Question 1: What are the considerations for a CCP's board when determining whether and how to assign tasks related to the planning and conduct of default management auctions within the CCP's risk management framework? How does the CCP's board identify potential limits to the assigned responsibilities?

A CCP's Board must consider the following to ensure that, in the event of a clearing member default, all CCP staff and representatives of its participants (as required), are aware of their roles and ready to take action.

• The default management Policy which the Board approves. It sets out the scope high level standards and key roles and responsibilities.
• Key roles must include those making the key decisions to a) call a default, b) determine hedging strategy, and c) determine liquidation strategy (including auctions); alternates to individuals such as the CEO must also be identified.
• The LCH default management policy additionally requires that each service should form a Default Management Group (DMG), which may include secondees of the CCP's participants who are experts in risk management and/or trading of the products in the defaulter's portfolio. Such experts are not required in every asset class. The role of clearing members should be to provide the CCPs with trading experts seconded. Clearing members involvement in the governance should not to add complexity in the governance during default management but instead is reflected ex-ante via the CCP Risk Committee, Rulebook consultations, risk working groups and product advisory groups (see Question 2).
• The DMG is tasked with advising the CCP on hedging and liquidation strategies and auction design where relevant. However, the ultimate decision making still lies with the CCP's Board and Risk Committee.
• The Board should also consider establishing a supervisory committee at the CCP level chaired by the CEO or CRO and tasked with a) advising the key decision makers and b) monitoring progress of the default management process (DMP). In addition to business and risk management executives, this supervisory committee should comprise senior Legal, Compliance, Operations and Communications officers.
• Detailed supporting documentation which is regularly reviewed and updated. These procedures need to be relevant to the specific clearing services offered by the CCP and including the conduct of auctions where relevant.
• The CCP must drive regular practical tests (fire drills) of the default management procedures.

In addition, all key decisions made by the Board, the supervisory committee and the DMGs should be recorded.
When it comes to limits to delegated authorities, these should be related to the Board's risk appetite and the preservation of own capital and further down the line non-defaulting clearing members' resources. An EMIR regulated CCP's capital (so called 'skin-in-the-game') will be partially utilised if the costs of hedging and liquidating a defaulter's portfolio exceeds the value of the resources held for the defaulter's account.

The Board will need to be kept fully informed if any stage of the DMP is reached that might result in usage of the CCP capital or member's resources and consider any proposal to formally trigger the CCP's recovery plan. The supervisory committee should receive regular reports on and set limits on the usage of the defaulted member's resources at lower levels, which would act as early warning signals. This is particularly important where the defaulter's portfolio is complex and takes several days to hedge and construct auction portfolios. While the DMG will advise on strategies for those steps, approval should be given by the CRO or CEO as advised by the supervisory committee.

Questions 2: What different considerations may apply when a CCP's board establishes procedures for consulting external experts, such as independent consultants or clearing members, when designing or conducting a default management auction? How does a CCP's board address such concerns?

In addition to ensuring that where external parties are consulted, they are fully aware of their responsibilities and have taken part in default management fire drills, the Board must ensure, for clearing members in particular, that confidentiality issues and potential conflicts of interest between the CCP and the clearing members are appropriately managed.

The DMG terms of reference will typically layout the responsibilities and restrictions on external experts combined with the restrictions in the non-disclosure agreements.

LCH addresses these concerns by requiring clearing members to acknowledge certain antitrust considerations in connection with their representation on the DMG and require their representatives to not share competitively sensitive information. Employees of clearing members joining a DMG recognise the potential conflicts of interest and understand that they must act in the interests of the CCP and are also required to sign non-disclosure agreements.

CCPs may choose not to rely on external experts for certain markets for a number of reasons. In this case, CCPs should ensure good governance is maintained by requiring sufficient participant representation in the CCP Risk Committees, Rulebook consultations, risk working groups and product advisory groups where such design decisions are agreed.

Question 3: Do you agree with the description of a successful auction in the discussion paper? Do you agree with the scenarios identified that would constitute an unsuccessful auction, and are there additional such scenarios?

We understand that the question refers to the description in the 1st para of section 4 i.e. 'In an auction, a CCP generally seeks to liquidate the portfolio at a reasonable estimate of its market value (which may reflect a risk premium) while at the same time seeking to limit disruptions to the market to the extent possible.'
LSEG would prefer to use the objectives of the default rules and procedures described in PFMI principle 13 as the suitable aim. In particular;
• Managing and closing out the defaulting participant's positions in a prudent and orderly manner (aka restoring the matched book);
• Minimising losses for the CCP and for non-defaulting participants;
• Limiting disruptions to the market;
• Ensuring timely completion of settlements.
There is debate over the definition of 'success' because it can vary depending on whose funds have been consumed. For example, if the matched book is restored without the need of taxpayer's money, then from a taxpayer's point of view this would be successful. However, if the matched book was restored at the cost of significant losses to defaulting member and CCP capital, and potentially non-defaulting clearing members, then from a CCP stakeholder point of view it might be considered unsuccessful. It would greatly depend on the member in default, the market environment and the degree to which such events were expected or not.
CCPs in general would agree that restoring the matched book is the foremost objective, so until that objective has been achieved the default management process remains unsuccessful.
Nonetheless, LSEG recognises, and overall agrees with the considerations identified in Chapter 4 of the document that contribute to successful default management outcome. Namely:
• Hedging considerations;
• Auction design considerations;
• Responses to unsuccessful outcomes;
LSEG points out the above considerations relate to only one phase (phase 4) of the five recognised phases observed in a member default. These are:
1. Pre-default;
2. Declaration of default;
3. Stabilisation and preparing exit strategy;
4. Execution of exit strategy;
5. Post default;
How a CCP prepares for a default and sets out its layers of protection will greatly affect the outcomes in a default. For example, if a CCP chooses to demand low levels of initial margin or infrequent marking to market, then all else equal, it raises the hurdle to achieve a successful exit. This is because there are fewer resources available ahead of the CCP and member capital, thereby requiring a higher price in the auctions/hedges to avoid further losses in the lower parts of the waterfall – which some participants might deem as an unsuccessful outcome.
LSEG agrees that the scenarios identified such as, no bids received in an auction or bids received so low they might be considered invalid as unsatisfactory outcomes when attempting to achieve the objective of restoring a matched book.
LSEG does identify other scenarios that might threaten the objective to restore the matched book. LSEG considers these uncertainties as CCP 'auction risk'. CCP auction risk arises when there is insufficient capacity and/or willingness from the non-defaulters to absorb the defaulter's positions in order to restore the matched book. [LSEG notes similar points raised in Sec 4.2.3 and Q13]
CCP auction risk can be quantified within a service (or a default fund class) by measuring the non-aligned capacity of non-defaulter's portfolios. Non-aligned members are those holding positions (or risk) which offset the defaulter's. If the defaulter is long, then the members with the short positions are measured as the non-aligned capacity. Once this is measured, various assumptions can be introduced to the non-aligned member's capacity. For example, what if the largest was incapacitated (i.e. could not bid) is there enough capacity from the remaining? What if two were incapacitated? And so on.

A service with many buyers and sellers and low concentration, will likely achieve low auction risk. A service with a concentration of a few participants on one side of the book may present a high auction risk if one of those participants was unable to participate in the auction/hedging phase.

Once a CCP has understood the potential for auction risk, management can take decisions and actions to improve the situation. Possible mitigating actions available to resolve high auction risk could be one or several of the following:
• Reconfiguration of concentration limits and concentration margins. This should be looked at in two ways, concentration within the members of the CCP's matched book and concentration within the daily market volume and order books (where applicable);
• Increase the holding period of risk to reflect the longer time to find participants who can absorb the risk;
• If concentration is from client activity, improve likelihood of porting by encouraging back up clearing accounts at alternative clearers;
• Consult DMG to better understand the market participants, how they trade and develop alternative exit strategies;
• Introduce stronger incentives for members to participate in the exit (e.g. juniorisation in the use of resources in the default fund);
• Consider client participation in the exit (e.g. direct and indirect auction bidding);

• Consider forced allocation as a fall back in the exit strategy;
• Reconsider if the market remains fit for clearing.

Question 4: What are the primary challenges in achieving a successful default auction? In addition to those included in the discussion paper, are there other elements in the design of an auction that a CCP could consider in order to increase the likelihood of a successful auction?

The primary challenges to achieving a successful default auction are:
- The design of the portfolios to be auctioned (including the decision to hedge the portfolio or not, to split or not …).
- The effectiveness of the hedges;
- The choice and capacity of the non-aligned non defaulting auction participants (discussed above);
- The mechanisms defined by the CCP in order to incentivize bidding;
- The trade-off between (a) potential information leakage costs if many participants have access to the auction portfolio and (b) ensuring there are sufficient participants to bid competitively;
- Timing with respect to when the markets are open and liquid;
- Operational risk.

In addition to these considerations, LSEG again considers that how a CCP prepares for a default and sets out the CCP layers of protection will greatly affect the outcomes in a default. For example, if a CCP chooses to demand low levels of initial margin or infrequent marking to market, then all else equal, it raises the hurdle to achieve a successful exit. This is because there are fewer resources available ahead of the CCP and member capital, thereby requiring a higher price in the auctions/hedges to avoid further losses in the lower parts of the waterfall – which some participants might deem an unsuccessful outcome. (See answers in Q3)

Question 5: Do you agree with the description of a successful auction in the discussion paper? Do you agree with the scenarios identified that would constitute an unsuccessful auction, and are there additional such scenarios?

The decision to accept the auction outcome (or not), will largely depend on the individual characteristics of the default and the prevailing market environment. The CCP and the DMG will have to analyse the bids in relation to market conditions and should also consider the distribution of bids. Based on such considerations, the CCP supervisory committee (see Q1) and DMG will have to apply judgement to determine whether the achieved auction price is the best possible outcome or whether a second auction could improve the result.

The supervisory committee including CCP executives, risk experts, CCO and CFO will hold regular meetings during and after the auction process in order to decide whether the auction is successful and to decide next steps otherwise.
Before deciding to run additional auctions or use other tools, the committee will need to understand why the bids were unsatisfactory and what could be done to make the auction more attractive. Direct feedback from bidders would be a key consideration such discussions.

Question 6: Do you agree with the description of a successful auction in the discussion paper? Do you agree with the scenarios identified that would constitute an unsuccessful auction, and are there additional such scenarios?

The main considerations for CCPs in choosing to utilise auctions as a default management tool are the market type (OTC vs exchange), product type (e.g. securities, repo or derivatives), product liquidity, portfolio size and number of positions.

Products suitable for liquidation via the order book are least likely to be auctioned because the order book is usually a faster than preparing auctions. Remaining products which are not suitable for the order book or where the positions are too large for the order book are more likely to be auctioned.

Generally speaking, standard and liquid products traded through exchanges that can be easily absorbed by the market are least suitable for auctions. Over the counter and / or illiquid products are most suitable for auctions as a default management tool.

Suitability is assessed as part of the launch of the clearing of the product. The service launching the product must show the multiple strategies and preferred tools the CCP can use to liquidate the product in case of default. These default management tools are validated by the CCP governance as well as the regulators before the go-live of the product. Specific default exercises are generally organized to show the CCP capacity to liquidate the product as part of the governance process. This is complemented by the regular default test exercises (fire-drills) where the suitability of the default management tools are assessed.

Question 7: In addition to those outlined in the discussion paper, are there other considerations that may be useful for a CCP to take into account when designing its hedging strategy, including circumstances where a CCP may wish to delay hedging?

Generally, LCH would be hedging early London/Paris time (BST/CEST) or as soon as the default was declared, if later in the day. Hedging might be delayed if it was felt the liquidity was stronger in one part of the day over another. For example, some LATAM or ASIA emerging markets may be better suited to hedge very late in the London day (BST) when those local markets are opening. LCH would look to the advice of the DMG and experience garnered from prior fire-drills before making a decision to delay hedging.

Question 8: How do you incorporate cross-margining arrangement considerations in the hedging strategy and in the broader auction design process?

LSEG assumes the question relates to margin offsets or portfolio margining within a member's portfolio, and not cross-margin between CCPs. LSEG CCPs does not cross-margin between CCPs.

LCH's principled approach is that 'products should only be margined together if they can be default managed together' and 'margin offsets must be enduring in times of stress'. This creates a restriction on portfolio margining and to some extent explains why LCH segregates its asset classes into Rates, Equities, Fixed Income, CDS and FX, all which have their own separate waterfall and recovery tools.

Offsets within an asset class, such as USD Swaps and EUR swaps are defaulted managed together. This is achieved primarily in the hedging phase. Hedges are executed simultaneously in both markets, thus reducing singular risks together. Once the risks for each product are neutralised, then auctions can commence sequentially.

Alternative methods are available, where instead of simultaneous hedging; the combined (margin offset) products go straight into auction (or a 'spread' trade if a distinct offset) and are sold together in a single package.

Question 9: The discussion paper notes that, with respect to hedging, execution methods vary and depend on a CCP's choice of hedging instruments. What methods are used for hedging, and what is the rationale for implementing (or not implementing) a particular method?

The description of hedging products and execution methods described in 4.1 (ii) and (iii) aligns to LCH's procedures. Listed products are hedged with listed products and OTC products are hedged with OTC products. In some cases, listed rate products (short-term interest rate futures) might be hedged with short-term swaps or forward rate agreements if the DMG felt the liquidity and/or ease of execution was preferable.

Hedges will be included in the auction packs hence the hedging instrument must be eligible for clearing.

Question 10: What factors, other than those identified in the discussion paper, do you see as relevant when determining how to split a portfolio? Are there situations where certain factors would be more important than others? Please provide examples.

The considerations identified and described in section 4.2.1 align to the same factors LCH would consider when determining to split a portfolio.

Other factors which may drive further splitting are:
- Inflation indices (specialist market)
- Deliverable vs non deliverable products (different settlement assumptions appeal to different participants)
- Number of line items (for operational reasons) may require splitting the auction file.
- Specialist books (micro markets that appeal to specialists)

Question 11: The discussion paper describes two common auction formats. Are there other auction formats not included that could be beneficial for a CCP to consider employing? What factors influence the decision to implement (or not implement) a particular auction format?

In LCH, we only apply the two formats described in the paper, i.e. Single Unit Pay Your Price auction and Modified Dutch auctions. We believe there could be some other possible formats, but they are not applicable in LCH.
The auction format will depend on the size and type of portfolio and also the number of participants to the auction. Dutch auction (price set after all bids are received to determine the highest price at which the total offering can be sod) is more appropriate for concentrated and /or non-hedged portfolios. For small portfolios or hedged portfolios, the Single Unit Pay your Price is more suitable.

Question 11. A: Besides promoting competitive bidding, are there other considerations for choosing two-way pricing? Are there circumstances where it would be beneficial or circumstances where it might not be appropriate? If so, please describe.

Whilst two-way prices can address potential for information leakage, LCH does not utilise it in its auction process as this approach adds complexity to the process and requires providing additional time period to bidders to perform the two prices computation.
In addition, this could create some inefficiencies especially for big positions for which the direction is crucial, as the winner might have to reverse or borrow assets for delivery (for e.g. securities). Similarly, to assess the liquidity impact of winning the auction they need to know what they will be buying.

Question 11.B: What are the considerations for choosing to use a reserve price in an auction? Are there circumstances where it would be beneficial or circumstances where it might not be appropriate? If so, please describe.

The foremost objective of the CCP is to restore the matched book. Setting a reserve price in a competitive auction may actually lead to the rejection of valid bids conflicting with the objective of the DMP (restoring the matched book). Setting a reserve price implies the CCP has an idea of the portfolio value, which in a stressed market could be highly uncertain. In general, LCH does not commit to setting reserve prices. However, LCH does agree that in case of mandatory bidding with forced allocation, the reserve price becomes the minimum bid required to avoid the forced allocation.

Question 12: The discussion paper highlights two factors that affect the amount of time auction participants may need to evaluate a portfolio and submit bids. Are there other factors that are important to consider? Is there a minimum time period that a CCP should consider providing to auction participants?

Section 4.2.4 appears to address in full. Other factors that LCH might consider are event risks, such as certain fixing times in the day, market closing times, contract expiries, among others.

This will depend on the products involved and the portfolio complexity. Some portfolios will only require few hours to be auctioned. Some portfolios including complex OTC products will require 1 day to be auctioned. When submitting the portfolio for auction, the CCP will set up a deadline to receive the bids from members.

Question 13: If a clearing member contributes a "significant" part of the default fund, should that clearing member automatically be included in the auction process? What reasons are there for not including the clearing member?

In mandatory auctions, all participants obliged to bid should bid whether they have small or large default fund contributions. For voluntary auctions, it would depend on whether or not that member was active in the defaulter's markets. If they were a 'significant' contributor, it would be likely that the member was active in most contracts and therefore they should be encouraged to bid. In voluntary auctions, the DMG will consider the cost of information leakage when deciding which members and how many should be invited to bid.

In a voluntary auction, a member may choose not to bid because they are not active in the defaulter's markets or may have insufficient capacity to bid. LCH agrees with the points discussed in section 4.2.3 concerning auction participants and what may constitute obstacles to participation. This underlines LCH's early points [in Q3] concerning auction risk, where participants may not have sufficient capacity to absorb the defaulter's positions for a variety of reasons.

Question 14: The discussion paper discusses the trade-off between flexibility and predictability. How do you assess these trade-offs? Can you elaborate on the ways you provide for predictability while still maintaining flexibility (eg establishing rules and conditions to govern the determination of auction parameters)?

Default rules, default procedures, playbooks and fire-drills combine to create well-understood and predictable rules for all participants in the auction. The rules allow for management discretion, and outline examples when management discretion may be appropriate, such as rerunning an auction or using alternative splitting keys for the auction packs. When discretion is applied, CCPs should communicate this to the auction participants, justifying why such flexibility is being applied.

Question 15: If a CCP uses juniorisation as an incentive to encourage competitive bidding, and in a scenario where the CCP has invited only a subset of participants to an auction, how will the CCP apply the juniorisation to the clearing participants who were not invited?

In case juniorisation is used as an incentive for bidding, LCH believes all clearing members should be invited to the auction.

Question 16: CCPs may distribute information that would help auction participants estimate the potential impact of a successful auction bid on their margin requirements. Besides those that members and clients would having during BAU, what information (and at what level of detail) or tools would be most useful for calculating these estimations and why?

All trade details required to price the auction books must be provided to the auction participants, using a format that the auctions participants are familiar with, namely compatible with the one used for BAU. Any tools made available by the CCPs for the evaluation of margin requirements in BAU must be able to consume with minimum manipulation the auction packs, allowing a time effective and accurate estimation of the impact of a winning bid.

Question 17: The sharing of confidential information (ie the defaulted participant's portfolio) carries potential risks, as discussed in the paper. What are the potential risks associated with information leakages, how does the CCP balance such risks with other objectives (eg sharing sufficient information for a successful auction), and what are the measures the CCP uses to address such risks?

The risk of information leakage is that the defaulter's book becomes known to the market participants including clearing members, therefore decreasing the likelihood of competitive bids. Any participants in the auction are bounded to treat any information disclosed as part of the auction process as confidential; confidentiality is enforced for members by provisions in the Rulebook and for clients by Non-Disclosure Agreements entered before the auction packs are disclosed.

Question 18: CCPs use various modes of information transmission during a default management auction (eg email, web-based portal). Can you elaborate on which modes are the most effective in which circumstances and whether it varies depending on the type of information, and why? Would you consider web-based portals a best practice? If so, why?

Currently used tools are email and third-party messaging tools. There are on-going efforts at LCH towards the development of a web-based portal, which is expected to be deployed to a significant part of LCH's clearing services, at which point email will remain as a fall-back process for those. For time critical information transmission, the use of secured third party messaging tools, might be preferable, due to lower latency.

Yes, web-portals are a better practice from a cybersecurity perspective and low latency, when compared with existing alternatives, as for example email. Nevertheless, a well-established contingency plan is recommended, and email would be the elected fall-back.

Question 19: What are the challenges and trade-offs of creating a realistic default management testing exercise? What processes are used to create the scenarios used in such exercises?

The aim of the default management testing is to assess the appropriateness of the CCP default management procedures, including IT and operational capability of the relevant stakeholders, both internal and external. There are several challenges in setting this exercise in a realistic way.

Firstly, it is challenging to create a testing environment that correctly emulates all the relevant aspects of production, across all the systems, namely Risk/IT/Collateral, etc. In a default situation one unique environment exists (Production) and all resources would be focused on keeping it fully functional.

Secondly the task of creating a realistic while extreme market and credit event, considering one or several simultaneous defaults and operational failures of market infrastructures at the same time is difficult. The different moving parts in this simulation scenario could potential deter attention from more thorough testing of particular areas of the default management framework. Thirdly, a meaningful engagement of required external participants is essential, which can be challenging, for example when there are ongoing market events in the background or multiple CCPs fire drills take place, where DMG members overlap across CCPs.

At LCH, the creation of the scenarios to use in the CCP annual fire drill exercise is coordinated by LCH Group Head of Default Management, with sign-off from the CROs. The overall theme of the scenarios and areas within scope will be determined by LCH Group Head of Default Management, including any Regulatory requirements; these overall requirements will be cascaded to all the relevant areas of the CCP to agree upon the more granular details, including IT requirements.

Question 20: There may be benefits in pursuing greater standardisation and harmonisation across CCPs in relation to certain operational elements which support execution of an auction.

See points a and b.

Question 20.A: For example, should auction portfolio files be in a standard (or partially standardised) format (for different product types)? If so, which aspects of the portfolio file would benefit the most from cross-CCP standardisation (eg file type, layout, order of information or content)?

We do not believe there is a need for more standardisation as each CCP runs its own models and risk frameworks and reporting is designed accordingly, in consultation with its membership, and specifically targeted for the products cleared at the CCP. We believe that member's feedback on the shaping of the reporting during BAU is the main driver of change to the format of risk reporting, including auction packs, to ensure those can be consumed seamlessly in a non BAU event rather than the standardisation of format and standards across different CCPs.

Question 20.B: Besides CCP portfolio files, which other operational elements would benefit (the most) from greater standardisation and harmonisation across CCPs?

We believe that the priority should be for default management operational elements to follow as close as possible BAU procedures to ensure processes are tested internally and with members on regular basis as part of BAU and are fully understood.

Question 20.C: Are there specific operational elements or areas where standardisation and harmonisation may not be helpful?

Please see previous question.

Question 21: For which markets, asset or product classes and client types would client participation be most feasible and/or desirable? What would be the incentives for clients to participate in auctions? Does this differ for direct vs indirect client participation? Please elaborate in your response.

Client participation in default auction is not ruled out by LCH Rulebook. Participation of clients in a CCP default auction is expected to be beneficial namely as: 1) it increases the likelihood of success by extending the participation to all available sources of private investment capital. 2) It ensures the most significant traders and liquidity providers are included in the auction bidding, as often clients are the primary liquidity providers for a particular asset class.3) Real-life examples of defaults have shown that clients often bid very competitively and are key to the conclusion of the default management at the lower costs possible.

Clients are incentivised to participate in the auctions because: 1) supporting the CCP default management process minimises the likelihood of the CCP having to recourse to recovery tools, such as variation margin gain haircutting or partial tear-up.; 2) it poses a business opportunity and a chance to acquire a portfolio at an attractive price.

With regards to the direct vs indirect client participation incentives, we believe that the same incentive applies to both types of participation.

Question 22: The discussion paper describes some ways to address the risks borne by a clearing member arising from its clients bidding in an auction. Are there additional ways to address the risks? Are there incentives that a CCP could employ to encourage client participation in an auction (eg ways to encourage clearing members to facilitate their clients' participation)?

LCH considers that the incentives for client to participate in auctions (please see 21), together with other additional legal agreements as NDAs, are sufficient to ensure the 'good-behaviour" of the bidding clients, namely precluding the "free-look" behaviour described in the discussion paper.

LCH considers that the incentives for clients described in 21 are sufficient.

Question 22.A: One option for addressing a disparity in incentives between clearing members and clients is to require clients to contribute an established amount to the default fund prior to participating in an auction. What are the implications of this requirement (such as regulatory, economic or contractual implications) and how can a CCP address these implications?

LCH considers that requesting clients to contribute to the default fund prior to participating in the auction would not increase the incentive for clients to bid; on the contrary, this 'pay to see' fee would discourage the client participation, and therefore is not supported by LSEG.

Question 23: The discussion paper suggests that the conduct of multi-CCP default management exercises may provide useful insights into the hedging and auction procedures, should these be conducted by multiple CCPs concurrently. Can you elaborate on what specific insights could be obtained in relation to hedging and auctions via these multi-CCP default management exercises, if possible with concrete examples?

Multi-CCP default management exercises are useful to test members and their ability to support multiple CCPs in two key areas. Firstly, to test and ensure that the market can supply enough seconded traders to the CCP to support the hedging and execution to various CCPs at the same time. Secondly to test the operational capability of the members to handle multiple auctions from different CCPs. In this regard, it is a test of member capacity rather than the CCP.

Question 24: Feedback from the industry suggests that introducing a cap on the number of traders that can be seconded to multiple CCPs from a particular common clearing participant at any one time may mitigate the potential burden on clearing participants' participation in DMGs. How could such caps be instituted and implemented in practice? What could be the challenges of introducing such caps? Apart from caps, are there other options a CCP could consider to mitigate this potential burden?

LCH meets regularly with seconded traders and prior to appointment, the candidate bank and individual are assessed to ensure that they can meet with the requirements and are not conflicted. The multi-CCP default management exercises have not found this to be a problem. Imposing a hard cap could be seen as excessive and have unintended consequences, artificially limiting the CCPs access to expertise. Hence it is better to ensure capacity through testing and ensuring members are aware of their commitments. LSEG also believes members are best placed to determine where they would like to participate based on their own interests and exposures.

Regarding other options a CCP could consider mitigating this burden, CCPs should ensure members do not over commit by testing and making sure, they are aware of their commitments.

Question 25: Are there efficiencies or benefits to be gained from CCPs coordinating their respective default management auctions? If so, how?

In the case of hedging, each CCP has its own fiduciary duty to its members and shareholders, and each will want to execute their own strategy as swiftly and confidentially as possible. It is highly unlikely that a member would have offsetting positions spread between 2 CCPs as this would be very margin inefficient.

If any coordination between CCPs is deemed beneficial, it is paramount, that it is facilitated by regulators. In taking such step, supervisors will need to consider the consequences and risks of taking such a direction.

Question 25. A. Are there any arrangements that could be coordinated ex ante (eg cross-CCP netting arrangements)? How could these arrangements be established? What would be the challenges with these arrangements? How could these challenges be mitigated?

Please see previous question.

Question 26: Are there any additional points of consideration that would contribute to a successful auction that are not mentioned in this discussion paper? If so, what are they?

In addition to our input in question 3, the discussion paper appears to focus on derivatives, so it is worth mentioning that in securities markets, managing liquidity and ensuring timely settlements is an important aspect of the exit strategy. Future discussions may wish to give more thought to improving the practices of successful client porting by establishing comprehensive porting fire drills with CCPs, CMs, Clients and Regulators. LCH advocates best practices which give emphasis to regular testing of a CCPs default management process.

Question 27: What are the potential areas in the context of default management auctions where additional guidance might be most welcome?

It would be helpful if the guidance recognises that CCPs require flexibility when executing the default management process, enabling CCPs to adapt to the particular situation at hand (see Q14). Overly prescriptive rules may lead to unintended consequences.

The guidance should identify the main drivers of auction risk (see responses to chapter 4 questions) and recommend or reiterate the best practices to reduce, avoid or transfer such risks.

Any other comments/feedback on areas not mentioned above:

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