

January 18, 2011

Ms. Elizabeth M. Murphy  
Secretary  
Securities and Exchange Commission  
100 F Street, N.E.  
Washington DC 20549-1090

**Re: File No. S7-34-10: Regulation SBSR—Reporting and Dissemination of Security-Based Swap Information**

Dear Ms. Murphy:

LCH.Clearnet Group Limited (“LCH.Clearnet”)<sup>1</sup> is pleased to respond to the Securities and Exchange Commission’s (“Commission’s”) request for comments on proposed Regulation SBSR, which would provide for (i) the reporting of security-based swap information to a registered security-based swap data repository or the Commission, and (ii) the public dissemination of security-based swap transaction, volume, and pricing information by such repository. Information with respect to security-based swap transactions would be required to be reported and publicly disseminated in “real time,” as prescribed in the proposed regulation.

LCH.Clearnet was very supportive of the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act, including those provisions designed to ensure greater transparency in the swap and security-based swap markets. LCH.Clearnet, therefore, generally supports proposed Regulation SBSR. Nonetheless, LCH.Clearnet also believes that there are times when real-time reporting to a security-based swap data repository, with the information thereafter publicly disseminated, will not be in the best interests of market participants and the public generally. In these circumstances, an exception from the general rule would be appropriate.

In particular, LCH.Clearnet is concerned that the real time reporting and public dissemination of information with respect to security-based swap transactions

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<sup>1</sup> LCH.Clearnet is the world’s leading independent clearinghouse group. It serves major international exchanges and platforms, as well as a range of Over-the-Counter (“OTC”) markets. It clears a broad range of asset classes, including cash equities, exchange-traded derivatives, energy, freight, interest rate swaps and euro- and British pound-denominated bonds and repos. LCH.Clearnet Limited currently clears more than forty percent of the interest rate swap market representing trades with a total notional principal of over \$248 trillion in 14 currencies. Of that amount, approximately \$89 trillion is in U.S. dollars.

LCH.Clearnet was formed out of the merger of The London Clearing House Limited and Clearnet SA and continues to operate two clearinghouses, LCH.Clearnet Limited in London and LCH.Clearnet SA in Paris. LCH.Clearnet Ltd is regulated by, *inter alia*, the UK Financial Services Authority and by the US Commodity Futures Trading Commission (as a derivatives clearing organization). LCH.Clearnet SA is regulated as a Credit Institution and Clearing House by a regulatory college consisting of, amongst others, the market regulators and central banks from the jurisdictions of: France, Netherlands, Belgium and Portugal. It is also regulated as a Recognised Overseas Clearing House by the UK Financial Services Authority.

effected in connection with the default management processes of a clearing agency upon the default of a clearing member will undermine the default management process and have a negative effect on market stability. This is especially true as such a default is likely to happen against the backdrop of stressed market conditions.

It is the clearing agency's responsibility to manage the defaulting clearing member's portfolio in order to mitigate the risk of loss to the clearing agency, its non-defaulting clearing members and the market generally. In this regard, the clearing agency is required to hedge the defaulting clearing member's portfolio. Liquidity is vital and the likelihood is that a small number of very large trades will be executed in order to neutralise the major risks present. The clearing agency will rely on non-defaulting members to provide liquidity for such transactions, and, in a time of market stress, their ability to do so will be impaired if these transactions are reported publicly before the participating members have had an opportunity to mitigate the risks of such transactions.

Further, when the clearing agency auctions the defaulting clearing member's portfolio, individual prices may not be available and the net positions may be very large when compared with average trade sizes seen in "normal" market conditions. As a result, no real price discovery may be available. The publication of the portfolio price is likely to increase the cost to a clearing agency managing a default as additional risks are priced in to the portfolio: liquidity and concentration risk will be included in margin. As the price at which a portfolio is liquidated may reflect additional factors, the trade details should not be disseminated to the market immediately, since both the price and the size of such trades would only serve to fuel market volatility when market stability is sought.

In order to promote market stability and permit the efficient management of a default, LCH.Clearnet therefore recommends that, in these circumstances, security-based swap transactions entered into in connection with a clearing agency's default management processes be reported in real-time only to the Commission.<sup>2</sup> Information would be reported to the swap data repository and made public once the default management process has been completed, as the Commission determines appropriate. For the convenience of the Commission, enclosed as an Annex to this letter is a suggested regulation that would provide an exception to the requirements of proposed Regulation SBSR, as described above.<sup>3</sup>

LCH.Clearnet recognizes the hard work undertaken by the Commission in order to develop these proposed rules and values its open and thoughtful approach in this task. The Group appreciates the opportunity to comment on these important issues and would be pleased to enter into a further dialogue with the Commission and its staff.

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<sup>2</sup> Such transactions would include: (i) security-based swap transactions entered into by the clearing agency to hedge the defaulting clearing member's portfolio; (ii) security-based swap transactions arising from the auction of the defaulting clearing member's security-based swap portfolio; and (iii) security-based swap transactions entered into by non-defaulting clearing members to hedge the risks they assume in connection with transactions effected with the clearing agency or in the auction of the defaulting clearing member's portfolio.

<sup>3</sup> Among other things, the suggested regulation would provide that a clearing agency would never be a reporting party for purposes of the regulation.

Please do not hesitate to contact Simon Wheatley at (+44) 20 7426 7622 regarding any questions raised by this letter or to discuss these comments in greater detail.

Yours sincerely,



Roger Liddell

Chief Executive

## Annex

### **File No. S7-34-10: Regulation SBSR— Reporting and Dissemination of Security-Based Swap Information**

**§ 242.912 Reporting Obligations in the Event of Clearing Member Default.** In the event of a default of a clearing member of a clearing agency, a reporting party shall not be required to report to a registered swap data repository, and a registered swap data repository shall not be required to publicly disseminate, the information required by §§ 242.900 through 242.911 with respect to any security-based swap transaction entered into in connection with the default management procedures of the clearing agency, except in such form and at such time as the Commission shall thereafter determine. Notwithstanding the foregoing, a reporting party shall report such information directly to the Commission within the time provided in § 242.901. In no event shall a clearing agency be deemed to be a reporting party.