



European Securities and
Markets Authority

Reply form for the Consultation Paper on Clearing Obligation under EMIR (no.4)



Responding to this paper

The European Securities and Markets Authority (ESMA) invites responses to the specific questions listed in the ESMA Addendum Consultation Paper on MiFID II/MiFIR, published on the ESMA website.

Instructions

Please note that, in order to facilitate the analysis of the large number of responses expected, you are requested to use this file to send your response to ESMA so as to allow us to process it properly. Therefore, ESMA will only be able to consider responses which follow the instructions described below:

- use this form and send your responses in Word format (pdf documents will not be considered except for annexes);
- do not remove the tags of type <ESMA_CO4_1> - i.e. the response to one question has to be framed by the 2 tags corresponding to the question; and
- if you do not have a response to a question, do not delete it and leave the text “TYPE YOUR TEXT HERE” between the tags.

Responses are most helpful:

- if they respond to the question stated;
- contain a clear rationale, including on any related costs and benefits; and
- describe any alternatives that ESMA should consider

Naming protocol

In order to facilitate the handling of stakeholders responses please save your document using the following format:

ESMA_CO4_NAMEOFCOMPANY_NAMEOFDOCUMENT.

E.g. if the respondent were XXXX, the name of the reply form would be:

ESMA_CO4_XXXX_REPLYFORM or

ESMA_CO4_XXXX_ANNEX1

Deadline

Responses must reach us by **15 July 2015**.

All contributions should be submitted online at www.esma.europa.eu under the heading ‘Your input/Consultations’.



Publication of responses

All contributions received will be published following the end of the consultation period, unless otherwise requested. **Please clearly indicate by ticking the appropriate checkbox in the website submission form if you do not wish your contribution to be publicly disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure.** Note also that a confidential response may be requested from us in accordance with ESMA's rules on access to documents. We may consult you if we receive such a request. Any decision we make is reviewable by ESMA's Board of Appeal and the European Ombudsman.

Data protection

Information on data protection can be found at www.esma.europa.eu under the headings 'Legal notice' and 'Data protection'.



General information about respondent

Name of the company / organisation	Citadel LLC
Activity	Investment Services
Are you representing an association?	<input type="checkbox"/>
Country/Region	North-America

Introduction

Pease make your introductory comments below, if any:

<ESMA_CO4_COMMENT_1>

Citadel LLC¹ (“Citadel”) appreciates this opportunity to provide comments to the European Securities and Markets Authority (“ESMA”) in response to its *Consultation Paper on Clearing Obligation under EMIR (no.4)*.

Citadel is an active participant in the global OTC derivatives market, both in the United States and Europe. We believe firmly that central clearing of OTC derivatives will mitigate systemic risk, increase transparency, promote competition, and otherwise improve the safety, stability and integrity of the global financial markets. We have witnessed firsthand, and been an active participant in, the successful implementation of mandatory clearing for wide swaths of the interest rate OTC derivatives market in the United States, and look forward to similar achievements in Europe.

Citadel regularly voluntarily clears interest rate OTC derivatives denominated in an array of currencies beyond USD, EUR, GBP, and JPY (the universe currently subject to the clearing obligation in the U.S. and that will soon be subject to the clearing obligation in the E.U). We believe it is appropriate at this time to expand the clearing obligation globally to OTC derivatives denominated in AUD, CAD, CHF, DKK, NOK, NZD, and SEK.

As a backdrop to our specific responses that follow, we would like to first highlight the significant advancements in *client* clearing that have occurred in the past few years:

- The buy-side has cleared \$236.6 trillion notional in interest rate OTC derivatives at LCH, where buy-side open interest now stands at \$14.9 trillion and on average over 3,000 buy-side trades are cleared per day.²
- Over \$70.6 trillion notional in interest rate OTC derivatives has been cleared at CME, with open interest standing at over \$24.0 trillion and over 2,000 trades being cleared per day.³ We understand that most of this volume is driven by the buy-side.

We believe these statistics demonstrate clearly the viability and scalability of *client* clearing, and

¹ Citadel is a global investment firm built around world-class talent, sound risk management, and innovative market-leading technology. For nearly a quarter of a century, Citadel’s hedge funds and capital markets platform have delivered meaningful and measurable results to top-tier investors around the world. Citadel’s team of more than 550 investment professionals deploy capital across all major asset classes, in all major financial markets, from offices in Chicago, New York, San Francisco, Boston, London, Hong Kong, and Shanghai.

² See <http://www.swapclear.com/what/clearing-volumes.html> as of July 13, 2015.

³ See <http://www.cmegroup.com/education/cme-volume-oi-records.html> as of July 13, 2015.



are an indication of the benefits that buy-side market participants will derive as the implementation of central clearing continues around the globe. Our responses to certain of the questions posed in the Discussion Paper follow.

<ESMA_CO4_COMMENT_1>



Question 1: Do you have any comment on the clearing obligation procedure described in this section?

<ESMA_CO4_1>
TYPE YOUR TEXT HERE
<ESMA_CO4_1>

Question 2: Do you have any comment on the structure of the interest rate derivative classes described in this section?

<ESMA_CO4_2>
TYPE YOUR TEXT HERE
<ESMA_CO4_2>

Question 3: Do you agree with the principle that, in the context of the clearing obligation, systemic risk should be considered not only at the aggregated EU level, but also at country or even institution level?

<ESMA_CO4_3>
TYPE YOUR TEXT HERE
<ESMA_CO4_3>

Question 4: In view of the criteria set in Article 5(4) of EMIR, do you consider that this set of classes addresses appropriately the systemic risk associated to interest rate OTC derivatives? Please include relevant data or information where applicable.

<ESMA_CO4_4>

We recommend that the DKK, NOK, and SEK contracts within the Fixed-to-float and Forward rate agreement (FRA) classes should be subject to the clearing obligation. These contracts all exhibit ample (a) standardization, (b) volume and liquidity, and (c) availability of pricing information, which are the relevant criteria defined in Article 5(4) of EMIR for consideration when applying the clearing obligation. We further recommend that the clearing obligation for these contracts be amended to cover the full range of maturities that are currently available for clearing – up to 10Y for DKK and NOK up to 30Y for SEK.

The very high degree of standardization of contractual terms and operational processes, ample volume and liquidity, and ready availability of pricing information for these interest rate OTC derivative contracts is evidenced, among others, by the fact that substantial volumes of these contracts are already cleared. At LCH, open interest in notional terms stands at DKK 4.2 trillion, NOK 15.6 trillion, and SEK 28.9 trillion respectively.⁴ In addition, data from DTCC's Global Trade Repository⁵ demonstrate substantial trading activity week-over-week in both notional and trade count terms. Our experience and observations regarding trading liquidity further lead us to conclude that there is sufficient data in the market for CCPs to perform required pricing of these interest rate OTC derivative contracts.

<ESMA_CO4_4>

⁴ See <http://www.swapclear.com/what/clearing-volumes.html> as of July 13, 2015.

⁵ See <http://www.dtcc.com/market-data/gtr-interest-rate-swap-data/table-2.aspx>



Question 5: Do you consider that the proposals related to the definition of the categories of counterparties are appropriate in light of the criteria set out in EMIR?

<ESMA_CO4_5>
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<ESMA_CO4_5>

Question 6: Do you consider that the proposed dates of application for the different categories of counterparties ensure a smooth implementation of the clearing obligation? Please explain why and possible alternatives.

<ESMA_CO4_6>
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<ESMA_CO4_6>

Question 7: Do you have any comment on the approach envisaged for frontloading?

<ESMA_CO4_7>
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Question 8: Do you have any comment on the Cost-Benefit analysis?

<ESMA_CO4_8>
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Question 9: Do you have any comments on the draft RTS not already covered in the previous questions?

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