LCH.CLEARNET

Secretariat of the Financial Stability Board
c/o Bank for International Settlements
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CONSULTATION DOCUMENT (2ND): ASSESSMENT METHODOLOGIES FOR IDENTIFYING NON-BANK AND NON-INSURER GLOBAL SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTIONS – PROPOSED HIGH-LEVEL FRAMEWORK AND SPECIFIC METHODOLOGIES

Dear Sirs,

This letter provides the submission of LCH.Clearnet Group Limited ("LCH.Clearnet") to the second consultative document 'Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions - Proposed High-Level Framework and Specific Methodologies' issued by the FSB and IOSCO in March 2015.

LCH.Clearnet[1] is a leading multi-asset class and multi-national clearing house, serving major international exchanges and platforms as well as a range of OTC markets. It clears a broad range of asset classes including securities, exchange-traded derivatives, commodities, energy, freight, foreign exchange derivatives, interest rate swaps, credit default swaps and euro and sterling denominated bonds and repos. LCH.Clearnet works closely with market participants and exchanges to continually identify and develop innovative clearing services for new asset classes. LCH.Clearnet is majority owned by the London Stock Exchange Group, a diversified international exchange group that sits at the heart of the world's financial community.

LCH.Clearnet is not directly in scope of this consultation,[2] however, as a global multi-currency clearing house, LCH.Clearnet takes an interest in the policy framework assessing the systemic importance of our clearing members and customers in various jurisdictions.

General Observations

We have some general observations on certain of the indicators that the FSB and IOSCO have proposed for NBNI G-SIFIs.

The purpose of mandatory central clearing of derivatives, at the heart of the G20 commitment, is to mitigate the impact of failure of financial institutions on global financial markets. While CCPs mitigate the counterparty risk in financial markets, they do not eliminate it. It is therefore important to recognise the

[1] LCH.Clearnet Group Limited consists of three operating entities: LCH.Clearnet Limited, the UK entity, LCH.Clearnet SA, the Continental European entity, and LCH.Clearnet LLC, the US entity. Link to Legal and Regulatory Structure of the Group: http://www.lchclearnet.com/about_us/corporate_governance/legal_and_regulatory_structure.asp

[2] FMI, as defined by the Bank of International Settlements, are not eligible for designation by the FSB and IOSCO as NBNI G-SIFIs. (footnote 6 of page 2 of the consultation).

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systemic importance of certain institutions using CCPs, directly or indirectly, and to ensure that CCPs have robust risk management to adequately manage the exposures of such institutions. We therefore fully support the recent regulatory reforms that introduced international standards as well as specific requirements for CCP's risk management (e.g. CPMI-IOSCO PFMIs; EMIR in Europe and Dodd Frank in the US).

Our comments related to some of the indicators described in the consultation document are as follows:

Complexity:

- We note the FSB and IOSCO have proposed to use notional amount of all non-cleared OTC derivatives as a measure of complexity. However, we would like to point out that in the context of the capital requirements for banks' exposure to CCPs, the Basel Committee on Banking Supervision (BCBS) acknowledged that calculating the risk in derivatives based on their notional values may lead to inaccuracies. This is why BCBS developed the Standardised Approach to Counterparty Credit Risk exposure (SA-CCR) model, which provides a more effective measure of risk than the Current Exposure Method (CEM), which requires the use of notional values in the exposure calculation. The FSB and IOSCO may wish to take this into account when using notional amounts to determine how complex an institution's activities are.

Size and Interconnectedness:

- We encourage the authorities to consider as an additional indicator for size and interconnectedness the amount of margin required to support non-cleared trades. We believe this will be an increasingly relevant measure once the BCBS and IOSCO bilateral margining standards are applied in members' jurisdictions.

- We would also suggest that the absolute amount of bilateral margin as well as the ratio between non-cleared and cleared derivatives, both in respect to the business of a particular institution and in the broader market as a whole, be considered as additional indicators for Size and Interconnectedness.

We hope that this response will assist the authorities in the preparation of the further revision of methodologies. Please do not hesitate to contact myself at Valentina.Cirigliano@lchclearnet.com or Adam Scheuer at AScheuer@lseg.com regarding any questions raised by this letter or to discuss these comments in greater detail.

Yours sincerely,

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cc: Adam Scheuer
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