



DIVISION OF  
TRADING AND MARKETS

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

September 27, 2013

Mr. Christophe Hemon  
Chief Executive Officer  
LCH.Clearnet SA  
18 rue du Quatre Septembre  
Paris, France 750002

Re: No-Action Relief for LCH.Clearnet SA and its Members to Provide Clearing Services for Certain Spun-Out Component Transactions of Broad-Based Index Credit Default Swaps

Dear Mr. Hemon:

In your letter dated September 27, 2013, you request advice that, based on the statement of facts set out in your letter, the Division of Trading and Markets ("Division") will not recommend enforcement action to the Securities and Exchange Commission ("Commission") against:

- (1) *Banque Centrale de Compensation*, doing business as LCH.Clearnet SA ("LCH.C SA"), for failure to comply with the registration requirements of Section 17A(b)(1) of the Securities Exchange Act of 1934 ("Exchange Act") in connection with the provision of clearance and settlement services to clearing members that are U.S. persons ("U.S. Clearing Members") for component transactions that are spun-out of certain broad-based index credit default swaps ("CDS") as a result of a Credit Event ("Spun-Out Component Transactions"); and
- (2) LCH.C SA's U.S. Clearing Members by reason of clearing security-based swaps through an unregistered clearing agency if LCH.C SA provides clearance and settlement services to U.S. Clearing Members in respect of Spun-Out Component Transactions as described in your letter.

Based on your letter, we understand the facts to be as follows:

LCH.C SA is a French subsidiary of LCH.Clearnet Group Limited, a holding company incorporated in the United Kingdom, and operates as a clearinghouse subject to French law with its principal office in Paris. LCH.C SA is regulated in France as a clearinghouse by the Financial Markets Authority (*Autorité des Marchés Financiers*) ("AMF") and as a credit institution by the Prudential Control Authority (*Autorité de Contrôle Prudentiel*) ("ACP"). In addition, the clearing system managed and operated by LCH.C SA has been approved by the AMF and the

*Banque de France* and designated to the European Commission by France's Minister for the Economy as a securities settlement system for the purposes of the European Union's Settlement Finality Directive.

LCH.C SA currently clears CDS contracts on the iTraxx Europe index, the iTraxx Europe HiVol index, and the iTraxx Europe Crossover index, from series 5 and above, at 3-, 5-, 7-, and 10-year maturities ("Cleared Index CDS").<sup>1</sup> Pursuant to no-action relief issued by the Commodity Futures Trading Commission's ("CFTC") Division of Clearing and Risk, LCH.C SA is extending its clearing services for Cleared Index CDS to U.S. Clearing Member's for proprietary accounts<sup>2</sup> only.<sup>3</sup> LCH.C SA will not accept, and no LCH.C SA clearing member will offer for clearing through LCH.C SA, Cleared Index CDS on behalf of a U.S. customer.

CDS market participants have established industry-wide arrangements for the management of Credit Events ("Credit Event Management Process") under the auspices of the International Swaps and Derivatives Association, Inc. ("ISDA"). Under current standard CDS documentation set by ISDA, there are three types of Credit Events applicable to CDS on Reference Entities that may compose the Cleared Index CDS: (i) Bankruptcy, (ii) Failure to Pay, and (iii) Restructuring. Per industry convention, upon the occurrence of an applicable Credit Event with respect to a Reference Entity that is a component of a Cleared Index CDS, such Reference Entity is "spun out" and maintained as a separate single-name CDS until the eventual settlement of that single-name CDS. The Cleared Index CDS that have a single-name component subject to a Credit Event adhere automatically to the Credit Event Management Process, adjusted to reflect the role of LCH.C SA as the central counterparty to the protection seller and the protection buyer. It is impossible for a clearing member with an open position in an affected Cleared Index CDS to opt out of the Credit Event Management Process. As a result, absent relief from the Division, LCH.C SA would not be able to provide clearing services for swaps pursuant to its no-action relief from the CFTC without potentially violating the Exchange Act upon the occurrence of a Credit Event in respect of a Reference Entity that is a component of a Cleared Index CDS.

In the case of a Bankruptcy or Failure to Pay Credit Event, once it is determined that a Credit Event has occurred in respect of a Reference Entity, each CDS on such Reference Entity

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<sup>1</sup> The indices are administered by Markit Group Limited ("Markit") in accordance with the relevant index rules in effect from time to time.

<sup>2</sup> For purposes of LCH.C SA's no-action relief from the CFTC, "proprietary account" is defined in CFTC Regulation 1.3(y). See 17 CFR 1.3(y).

<sup>3</sup> LCH.C SA filed an application for registration as a derivatives clearing organization ("DCO") with the CFTC on April 25, 2012. On July 11, 2013, the CFTC granted to LCH.C SA no-action relief to permit the onboarding of U.S. Clearing Members to clear the Cleared Index CDS for their proprietary accounts until the earlier of: (1) December 31, 2013; or (2) the date on which LCH.C SA obtains its DCO registration. See Letter from Ananda Radhakrishnan, Director, Division of Clearing and Risk, CFTC, to Mr. Christophe Hémon, CEO, LCH.Clearnet SA, dated July 11, 2013, available at <http://www.cftc.gov/ucm/groups/public/@lrllettergeneral/documents/letter/13-43.pdf>.

is automatically triggered and a standard, industry-wide settlement process commences for the Spun-Out Component Transaction. In the case of a Restructuring Credit Event, settlement is not automatic and one of the parties to the affected Spun-Out Component Transaction is required to trigger the settlement process. If neither of the counterparties elects to trigger settlement, the positions in the Spun-Out Component Transaction will be maintained at LCH.C SA and margined daily until maturity of the index or the occurrence of a subsequent Credit Event for the same Reference Entity.

ISDA has established five regional Determinations Committees (each, a “DC”), each of which is responsible for making determinations on issues raised by CDS market participants in its region of responsibility, including whether a Credit Event has occurred. The DC Rules establish standard timetables for the settlement mechanics in the Credit Event Management Process. For Credit Events that automatically trigger the affected CDS, an auction typically occurs on the third business day prior to the 30<sup>th</sup> calendar following the date on which the request for a determination was originally submitted to the DC. For Restructuring Credit Events, an auction typically occurs approximately 22 business days following the date on which the relevant DC determines that a Credit Event has occurred. For all Credit Events, once cash settlement payments are received, the Spun-Out Component Transactions are fully settled and are therefore removed from LCH.C SA’s clearing system.<sup>4</sup>

Furthermore, you have made the following representations:

- LCH.C SA will not permit U.S. Clearing Members to increase, close out (other than through the Credit Event Management Process), or otherwise affect the size of a position in a Spun-Out Component Transaction;
- LCH.C SA will not permit U.S. Clearing Members to clear security-based swaps other than Spun-Out Component Transactions for the Cleared Index CDS;
- U.S. Clearing Members will not be permitted to offer Cleared Index CDS to customers for clearing through LCH.C SA;
- LCH.C SA will provide information on Spun-Out Component Transactions as may be reasonably requested by the Commission and upon such terms and conditions as may be agreed between the French Authorities and the Commission; and
- LCH.C SA will keep and preserve at least one copy of all documents, including correspondence, memoranda, papers, books, notices, accounts and other records made or received by it in connection with its Cleared Index CDS services for U.S. Clearing Members.

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<sup>4</sup> Cash settlement is expected to be the primary means of settling all credit events. However, LCH.C SA does have procedures to allow for the relevant Spun-Out Component Transactions to be settled by physical settlement.

Mr. Christophe Hemon  
September 27, 2013  
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Response:

Based on the facts and representations set forth in your letter, and without necessarily agreeing with your conclusions and analysis, Division staff will not recommend enforcement action to the Commission against LCH.C SA or LCH.C SA's U.S. Clearing Members if LCH.C SA engages in the proposed activities described in your letter without registering as a clearing agency with the Commission pursuant to Section 17A(b) of the Exchange Act.

In taking this position, we note in particular your representations that: (i) LCH.C SA will not permit U.S. Clearing Members to increase, closeout other than through the Credit Event Management Process, or otherwise affect the size of a position in a Spun-Out Component Transaction; (ii) LCH.C SA will not permit U.S. Clearing Members to clear security-based swaps other than Spun-Out Component Transactions for the Cleared Index CDS; (iii) LCH.C SA will offer clearing services for Cleared Index CDS to its U.S. Clearing Members for proprietary accounts only and will not accept for clearing Cleared Index CDS on behalf of U.S. customers; and (iv) absent no-action relief from the Division, LCH.C SA would not be able to provide clearing services for swaps pursuant to its no-action relief from the CFTC without potentially violating the Exchange Act in the event that a Credit Event occurs with respect to a Reference Entity that is a component of a Cleared Index CDS.

The position of the Division is based strictly on the facts and representations you have made in your letter, and any different facts or representations might require a different response. This position is subject to modification or revocation by the Division staff at any time. Furthermore, this response expresses the Division's position on enforcement action only and does not purport to express any legal conclusions on the questions presented. The Division expresses no view with respect to any other questions that the proposed activities may raise, including the applicability of any other federal or state laws.

Sincerely,



James R. Burns  
Deputy Director



**By Electronic Mail**

September 27, 2013

Mr. James Burns  
Deputy Director  
Division of Trading and Markets  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549

**Re: Request for No-Action Relief from Clearing Agency Registration Requirements and Other Provisions of the Exchange Act**

Dear Mr. Burns:

*Banque Centrale de Compensation*, doing business as LCH.Clearnet SA (“**LCH.C SA**”), is a clearing organization located in Paris, France that currently provides clearing services for equities, over-the-counter (“**OTC**”) derivatives and exchange-traded futures and options as well as fixed income instruments and energy products traded on European exchanges and multilateral trading facilities.<sup>1</sup> LCH.C SA operates a clearing service for credit default swaps (“**CDS**”) <sup>2</sup> on certain broad-based iTraxx indices (each, an “**Index CDS**”) and intends to expand its Index CDS clearing services to include clearing members that are US persons (each, a “**US Clearing Member**”).

As described in greater detail below, upon the occurrence of a bankruptcy credit event, failure to pay credit event, or restructuring credit event (each, a “**Credit Event**”) in respect of a reference entity included in the index underlying an Index CDS, such reference entity will be “spun out” of the Index CDS and a separate CDS with a single underlying reference entity will be created (each, a “**Spun-Out Component Transaction**”). Single-name CDS are “security-based swaps” for purposes of Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “**Dodd-Frank Act**”) and are subject to regulation by the Securities and Exchange Commission (the “**SEC**”) under the US federal securities laws, including the Securities Exchange Act of 1934,

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<sup>1</sup> LCH.C SA is a member of LCH.Clearnet Group Limited, the financial market’s leading independent clearing house group, serving major international exchanges and platforms, as well as a range of OTC markets.

<sup>2</sup> The central characteristic of CDS is the agreement by the seller of the CDS (the “**protection seller**”) to compensate the buyer of the CDS (the “**protection buyer**”) upon the occurrence of a credit event in respect of one or more underlying reference entities, in exchange for regular payments by the protection buyer to the protection seller.

as amended (the “**Exchange Act**”).<sup>3</sup> In particular, Section 17A(b)(1) of the Exchange Act provides that “it shall be unlawful for a clearing agency, unless registered in accordance with this subsection, directly or indirectly, to make use of the mails or any means or instrumentality of interstate commerce to perform the functions of a clearing agency with respect to any security (other than an exempted security)”. The Dodd-Frank Act amended the definition of “security” in the Exchange Act to expressly include security-based swaps.<sup>4</sup>

Accordingly, absent the no-action relief from the Division of Trading and Markets (the “**Division**”) requested herein, LCH.C SA would not be able to provide clearing services for swaps pursuant to no-action relief from the CFTC without potentially violating Section 17A(b)(1) of the Exchange Act upon the occurrence of a Credit Event in respect of a reference entity that is a component of an Index CDS cleared by LCH.C SA.

## 1. RELIEF REQUESTED

LCH.C SA requests the following no-action relief from the Division based on the statement of facts set out in Section 2 below:

- advice from the Division that it will not recommend enforcement action against LCH.C SA for failure to comply with the registration requirements of Section 17A(b)(1) of the Exchange Act in connection with the provision of clearance and settlement services to US Clearing Members in respect of Spun-Out Component Transactions as described herein; and
- advice from the Division that it will not recommend enforcement action against LCH.C SA’s US Clearing Members by reason of clearing security-based swaps through an unregistered clearing agency if LCH.C SA provides clearance and settlement services to US Clearing Members in respect of Spun-Out Component Transactions as described herein.<sup>5</sup>

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<sup>3</sup> By contrast, CDS on a broad-based index of reference entities, such as the Index CDS cleared by LCH.C SA, are “swaps” for purposes of the Dodd-Frank Act and are subject to regulation by the Commodity Futures Trading Commission (the “**CFTC**”) under the Commodity Exchange Act, as amended (the “**CEA**”).

<sup>4</sup> See Section 3(a)(10) of the Exchange Act, as amended by the Dodd-Frank Act.

<sup>5</sup> LCH.C SA notes that the SEC has published for comment proposed rules regarding cross-border security-based swap activities, in which the SEC states that it may consider granting a conditional or unconditional exemption from clearing agency registration for the clearing of security-based swaps “where the clearing agency is subject to comparable, comprehensive supervision and regulation by appropriate government authorities in the home country of the clearing agency, and the nature of the clearing agency’s activities and performance of functions within the United States suggest that registration is not necessary to achieve the Commission’s regulatory objectives.” Release No. 34-69490 (May 1, 2013). If the SEC determines to adopt an exemption procedure, LCH.C SA may, at the appropriate time, pursue an exemption in lieu of registration.



## 2. STATEMENT OF FACTS

### 2.1 Oversight by French Regulatory Authorities

LCH.C SA is a French subsidiary of LCH.Clearnet Group Limited, a holding company incorporated in the United Kingdom, and operates as a clearing house subject to French law with its principal office in Paris. LCH.C SA is regulated in France as a clearinghouse by the Financial Markets Authority (*Autorité des Marchés Financiers*) (the “AMF”) and must comply with applicable statutory and regulatory requirements, including conduct of business rules, membership rules, and rules governing the recording of trades and positions by a clearinghouse, the relationship between clearing members and their customers, the consequences of a default of a clearing member, and the collateral which may be called.

LCH.C SA is also regulated as a credit institution by the Prudential Control Authority (*Autorité de Contrôle Prudentiel*) (the “ACP”) and must comply with minimum capital and ratio requirements, including maintaining a solvency ratio based on the standards published by the Basel Committee on Bank Supervision, as well as regulations relating to risk diversification and liquidity, restrictions on equity investments, money laundering, and internal control and reporting requirements. In addition, the clearing system managed and operated by LCH.C SA has been approved by the AMF and the *Banque de France* (“BdF”) and designated to the European Commission by France’s Minister for the Economy as a securities settlement system for the purposes of the European Union’s Settlement Finality Directive, which governs the irrevocability of instructions and finality of settlement within the clearing system operated by LCH.C SA.<sup>6</sup>

### 2.2 LCH.C SA’s Index CDS Clearing Business

LCH.C SA launched its clearing services for Index CDS with the support of four major French banks on March 29, 2010.<sup>7</sup> LCH.C SA currently accepts for clearing 3-, 5-, 7- and 10-year maturity CDS on the iTraxx Europe Index, the iTraxx HiVol Index and the iTraxx Crossover index, from series 5 and above, each of which are administered by Markit Group Limited (“Markit”) in accordance with the relevant index rules in effect from time to time. The CFTC has adopted regulations establishing a clearing requirement under Section 2(h)(1)(A) of the CEA in respect of certain classes of interest rate swaps and CDS, including the following Index CDS accepted for clearing by LCH.C SA: 5-year and 10-year iTraxx Europe index from series 10 and series 7 onwards; 5-year iTraxx Europe HiVol index from series 10 onwards; and 5-year iTraxx Europe Crossover index from series 10 onwards.<sup>8</sup>

LCH.C SA has proposed to expand its Index CDS clearing services, with the aim of opening its clearing services to additional members, in particular US financial institutions, to clear Index

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<sup>6</sup> Due to LCH.C SA’s non-CDS-related operations and affiliations in other European Union (“EU”) countries, LCH.C SA is also subject to oversight by the national regulators of other EU Member States.

<sup>7</sup> BNP Paribas SA; Crédit Agricole Corporate & Investment Bank; Natixis SA; and Société Générale.

<sup>8</sup> See Clearing Requirement Determination Under Section 2(h) of the CEA, 77 Fed. Reg. 74284 (December 13, 2012).



CDS.<sup>9</sup> For purposes of this request, LCH.C SA intends to permit US Clearing Members to clear only the Index CDS listed above for their proprietary accounts (as such term is defined in CFTC Regulation 1.3(y)).<sup>10</sup> LCH.C SA will keep and preserve at least one copy of all documents (including correspondence, memoranda, papers, books, notices, accounts and other records) made or received by it in connection with its Index CDS clearance and settlement services for its US Clearing Members and will provide information on Spun-Out Component Transactions as may be reasonably requested by the Commission and upon such terms and conditions as may be agreed between the French authorities and the Commission.

In anticipation of the proposed expansion of its business to include US Clearing Members, LCH.C SA filed an application for registration as a derivatives clearing organization (“**DCO**”) with the CFTC on April 25, 2012.<sup>11</sup> In order to ensure an orderly transition to the new regulatory environment, LCH.C SA recently obtained no-action relief from the CFTC’s Division of Clearing and Risk to permit the onboarding of US Clearing Members to clear Index CDS for their proprietary accounts until the earlier of: (1) December 31, 2013; or (2) the date on which LCH.C SA obtains its DCO registration.<sup>12</sup>

### 2.3 Credit Event Management Process

CDS market participants have established industry-wide arrangements for the management of Credit Events (collectively, the “**Credit Event Management Process**”) under the auspices of the International Swaps and Derivatives Association, Inc. (“**ISDA**”).<sup>13</sup> Index CDS accepted for clearing by LCH.C SA have the following Credit Events: bankruptcy, failure to pay and restructuring. For bankruptcy and failure to pay, once it is determined that a Credit Event has occurred in respect of a reference entity, each CDS on such reference entity is automatically triggered and the Credit Event Management Process commences, which is overseen by one of five regional Determinations Committees (a “**DC**”), each of which is responsible for determining

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<sup>9</sup> The Index CDS processing and clearing services described herein will only be made available to US persons, including US Clearing Members, meeting the definition of “eligible contract participant,” as defined in Section 1a(18) of the CEA and CFTC Rule 1.3(m).

<sup>10</sup> US Clearing Members will not be permitted to offer Index CDS to customers for clearing through LCH.C SA.

<sup>11</sup> Section 5b(a) of the CEA provides that a clearing organization may not use the mails or any means or instrumentality of interstate commerce to perform the functions of a DCO with respect to “swaps” unless it is registered with the CFTC. Section 5b(h) of the CEA permits the CFTC to exempt a DCO from registration for the clearing of swaps to the extent that such DCO is subject to comparable supervision by the SEC or a foreign (*i.e.*, non-US) regulator. To date, however, no DCO has sought to obtain such an exemption.

<sup>12</sup> See CFTC Letter No. 13-43 (July 11, 2013).

<sup>13</sup> The Credit Event Management Process is documented through the following: the 2003 ISDA Credit Derivatives Definitions; the ISDA Credit Derivatives Determinations Committees and Auction Settlement CDS Protocol (known as the “Big Bang Protocol”); and the ISDA Credit Derivatives Determinations Committees, Auction Settlement and Restructuring CDS Protocol (known as the “Small Bang Protocol”). In addition, for the Index CDS accepted for clearing by LCH.C SA, the creation of Spun-Out Component Transactions is governed by the iTraxx Europe Untranchet Standard Terms Supplement. These and other industry-standard CDS documentation are referenced in LCH.C SA’s CDS Clearing Supplement, which forms part of the LCH.C SA CDS Clearing Rule Book and is binding on all CDS Clearing Members.



whether a Credit Event has occurred in respect of reference entities in its region of responsibility.<sup>14</sup> However, the occurrence of a restructuring Credit Event in respect of a reference entity does not automatically trigger settlement of CDS on such entity, but permits the parties to the affected CDS to elect to partially or wholly trigger the Credit Event Management Process.<sup>15</sup> Any “untriggered” positions do not settle and remain in place until maturity or the occurrence of another Credit Event on the same reference entity.

The overall settlement timeline is roughly analogous for the three types of Credit Events relevant to this request.<sup>16</sup> For bankruptcy and failure to pay Credit Events, an auction is held on the third relevant business day prior to the 30<sup>th</sup> calendar day following the date on which the request for determination was submitted to the relevant DC. For a restructuring Credit Event, one or more auctions will be held on or about the 22<sup>nd</sup> business day following the date on which the relevant DC determines that a credit event has occurred.<sup>17</sup> Standard industry practice is for cash settlement at the final auction price, unless a counterparty opts for physical settlement. To physically settle an affected CDS, the protection buyer sells a Deliverable Obligation to the protection seller for the final auction price, and receives the par value of the Deliverable Obligation from the protection seller.

For CDS that are cleared, the Credit Event Management Process described above must be adjusted to reflect the role of the clearing organization as central counterparty – *i.e.*, as protection buyer to each original protection seller and as protection seller to each original protection buyer. Any Index CDS accepted for clearing by LCH.C SA subject to a Credit Event automatically adheres to the Credit Event Management Process; in other words, it is not possible for a clearing member with an open position in an affected Index CDS transaction to “opt out” of the Credit Event Management Process.

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<sup>14</sup> The DC is also responsible for determining the bonds (or loans) of the reference entity that are required to be delivered in the settlement process (the “**Deliverable Obligations**”).

<sup>15</sup> There are various reasons why a market participant may elect to partially trigger a credit event. For example, a protection buyer may believe a bankruptcy or failure to pay event is imminent and likely to generate a greater return. Alternatively, if a market participant does not know the ultimate difference in recoveries at the time of triggering, the option to either fully or partially trigger offers greater flexibility to the market participant. In addition, dealers often carry very large positions and therefore are likely to find the ability to partially trigger essential to match the often smaller position sizes that protection buyers may trigger.

<sup>16</sup> It is difficult to make a direct comparison of the settlement timelines for all three Credit Events because the settlement timeline for bankruptcy and failure to pay is measured from the date on which the initial request for a determination is submitted to the relevant DC whereas the settlement timeline for a restructuring Credit Event is measured from the date on which the relevant DC makes its determination. Full details of each settlement timeline are set out in ISDA’s Credit Derivatives Determinations Committees Rules, available at: <http://www.isda.org/credit/revisedcrules.html>.

<sup>17</sup> The timeline for a restructuring credit event is comprised of a number of intermediate steps, each of which has its own individual timeline, often calculated as the business day falling on or immediately following a given number of calendar days. Accordingly, it is not possible to calculate the exact settlement timeline for a restructuring Credit Event until the DC makes its determination.

LCH.C SA must therefore synchronize its actions in order to comply with the requirements of the Credit Event Management Process. To do so, LCH.C SA has established a mechanism for the creation and maintenance of Spun-Out Component Transactions in its clearing system. In addition, for bankruptcy, failure to pay and “triggered” restructuring Credit Events, LCH.C SA has developed procedures to facilitate payment of cash settlement amounts following an auction.<sup>18</sup> Once cash settlement payments are made, the Spun-Out Component Transactions are fully settled and are removed from LCH.C SA’s clearing system.

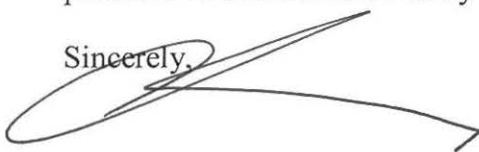
However, for any “untriggered” positions subject to a restructuring Credit Event, the settlement procedures described above will not occur. Instead, the “untriggered” Spun-Out Component Transaction positions will remain in LCH.C SA’s clearing system and, until maturity, the positions will be given an end-of-day settlement price based on valuation information received from Markit. The positions in the Spun-Out Component Transaction will also be margined daily on a portfolio basis with positions in cleared Index CDS, and will continue to be subject to quarterly coupon payments.

The Spun-Out Component Transaction may also be subject to subsequent Credit Events in respect of the single reference entity, which may lead, in the case of a bankruptcy or failure to pay, to mandatory settlement or, in the case of another restructuring Credit Event, to another round of matched pair creation and the option of affected counterparties to trigger settlement.<sup>19</sup> Positions in untriggered Spun-Out Component Transactions will otherwise remain in TIW and in LCH.C SA’s clearing system until maturity. US Clearing Members may not close out (other than through the Credit Event Management Process), increase, or otherwise affect the size of, a position in a Spun-Out Component Transaction. US Clearing Members may not clear any security-based swaps other than Spun-Out Component Transactions with LCH.C SA.

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Thank you for your consideration of this request. To ask questions or to obtain additional information, members of the Division staff may contact me by phone at +33 1 70 37 66 30 or by email at [christophe.hemon@lchclearnet.com](mailto:christophe.hemon@lchclearnet.com) or LCH.C SA’s outside counsel, Kevin Foley, by phone at +1 312 902 5372 or by email at [kevin.foley@kattenlaw.com](mailto:kevin.foley@kattenlaw.com).

Sincerely,



Christophe Hemon  
LCH.Clearnet SA

<sup>18</sup> LCH.C SA also has procedures in place to the extent that any of the affected positions require physical settlement.

<sup>19</sup> In addition, in the case of a clearing member default, positions in Spun-Out Component Transactions will be included in the default management process and will most likely be included in separate auction packages for all Spun-Out Component Transactions or in a series of auction packages per reference entity underlying each Spun-Out Component Transaction. LCH.C SA retains the discretion, however, to include Spun-Out Component Transactions in auction packages containing Index CDS positions.