



December 27, 2022

**VIA EMAIL**

**Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549**

**Re: Standards for Covered Clearing Agencies for U.S. Treasury Securities and Application of the Broker-Dealer Customer Protection Rule with Respect to U.S. Treasury Securities; RIN 3235-AN09; File No S7-23-22**

The London Stock Exchange Group (“LSEG”) is pleased to file a response to the request for comment on the U.S. Securities and Exchange Commission’s (“SEC”) *Proposed Rule on Standards for Covered Clearing Agencies for U.S. Treasury Securities and Application of the Broker-Dealer Customer Protection Rule with Respect to U.S. Treasury Securities*<sup>1</sup> (“the Proposal”). LSEG commends the SEC’s efforts to increase central clearing and settlement of U.S. Treasury securities with the objective of improving the safety, efficiency and transparency of the market.

LSEG is a leading global financial markets infrastructure and data business, with significant operations in the United States. With extensive experience in data and analytics, capital formation and trade execution, and clearing and risk management, we enable businesses and economies around the world to innovate, manage risk and create jobs. LSEG has majority ownership of the multi-asset global CCP operator, LCH Group (“LCH”). LCH has two licensed CCP subsidiaries – LCH Ltd in the U.K. and LCH SA in France. LCH SA has been registered with the SEC as a Clearing Agency since 2017<sup>2</sup>. Both are leading multi-asset class and international clearing houses, serving major international exchanges and platforms as well as a range of OTC markets. They clear a broad range of asset classes, including securities, exchange-traded derivatives, commodities, foreign exchange derivatives, interest rate swaps, credit default swaps, and Euro and Sterling denominated bonds and repurchase agreements (“repos”).

Through LCH we have extensive global experience clearing government debt in LCH’s RepoClear service, a leading provider of repo and cash bond clearing in the European and U.K. markets. In RepoClear we clear government and supranational debt across fourteen markets, in addition to two general collateral repo products. LCH takes an open access approach, and RepoClear is connected to a broad range of trading venues and settlement locations, providing extensive choice to member firms and building connections where users most need them. RepoClear has over one hundred members across seventeen countries. It is with the benefit of these perspectives that we provide our comments on the Proposal.

LSEG generally supports the SEC’s efforts to develop standards for U.S. Treasury clearing. In the global repo market, ongoing geopolitical and macroeconomic developments (such as inflation and the interest rate

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<sup>1</sup> [Proposed rule: Standards for Covered Clearing Agencies for U.S. Treasury Securities and Application of the Broker-Dealer Customer Protection Rule With Respect to U.S. Treasury Securities](#)

<sup>2</sup> LCH SA has also been a registered DCO with the U.S. Commodity Futures Trading Commission since 2013 and LCH Ltd since 2001



environment) have created challenging conditions for market participants in recent years, driving surges in volatility and periods of market stress. Additionally, the U.S. government bond market has undergone some observed market stress, including the Treasury repo market stress of 2019 and the COVID-19 shock in March 2020. Although these forces are beyond the control of market participants, it is possible to mitigate their impact by offering new models that can reduce banks' capacity constraints, optimize resource allocation and improve settlement performance and efficiency for securities transactions.

During periods of market stress clearing houses have proven resilient. In LCH's clearing services we have seen consistent and predictable margin model performance. LSEG believes that clearing can play a major role in alleviating potential market tensions by providing greater netting opportunities via access to deep liquidity pools and enhanced risk management. Clearing can strengthen the ecosystem, leading to greater efficiency for all participants and the overall reduction of systemic risk for the market. In addition, sponsored clearing models can address liquidity management and operational limitations by providing end-users efficient access to the cleared repo market where non-cash collateral can be transformed into cash. As a result, in RepoClear, we have observed continued growth in the cleared market, demonstrating the value of central clearing to market participants both during normal conditions and in times of stress.

Furthermore, the use of banks' capital and liquidity buffers in times of stress can support market capacity. Clearing can expand the capacity of dealer banks to intermediate under existing accounting and regulatory rules by netting repos and reverse repos and releasing balance sheet capacity in a more efficient way than netting bilaterally. LSEG respectfully notes that, in the context of the Proposal, we believe there could be more favorable capital treatment for buy-side users who access clearing directly, and for the banks that are sponsoring the end-user into the central counterparty. This would bring further benefits and appropriately recognize the risk-reducing nature of central clearing.

Finally, we recognize that change in financial markets takes time. We believe that by working in close partnership with the market we can continue to innovate and enable a broader range of firms to access cleared repo through direct and sponsored membership models. Such models are designed to allow banks, pension funds, money market funds, insurance funds, regulated funds, and hedge funds (subject to regulatory approval) to participate in repo clearing. While it is difficult to predict future market dynamics, such as sources of tension, liquidity, cash/collateral balances, and market pricing dynamics, central clearing would provide stability, predictability and efficiency, aligned with the SEC's objectives.

LSEG is committed to bringing efficient longer-term structural benefits to the global fixed income markets and supports the SEC's ongoing efforts on this important initiative.

Sincerely,

Rachel Goldberg  
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