

VIA ELECTRONIC EMAIL

4 June 2015

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.Clearnet"), a derivatives clearing organization ("DCO") registered with the Commodity Futures Trading Commission (the "CFTC"), is submitting credit default swaps indices referring senior debts of financial entities, the iTraxx Europe Senior Financials ("iTraxx Senior Financials") for determination of whether mandatory clearing should apply.

iTraxx Senior Financials

LCH.Clearnet is launching iTraxx Senior Financials as part of its CDSClear service, as an extension to its current product offering on June 8th, 2015. LCH.Clearnet is eligible to accept these swaps and would be able to maintain compliance in the event that these swaps were required to be cleared. LCH.Clearnet is already clearing the iTraxx Europe Main, composed of 125 equally-weighted European names, of which 20 per cent are components referencing senior debt of financial entities (bank and insurance).

LCH.Clearnet will accept the iTraxx Senior Financials index to clearing from series 5 onwards on 5 and 10 years tenors and denominated in Euros.

Series 5 to 21, components of the off-the-run index series which are excluded from the ISDA 2014 Credit derivatives Definitions Protocol¹ will incorporate the 2003 ISDA Credit Derivatives Definitions. With respect to series 22 and above, all eligible indices will incorporate the 2014 ISDA Credit Derivatives Definitions and be confirmed under the iTraxx Europe Untranchet Standard Terms Supplement published by Markit on 20th September 2014.

Factors for determination

The existence of significant outstanding notional exposures, trading liquidity, and adequate pricing data.

¹ <http://www2.isda.org/asset-classes/credit-derivatives/2014-isda-credit-derivatives-definitions/credit-derivatives-definitions-protocol-and-related-documents/page/1>

LCH.Clearnet has reviewed the available data from the DTCC Trade Information Warehouse (TIW) to determine the size of the market in Senior Financial indexes. Data available on 8 May 2015 shows that there is 33.6 Bn USD equivalent of net notional outstanding in the iTraxx Senior Financials indexes across all series. The most recent series 23 was issued on 20 March 2015. For this index specifically there is 10.8 Bn USD equivalent of net notional outstanding and 52.4 Bn USD equivalent of gross notional.

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.Clearnet 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.Clearnet already has a well-developed rule framework and support infrastructure for clearing CDS indices. LCH.Clearnet intends to leverage this existing operational capability when extending its offering to cover iTraxx Senior Financials.

In order to prepare for the launch of iTraxx Senior Financials, LCH.Clearnet has performed testing to ensure that it is able to clear iTraxx Senior Financials in a manner which is consistent with the terms on which iTraxx Senior Financials contracts are traded. Testing for iTraxx Senior Financials 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.Clearnet, 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

iTraxx Senior Financials index is a sub index of the Itraxx Europe Main family, and as such mandating the clearing of contracts referencing such indices would help complete the set of eligible products. Although lower than for Itraxx Europe Main and CrossOver, there is still an important level of activity for Itraxx Senior Financials index, both in terms of flows (weekly volumes) and stock (outstanding notionals)

Due to the natural correlation between the credit risk of a Member and financial reference entities, the clearing of Itraxx Senior Financials indices introduces Wrong Way Risk (WWR) into the CCP. Within the LCH.Clearnet model, this risk is mitigated by the introduction of a WWR margin add-on

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, iTraxx Senior Financials are already offered for clearing by a clearing house in Europe and in the US. The extension of the CDS Clearing service offered by LCH.Clearnet should allow more competition on this market and would enable the European authorities to submit the iTraxx Senior

Financials to mandatory clearing once the second CCP is authorised under European Market Infrastructure Regulation.

The fees applicable to the clearing of iTraxx Senior Financials will not be different from the fees applicable to other indices cleared on the platform. The current fees have been certified with the Commission.

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 iTraxx Senior Financials is the same as that of any other CDS currently cleared by LCH.Clearnet.

Insofar as legal certainty in the event of the insolvency of the DCO is concerned, LCH.Clearnet 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 iTraxx Senior Financials is the same as that applicable to the other iTraxx currently cleared by LCH.Clearnet, and is based on the market standards iTraxx Untranchet 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 EMEA 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.Clearnet 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 contagion effect of a clearing member defaulting on the credit worthiness of other financial references entities, components of the iTraxx Senior Financial index, the wrong way risk parameter is enhanced with the addition of a wrong way risk margin.

With respect to stress-testing, it has not been necessary to add any new scenarios. However for a subset of these scenarios, a parameterization of the shocks to be applied to senior financials reference entities and/or iTraxx Senior Financials has been put in place while still abiding by the extreme but plausible principle defining the CDS stress testing framework.

Also the stress loss over initial margin which is used to define the size of the default fund is modified as a result of the introduction of the wrong way risk margin add-on. Such add-on has to be removed from the stress loss amount when determining the stress loss over initial margin amount.

The default management process has been modified to ensure that, in case of a default, non defaulters would not be required to participate in the competitive bidding on a CDS referencing their own credit.

Applicable rules, manuals, policies or procedures

LCH.Clearnet has made some amendments to the CDS clearing documentation to take into account the introduction of the iTraxx Senior Financials. In particular:

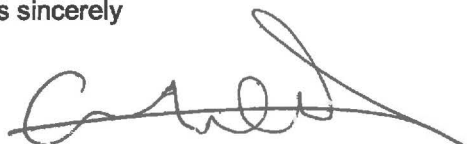
- The CDS Clearing Supplement has been updated to take into account the treatment of self referencing transactions which could be created as a result of a merger or a transfer;
- The Section 4 of the CDS Procedures has been updated to adapt eligibility criteria to the clearing of iTraxx Senior Financials;
- Section 2 of the CDS Procedures is now incorporating the wrong way risk margin;
- The CDS Clearing Rule Book has been updated to reflect the changes to the default management process.

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

Clearing members have been informed via the attached notice.

No comment has been expressed by the clearing members.

Yours sincerely



Gavin Wells
Global Head of CDSClear
LCH.Clearnet

Memo

To	Clearing Members
From	CDSClear
Date	22 May 2015
Subject	CFTC Clearing Mandate Determination for Senior Financials

Introduction

Pursuant to CFTC regulation §39.5(b), LCH.Clearnet SA ("LCH.Clearnet"), a derivatives clearing organization ("DCO") registered with the Commodity Futures Trading Commission (the "CFTC"), is submitting iTraxx Senior Financials 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.Clearnet SA 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 **29 May 2015**. In particular, your views on the suitability of this product for a CFTC clearing mandate.

Factors for determination

The existence of significant outstanding notional exposures, trading liquidity, and adequate pricing data.

LCH.Clearnet has reviewed the available data from the DTCC Trade Information Warehouse ("TIW") to determine the size of the market in Senior Financial indexes. Data available on 8 May 2015 shows that there is 33.6 Bn USD equivalent of net notional outstanding in the iTraxx Senior Financials indexes across all series. The most recent series 23 was issued on 20 March 2015. For this index specifically there is 10.8 Bn USD equivalent of net notional outstanding and 52.4 Bn USD equivalent of gross notional.

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.Clearnet 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.Clearnet already has a well-developed rule framework and support infrastructure for clearing CDS indices. LCH.Clearnet intends to leverage this existing operational capability when extending its offering to cover iTraxx Senior Financials.

In order to prepare for the launch of iTraxx Senior Financials, LCH.Clearnet has performed testing to ensure that it is able to clear iTraxx Senior Financials in a manner which is consistent with the terms on which iTraxx Senior Financials contracts are traded. Testing for iTraxx Senior Financials 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.Clearnet, 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

iTraxx Senior Financials index is a sub index of the Itraxx Europe Main family, and as such mandating the clearing of contracts referencing such indices would help complete the set of eligible products. Although lower than for Itraxx Europe Main and CrossOver, there is still an important level of activity for Itraxx Senior Financials index, both in terms of flows (weekly volumes) and stock (outstanding notional)

However, as the clearing of the single names constituents of the index is not mandated yet, a market participant with a balanced position in the complete product set will be forced to clear the now clearing-obliged products while having to retain the clearing-ineligible remainder under bilateral arrangements. For example a market participant may have exposure to Senior Financials underliers via single name CDS contracts hedged by an Itraxx Senior Financials index offsetting position. Such market participant would then be obliged to clear part of his position but would be unable to clear the hedging side. In such cases a clearing obligation would disrupt the prior balance and may increase system-wide risk.

Due to the natural correlation between the credit risk of a Member and financial reference entities, the clearing of Itraxx Senior Financials indices introduces Wrong Way Risk (WWR) into the CCP, despite being mitigated by the introduction of a WWR margin add-on (at least within CDSClear risk model).

For any newly cleared product, the CCP's default management protocols, processes and technology will have been modified to allow clearing of the new product. Although extensive testing will have taken place, this is no substitute for running the service with a live book of cleared trades for a period of time to fully ensure the robustness of the setup and to stimulate improvement wherever necessary.

The CCP's risk management framework will have been calibrated to handle an expected volume of activity. Actual positions may be larger and more concentrated than research indicates. A mandatory clearing obligation would limit the amount of control the CCP has to restrict large sized risks from being cleared.

The effect on competition, including appropriate fees and charges applied to clearing

To the best of our knowledge, iTraxx Senior Financials are already offered to clearing by a clearing house in Europe and in the US. The extension of the CDS Clearing service offered by LCH.Clearnet should allow more competition on this market and would enable the European authorities to submit the iTraxx Senior Financials to mandatory clearing once the second CCP is authorised under European Market Infrastructure Regulation.

The fees applicable to the clearing of iTraxx Senior Financials will not be different from the fees applicable to other indices cleared on the platform. The current fees have been certified with the Commission.

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- The Section 4 of the CDS Procedures has been updated to adapt eligibility criteria to the clearing of iTraxx Senior Financials;
- Section 2 of the CDS Procedures is now incorporating the wrong way risk margin;
- The CDS Clearing Rule Book has been updated to reflect the changes to the default management process.