

Head of Secretariat
Financial System Inquiry
The Treasury
Langton Crescent
PARKES ACT 2600

December 5 2013

Dear sirs,

FINANCIAL SYSTEM INQUIRY – DRAFT TERMS OF REFERENCE

This letter provides the submission of LCH.Clearnet Ltd (“LCH.Clearnet”) to the Government’s consultation on draft Terms of Reference for the Financial System Inquiry.

LCH.Clearnet is a subsidiary of the LCH.Clearnet Group, 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 cash equities, exchange traded derivatives, commodities, energy, freight, interest rate swaps, credit default swaps, bonds and repos and foreign exchange derivatives.

LCH.Clearnet is the only non-Australian CCP to have been granted an Australian Clearing and Settlement Facility Licence and is currently providing clearing services for OTC derivatives to a number of major Authorised Deposit-taking Institutions. We are committed to supporting the development of Australia’s financial system in accordance with the highest international standards of stability and efficiency. We welcome the opportunity to take an active role in the Inquiry’s deliberations, in particular those aspects relating to competition, innovation, regulation and international competitiveness in the area of organised and OTC financial markets and especially clearing.

The proposed Terms of Reference are we believe complete and comprehensive, and we do not have suggestions for additional matters for the Inquiry’s consideration. We have no doubt that they will foster a focused and constructive debate across a broad spectrum of participants in financial markets, including providers of financial infrastructure.

LCH.Clearnet has for many years been active in competitive clearing markets: initially in Europe, more recently also in the US, and we now hope and expect to be a part of the facilitation of increased clearing competition in Australia across a range of asset classes and markets. There have been many examples, especially in Europe, of how increased competition, provided it is properly regulated and supervised, can bring lower transaction costs and greater independent choice to individual intermediaries and end-users. We are confident that our international coverage, in terms of both markets and users, and experience, can benefit the Australian financial system and the wider economy.

We have worked closely with policymakers, regulators and market participants over a number of years, including in Australia, with regard to regulatory reform and the meeting of the G20 commitments. Our success in working with the Australian authorities and market participants in meeting the required prudential clearing requirements and obtaining a licence has provided Australian institutions direct access to a fully international clearing service and the liquidity of a global marketplace, allowing participants both large and small to access the world's OTC derivatives market. We are sure that there are many other opportunities that we can offer apart from in OTC derivatives that could benefit a wider range of Australian participants.

As the Inquiry proceeds, we look forward to sharing our experiences of, and lessons learned from, regulatory reform and market development in other international financial markets and jurisdictions. We have a proven track record of working with public authorities, market participants, and technology and infrastructure providers to develop innovative solutions to comply with relevant regulations as we meet the needs of our users. As a CCP and therefore primarily a manager of financial risk, we take regulation and market stability very seriously; given the crucial role that we play in the global financial markets, we maintain very high standards of risk management across the globe.

Finally, we have no doubt that Australia will continue to play a key role in financial markets in the Asia-Pacific region, an area that we are very keen to help grow. In order for this to be achieved both safely and efficiently, we believe that it is important for international regulators to work together to promote harmony across global markets while giving due recognition to individual jurisdictions' specificities.

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We hope that the Treasury finds this contribution useful and we look forward to engaging further as policy options are developed. Please do not hesitate to contact Rory Cunningham at rory.cunningham@lchclearnet.com regarding any questions raised by this letter or to discuss these comments in greater detail.

Yours faithfully

A handwritten signature in blue ink, appearing to read "Michael Davie".

Michael Davie
Chief Executive Officer