

Financial Markets Unit
Corporations and Capital Markets Division
The Treasury
Langton Crescent
PARKES
ACT 2600

By e-mail to financialmarkets@treasury.gov.au

15 February 2013

Dear sirs,

This letter provides the response of the LCH.Clearnet Group (“LCH.Clearnet”) to the Treasury’s Proposals Paper on “Implementation of Australia’s G-20 over-the-counter derivatives commitments”.

LCH.Clearnet is the world’s leading clearing house group, 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, interest rate swaps, foreign exchange derivatives, credit default swaps and bonds and repos.

We note that the Treasury does not at this stage propose to impose central clearing obligations, following the **Report on the Australian OTC derivatives market** issued by the Australian Prudential Regulation Authority, Australian Securities and Investments Commission and Reserve Bank of Australia in October 2012. That Report discussed at some length the benefits of central clearing of derivatives, including the potential to substantially reduce the size of individual counterparties’ exposures and collateral requirements relative to bilateral arrangements, and the fostering of operational improvements and efficiencies.

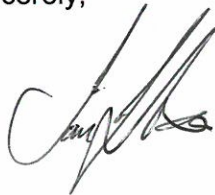
The Report refers to LCH.Clearnet’s SwapClear service which has served the OTC interest rate derivatives markets since 1999. Annex 4 provided a summary of the instruments currently cleared¹. As of end-January 2013, SwapClear holds \$4.2 trillion in notional terms of AUD interest-rate swaps, representing some 30% of the overall market according to data

¹ Since that time the range of products has extended to include JPY swaps out to 40 years, NZD swaps to 15 years, CAD overnight index swaps, and GBP forward rate agreements; the types of acceptable collateral have been extended to include Japanese government debt; the number of clearing members has increased to 73; and the total notional cleared has increased to US\$370 trillion.

reported to the DTCC Global Trade Repository². It is evident that market participants are therefore already benefiting from central clearing of Australian products and we continue to observe interest in further participation. In order to facilitate this we will be applying for a licence to enable us to provide OTC clearing services directly to eligible Australian participants thereby enabling them to benefit from central clearing in the way described by the authorities in the Report.

We have worked hard with regulators in the US and Europe as they have prepared their own implementations of the G20 commitments, including revised prudential standards for CCPs and consideration of the clearing obligation. We stand ready to continue such a productive working relationship with the Australian authorities as the regulatory structures evolve and are reviewed. Should you have any comments on the views expressed in this letter please contact Rory Cunningham, Director, Public Affairs, at rory.cunningham@lchclearnet.com or on +44 20 7426 7093.

Yours sincerely,



Ian Axe
Chief Executive Officer

² <http://www.dtcc.com/products/derivserv/data/rates.php>