



European Securities and
Markets Authority

Reply form for the Consultation Paper on Clearing Obligation under EMIR (no.4)



Responding to this paper

The European Securities and Markets Authority (ESMA) invites responses to the specific questions listed in the ESMA Addendum Consultation Paper on MiFID II/MiFIR, published on the ESMA website.

Instructions

Please note that, in order to facilitate the analysis of the large number of responses expected, you are requested to use this file to send your response to ESMA so as to allow us to process it properly. Therefore, ESMA will only be able to consider responses which follow the instructions described below:

- use this form and send your responses in Word format (pdf documents will not be considered except for annexes);
- do not remove the tags of type <ESMA_CO4_1> - i.e. the response to one question has to be framed by the 2 tags corresponding to the question; and
- if you do not have a response to a question, do not delete it and leave the text "TYPE YOUR TEXT HERE" between the tags.

Responses are most helpful:

- if they respond to the question stated;
- contain a clear rationale, including on any related costs and benefits; and
- describe any alternatives that ESMA should consider

Naming protocol

In order to facilitate the handling of stakeholders responses please save your document using the following format:

ESMA_CO4_NAMEOFCOMPANY_NAMEOFDOCUMENT.

E.g. if the respondent were XXXX, the name of the reply form would be:

ESMA_CO4_XXXX_REPLYFORM or

ESMA_CO4_XXXX_ANNEX1

Deadline

Responses must reach us by **15 July 2015**.

All contributions should be submitted online at www.esma.europa.eu under the heading 'Your input/Consultations'.



Publication of responses

All contributions received will be published following the end of the consultation period, unless otherwise requested. **Please clearly indicate by ticking the appropriate checkbox in the website submission form if you do not wish your contribution to be publicly disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure.** Note also that a confidential response may be requested from us in accordance with ESMA's rules on access to documents. We may consult you if we receive such a request. Any decision we make is reviewable by ESMA's Board of Appeal and the European Ombudsman.

Data protection

Information on data protection can be found at www.esma.europa.eu under the headings 'Legal notice' and 'Data protection'.



General information about respondent

Name of the company / organisation	LCH.Clearnet Group
Activity	Central Counterparty
Are you representing an association?	<input type="checkbox"/>
Country/Region	Europe

Introduction

Pease make your introductory comments below, if any:

<ESMA_CO4_COMMENT_1>

LCH.Clearnet Group

The LCH.Clearnet Group (“LCH.Clearnet”) is a leading multi-asset class and multi-national clearinghouse, 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 and sterling denominated bonds and repos.

The LCH.Clearnet consists of three operating subsidiaries: LCH.Clearnet Ltd, LCH.Clearnet SA and LCH.Clearnet LLC.

- LCH.Clearnet Ltd is authorised by the Bank of England as a central counterparty to offer services and activities in the Union in accordance with the European Markets Infrastructure Regulation (EMIR). It is registered as a Derivatives Clearing Organisation (DCO) with the Commodity Futures Trading Commission (CFTC) in the USA. It is also licensed/recognised by the Ontario Securities Commission, the Autorité des Marchés Financiers of Québec and the Australian Securities & Investments Commission.
- LCH.Clearnet SA is authorised by the French Authorities (L'Autorité des Marchés Financiers, l'Autorité de Contrôle Prudentiel et de Résolution, and Banque de France) as a central counterparty to offer services and activities in the Union in accordance with EMIR. It is also regulated as a Credit Institution by the French Authorities and registered as a DCO with the CFTC.
- LCH.Clearnet LLC is registered as a DCO with the CFTC and permitted to clear for Ontario-based clearing members pursuant to Ontario Securities Commission Order granting exemption from Clearing Agency License. It has applied for recognition under EMIR as a third-country CCP.

Overall comments

LCH.Clearnet supports ESMA’s proposal to introduce a clearing obligation for OTC interest rate derivative classes denominated in the stated six EEA currencies. As members of the European Economic Area, the Czech Republic, Denmark, Hungary, Norway, Poland and Sweden benefit from access to the EU Single Market. The proposed mandate would ensure a level playing field across Europe between market participants active in interest rate derivatives denominated in certain EEA currencies and those active in the same classes/sub-classes denominated in EUR.

In terms of implementation, LCH.Clearnet is fully ready to support clearing on either the proposed dates for application or accelerated dates. As a general point, we would like to emphasise that many market participants already take advantage of the economic and risk-reducing benefits of central clearing on a voluntary basis and believe this is a continuing trend.

<ESMA_CO4_COMMENT_1>



Question 1: Do you have any comment on the clearing obligation procedure described in this section?

<ESMA_CO4_1>

The description of the clearing obligation procedure is clear and we support the proposal to introduce a clearing obligation for OTC interest rate derivative classes denominated in the stated six EEA currencies.

As noted in the LCH.Clearnet's responses to the previous ESMA consultation on clearing mandates, we would welcome clarification on the triggers and procedure for reviewing a decision not to impose a clearing obligation on a class or sub-class of OTC derivatives. We also support ESMA's intention, stated in the final report for the clearing obligation of G4 currencies IRS, to ensure that an efficient process is built for removing the clearing obligation on OTC derivatives, so that such removal can be completed with the appropriate level of urgency. <ESMA_CO4_1>

Question 2: Do you have any comment on the structure of the interest rate derivative classes described in this section?

<ESMA_CO4_2>

We support ESMA's approach to keep the same structure to define the additional IRS classes on the EEA currencies as those on the G4 currencies.

<ESMA_CO4_2>

Question 3: Do you agree with the principle that, in the context of the clearing obligation, systemic risk should be considered not only at the aggregated EU level, but also at country or even institution level?

<ESMA_CO4_3>

Yes, we agree with this principle and support the proposal to consider a clearing mandate at a pan-Europe level.

<ESMA_CO4_3>

Question 4: In view of the criteria set in Article 5(4) of EMIR, do you consider that this set of classes addresses appropriately the systemic risk associated to interest rate OTC derivatives? Please include relevant data or information where applicable.

<ESMA_CO4_4>

TYPE YOUR TEXT HERE

<ESMA_CO4_4>

Question 5: Do you consider that the proposals related to the definition of the categories of counterparties are appropriate in light of the criteria set out in EMIR?

<ESMA_CO4_5>

We support the approach to define the categories of counterparties for the IRS denominated in EEA currencies in the same way as those for the IRS denominated in the G4 currencies.

<ESMA_CO4_5>

Question 6: Do you consider that the proposed dates of application for the different categories of counterparties ensure a smooth implementation of the clearing obligation? Please explain why and possible alternatives.

<ESMA_CO4_6>

LCH.Clearnet is fully ready to support clearing on either the proposed dates for application or accelerated dates. As a general point, we would like to emphasise that many market participants already take advantage of the economic and risk-reducing benefits of central clearing on a voluntary basis and believe this is a continuing trend.



<ESMA_CO4_6>

Question 7: Do you have any comment on the approach envisaged for frontloading?

<ESMA_CO4_7>

LCH.Clearnet supports all efforts by ESMA and the EU Commission to address the market's concerns around pricing and clearing uncertainty during the frontloading window.

<ESMA_CO4_7>

Question 8: Do you have any comment on the Cost-Benefit analysis?

<ESMA_CO4_8>

TYPE YOUR TEXT HERE

<ESMA_CO4_8>

Question 9: Do you have any comments on the draft RTS not already covered in the previous questions?

<ESMA_CO4_9>

TYPE YOUR TEXT HERE

<ESMA_CO4_9>