressed market environment in which most clearing member defaults occur, the CCP's counterparties will want to have confidence that they will have adequate time to successfully place this risk with other counterparties in the market. Public dissemination of transaction data from these hedge transactions could severely compromise the default management process. The negative consequences of public dissemination of market data in a clearing member's default scenario include the following:

- i) Non-defaulting clearing members may be unwilling to trade at competitive prices due to the concern that they may not have adequate time to offset the risk in the market before the hedge trade data is made public. This could result in the CCP being required to use additional financial resources of the defaulting clearing member to hedge the risk of that clearing member's portfolio, potentially decreasing the amount of funds in the defaulting clearing member's estate, and adding greater uncertainty at a time of stressed conditions.
- ii) Non-defaulting clearing members may also be unwilling to price large hedge transactions requiring the CCP to spread the risk of the defaulting clearing member's portfolio across a larger number of non-defaulting clearing members. This could lead to increased market instability as more non-defaulting clearing members simultaneously look to offset similarly directional exposures. Executing trades in smaller sizes may also lengthen the time it takes the CCP to successfully hedge its exposures, prolonging the period of market instability. In turn, this could compromise the market confidence in the ability of the CCP to close-out the positions of the defaulter's portfolio.



We hope that IOSCO finds this response useful and will incorporate our suggestion in its final report on post-trade transparency in the credit default swaps market. Please do not hesitate to contact Valentina Cirigliano in the Regulatory Strategy team at Valentina.Cirigliano@lchclearnet.com should you wish to discuss further this response.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'G Wells', written over a horizontal line.

Gavin Wells
Global Head of ForexClear & CDS