

**Meeting Between Federal Reserve Staff and
Representatives of LCH.Clearnet and Rich Feuer Group
December 15, 2010**

Participants: Jeff Stehm, Jennifer Lucier, Stuart Sperry, Christopher Clubb, Kara Handzlik and Pat White (Federal Reserve Board);

Roger Liddell, Simon Grensted and Natasha Angus (LCH.Clearnet);
Peter Rich and Mitchell Feuer (Rich Feuer Group)

Summary: Federal Reserve staff met with representatives of LCH.Clearnet to discuss certain aspects of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”) related to: governance of and membership in central counterparties (“CCPs”); financial resources and other risk management requirements for designated clearing organizations (“DCOs”), systemically important designated clearing organizations (“SIDCOs”), and non-U.S. central counterparties; and designation by the Financial Stability Council (“FSOC”) of financial market utilities as systemically important.

During this discussion, LCH.Clearnet representatives indicated that LCH.Clearnet is broadly comfortable with the governance requirement proposed by the Commodity Futures Trading Commission (“CFTC”) and the Securities and Exchange Commission. However, representatives expressed concerns about the aspect of the proposals that would require a large percentage of the board of directors to be independent public directors because they believe LCH.Clearnet would lose needed expertise from market users. LCH.Clearnet’s representatives further expressed the view that ownership restrictions are not the way to address conflicts of interest posed by large banks’ participation in market infrastructure. SwapClear, the part of LCH.Clearnet that clears over-the-counter interest rate derivatives, is working with its current members to develop more objective criteria for clearing membership. Representatives of LCH.Clearnet emphasized the importance of balancing the benefits of broad membership in a CCP with the need to manage the counterparty risk that individual clearing members pose for the CCP.

The representatives of LCH.Clearnet expressed their belief that LCH.Clearnet will likely be designated a SIDCO by the FSOC, and are comfortable with a CFTC rule making proposal that their default fund would need to cover the potential default of the CCP’s two largest members. The CFTC has proposed lower risk management standards for DCOs that are not designated as systemically important, and the LCH.Clearnet representatives expressed concern about the competitive implications of such a structure.

LCH.Clearnet plans to comment on the FSOC’s announced advance notice of proposed rulemaking on criteria for designating financial market utilities as systemically important. The representatives of LCH.Clearnet also noted that access to a central bank account under Title VIII would enable them to better control the credit exposure they face -- both intraday and overnight -- from holding funds with commercial banks.