



U.S. COMMODITY FUTURES TRADING COMMISSION

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Division of Clearing and Risk

Ananda Radhakrishnan
Director

March 28, 2013

ELECTRONIC MAIL

Ian Axe
Chief Executive Officer
LCH.Clearnet Limited
Aldgate House
33 Aldgate High Street
London EC3N 1EA
United Kingdom

Re: Extension for Compliance with Commission Regulation 39.12(b)(7)

Dear Mr. Axe:

By correspondence dated March 13 and March 25, 2013, LCH.Clearnet Limited ("LCH"), a registered derivatives clearing organization ("DCO"), requested that the Division of Clearing and Risk ("Division") grant an extension to May 17, 2013 for compliance with Commodity Futures Trading Commission ("Commission") Regulation 39.12(b)(7),¹ regarding the requirement that DCOs establish systems that allow for the acceptance or rejection of trades as quickly as would be technologically practicable if fully automated systems were used.² This is the second time that LCH has requested an extension for compliance with Commission Regulation 39.12(b)(7) and the Division has already granted LCH a six-month extension for compliance until March 31, 2013.³

LCH has represented that it will use the second extension period to complete the testing, migration and implementation of the technology systems necessary to comply with Commission Regulation 39.12(b)(7) ("STP Solution"), and to prepare and submit related rule amendments to the Commission pursuant to Commission Regulation 40.6.⁴ According to the timetable included

¹ 17 C.F.R. § 39.12(b)(7).

² As you are aware, LCH's current practice of batching trades for acceptance or rejection at 15-minute intervals does not meet the standard of Commission Regulation 39.12(b)(7). In this regard, the Commission has explained that "Rather than prescribe a specific length of time, the Commission is implementing a standard that action be taken 'as quickly as would be technologically practicable if fully automated systems were used.' This standard would require action in a matter of milliseconds or seconds or, at most, a few minutes, not hours or days." 77 Fed. Reg. 21,278, 21,285 (Apr. 9, 2012).

³ See Letter from Ananda Radhakrishnan, Director, Division of Clearing and Risk, to Daniel Maguire, Head of SwapClear US and Managing Director, LCH.Clearnet Limited (November 21, 2012).

⁴ 17 C.F.R. § 40.6.

in the request, LCH represents that it will comply with Commission Regulation 39.12(b)(7) by Friday May 17, 2013 and it will commence clearing trades using its STP Solution on Monday May 20, 2013.

The Division reminds LCH of its responsibility to comply with each of the Core Principles set forth in section 5b(c)(2) of the Commodity Exchange Act (“Act”)⁵ and the Commission’s regulations, in order to maintain its registration as a DCO pursuant to section 5b(c)(2)(A)(i) of the Act⁶ and Commission Regulation 39.10(a).⁷ In this regard, LCH’s delayed compliance with Commission Regulation 39.12(b)(7) additionally raises concerns as to LCH’s broader compliance with Core Principle B, which requires that a DCO have adequate operational and managerial resources.⁸

The Division further reminds LCH that the annual report of LCH’s chief compliance officer, for which LCH has received an extension for submission until no later than April 30, 2013, must:

- Provide an assessment as to the effectiveness of LCH’s compliance policies and procedures with respect to each Core Principle and applicable Commission regulation;
- Discuss areas for improvement and recommend potential or prospective changes or improvements to the LCH’s compliance program and resources allocated to compliance;
- Describe the financial, managerial, and operational resources set aside for compliance with the Act and Commission regulations; and
- Describe any material compliance matters, including incidents of noncompliance, and describe the corresponding action taken by LCH.⁹

The Division has carefully reviewed LCH’s request and has met with senior management of LCH on two separate occasions to discuss the request. Based on the representations contained in LCH’s request and the representations made by senior management of LCH to the Division in support of the request, the Division herein grants the requested extension to LCH, thereby requiring full compliance with Commission Regulation 39.12(b)(7) no later than May 17, 2013, unless LCH is notified otherwise. This extension is granted on the condition that (i) LCH senior management and senior technology officers provide weekly updates to Division staff regarding LCH’s progress in testing, migration and implementation of its STP Solution; (ii) LCH submit all rule amendments related to the implementation of its STP Solution to the Commission pursuant to Commission Regulation 40.6 no later than April 15, 2013; (iii) LCH submit all rule amendments related to the “strategic implementation” of LCH’s new initial margin methodology no later than April 15, 2013; and (iv) the rules described in (ii) and (iii) above comply with the Act and Commission regulations thereunder.

⁵ 7 U.S.C. § 7a-1(c)(2).

⁶ 7 U.S.C. § 7a-1(c)(2)(A)(i).

⁷ 17 C.F.R. § 39.10(a).

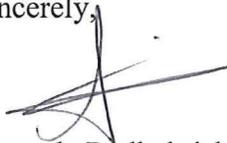
⁸ 7 U.S.C. § 7a-1(c)(2)(B)(i).

⁹ 17 C.F.R. § 39.10(c)(3)(ii)-(v).

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This extension is granted by the Division in reliance on the representations contained in LCH's request and the representations made by senior management of LCH. Any different, changed, or omitted material facts or circumstances, or LCH's failure to comply with any of the conditions stated herein, may require termination of the extension. The Division retains the authority to condition further, modify, suspend, or otherwise restrict the extension granted herein.

Sincerely,

A handwritten signature in black ink, consisting of several overlapping, fluid strokes that form a stylized, somewhat abstract shape.

Ananda Radhakrishnan
Director