

VIA ELECTRONIC EMAIL

14 April 2016

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

Dear Mr Kirkpatrick,

Pursuant to CFTC regulation 39.5(b), LCH.Clearnet 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.

CDX IG initiative

LCH intends to add to the list of eligible instruments CDX.NA.IG indices from series 7 onwards on 3Y, 5Y, 7Y and 10Y tenors, denominated in USD, as well as the related US Single Names constituents

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

LCH is launching CDX.NA.IG indices and related single name constituents as part of its CDS Clear service, as an extension to its current product offering on April 18th, 2016. Under CFTC regulation §39.5(a)(1), LCH 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.

LCH has reviewed the available data from the DTCC Trade Information Warehouse (TIW) to determine the size of the market in CDX.NA.IG indexes. Data available for the week ending 01-Apr-2016 shows that there is 215 Bn USD equivalent of net notional outstanding in the CDX.NA.IG indexes across all series. The most recent series 26 was issued on 21 March 2016. For this index specifically there is 48 Bn USD equivalent of net notional outstanding and 153 Bn USD equivalent of gross notional.

LCH.Clearnet SA 18, rue du Quatre Septembre, 75002 Paris
Tel: +33 (0)1 70 37 65 00 Fax: +33 (0)1 70 37 65 01 www.lchclearnet.com
LCH.Clearnet Group Limited | LCH.Clearnet Limited | LCH.Clearnet SA

Public information is not available about trades that have been terminated or compressed. Therefore the gross notional number cited above will be lower than the total amount traded on this index because it is based on live trades in the TIW only.

Pricing data is available from Markit and other standard price sources. However, to ensure that LCH always has access to the best prices, even on illiquid products, we have implemented a process whereby members of the CDSClear 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 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 CDX.NA.IG indices and related US Single Names constituents.

In order to prepare for the launch of CDX.NA.IG, LCH has performed testing to ensure that it is able to clear CDX.NA.IG indices and related US Single Names constituents in a manner which is consistent with the terms on which CDX.NA.IG indices and related US Single Names contracts are traded. Testing for CDX.NA.IG indices and related US Single Names constituents 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

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, CDX.NA.IG indices and related US Single Names constituents are already offered to clearing by two clearing houses in the US. 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 CDX.NA.IG indices to mandatory clearing.

The fees applicable to the clearing of CDX.NA.IG indices and related US Single Names constituents will be different from the fees applicable to other indices cleared on the platform as denominated in USD¹. Both the current fees as well as the new fees for USD denominated products have been certified with the CFTC.

¹ <http://www.lch.com/asset-classes/otc-credit-default-swaps/fees>

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 CDX.NA.IG indices and related US Single Names constituents is the same as that of any other CDS currently cleared by LCH.

Insofar as legal certainty in the event of the insolvency of the DCO is concerned, LCH 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 CDX.NA.IG indices and related US Single Names constituents is based on the market standards CDX Untranched Transactions Standard Terms Supplement and the CDX Legacy Untranched 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 either the 2003 ISDA Credit Derivatives Definitions or the 2014 ISDA Credit Derivatives Definitions as applicable, and as determined by the ISDA Americas 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

LCH 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 an 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

In order to fully capture the risk resulting from the addition of USD denominated CDX.NA.IG Indices and related single names constituents, the key principles adopted by LCH CDSClear are as follows:

- European operating hours: US products will be cleared during CDSClear existing European business hours (9.00am to 7.00pm CET). A potential extension to US business hours could be considered in a later phase.
- Single risk model for both EU and US products: credit given for netting benefits between the two product sets,
- Pass-through flows will be made in USD (VM, PAI, Upfront cash amounts, Coupons, Loss settlements, etc...).
- Stress Loss will be computed in USD and then converted into EUR with a stressed FX Haircut.
- Initial Margin and add-ons will be called in EUR via either:
 - Historical or simulated FX return in spread margin
 - FX haircut for all other margins:
 - Short Charge: same number of defaults considered, entity net short exposures computed in the domestic currency and then converted in EUR
 - Interest Rate Risk Margin: USD and EUR interest rate curves considered as independent, margin computed in USD and converted in EUR.
 - Recovery Rate Risk Margin: computed in USD for USD products and then converted into EUR
 - Wrong Way Risk Margin: computed in USD for US financials, based on US synthetic Financial Index and specific Correlation scenario/parameters. Netting with WWR coming from EUR products allowed but offsets capped at 50%.
 - Liquidity Charge: computed in USD for USD products and then converted into EUR
- USD settlement process will be performed via an existing Commercial Bank partner and relationship – Bank of New York Mellon - USD payments will be performed during our existing collateral slots.

With respect to stress-testing, the stress tests considered for the US products just replicate the existing scenarios selected for European products as the set of dates has been defined to cover all significant stress market moves worldwide.

Four additional scenarios have been created, aiming at capturing a de-correlation event between US and European products as this risk was not already captured in the current stress test framework.

No change will be made to the default management group. There will be an impact on the window for hedging the defaulting member's portfolio, as LCH will need both NY and London to be open to perform the hedging. That still leaves at least five full hours per day from noon till 5pm London time. This is similar for the auction phase. CDSClear has to build the portfolios to be auctioned and can split in sub portfolios if deemed necessary. There should not be any additional constraint by adding US products.

Applicable rules, manuals, policies or procedures

LCH has made some amendments to the CDS clearing documentation to take into account the introduction of the CDX.NA.IG indices and related US Single Names constituents. In particular:

- the CDS Clearing Supplement has been updated to take into account the characteristics of CDX.NA.IG indices and related US Single Names constituents,
- Section 2 of the Procedures is now incorporating the extraordinary margin which aims to cover the risk of any price/spread fluctuations and has been updated to provide that the contingency variation margin can be called on a business day that is also a holiday in the New York calendar;

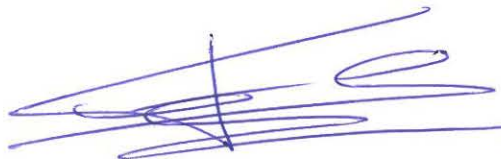
- Section 3 of the Procedures has been amended to provide that cash payment obligations for CDX.NA.IG indices and related US Single Names constituents shall be made in USD, through The Bank of New York Mellon,
- Section 4 of the Procedures has been amended to adapt eligibility criteria to the clearing of CDX.NA.IG indices and related US Single Names constituents,
- Section 5 of the Procedures has been updated to provide that the contribution to end of day prices in respect of CDX.NA.IG indices and related US Single Names constituents will be only requested on business days applicable to those products,
- the CDS Clearing Rule Book has been amended to reflect the changes listed above and to provide that LCH will be entitled to convert any US Dollar amount in Euro in any circumstance preventing the cash payments from being performed in US Dollar and will have the possibility to make an additional collateral call in US Dollar.

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 clearing documentation provided to legal working group and submitted to consultation is attached to the self certification available on LCH.Clearnet's website².
Clearing members have been informed via the attached notice.
No material comments have been expressed by the clearing members.

Yours sincerely

Frank Soussan
Global Head of CDSClear
LCH.Clearnet



² <http://www.lchclearnet.com/documents/731485/762520/LCH.Clearnet-SA-Self-Certification%E2%80%93CDX.NA.IG+products.pdf/b27f4f62-00f9-41c8-b07a-49dac5125b51>

Memo

To	Clearing Members
From	CDSClear
Date	11 April 2016
Subject	CFTC Clearing Mandate Determination for CDX.IG

Introduction

Pursuant to CFTC regulation 39.5(b), LCH.Clearnet SA (“**LCH**”), a derivatives clearing organization (“**DCO**”) registered with the Commodity Futures Trading Commission (the “**CFTC**”), is making the present CDX.IG submission for determination of whether mandatory clearing should apply. This is a standard part of the regulatory submission for any new product approval.

As per CFTC regulation §39.5(b)(viii), LCH is required to provide notice to members of its submission. This note does not constitute a notification that the product is live for clearing. A separate notice announcing the live date and arrangements for the formal product launch will be published shortly.

Please can you provide feedback on the details below by **14 April 2016**. In particular, your views on the suitability of this product for a CFTC clearing mandate.

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