

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-99922; File No. SR-LCH SA-2023-007)

April 8, 2024

Self-Regulatory Organizations; LCH SA; Order Instituting Proceedings to Determine Whether to Approve or Disapprove a Proposed Rule Change Relating to Liquidity Risk Modelling Framework

I. Introduction

On December 22, 2023, Banque Centrale de Compensation, which conducts business under the name LCH SA (“LCH SA”), filed with the Securities and Exchange Commission (“Commission”) the proposed rule change SR-LCH SA-2023-007 (“Proposed Rule Change”) pursuant to Section 19(b) of the Securities Exchange Act of 1934 (“Exchange Act”)¹ and Rule 19b-4² thereunder to amend its Liquidity Risk Modelling Framework (the “Framework”). The Proposed Rule Change was published for public comment in the *Federal Register* on January 11, 2024.³ The Commission has received no comments regarding the Proposed Rule Change.

On February 21, 2024, pursuant to Section 19(b)(2) of the Exchange Act,⁴ the Commission designated a longer period within which to approve, disapprove, or institute proceedings to determine whether to approve or disapprove the Proposed Rule Change, until April 10, 2024.⁵ The Commission is instituting proceedings, pursuant to Section

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Exchange Act Release No. 99277 (Jan. 5, 2024), 89 FR 1952 (Jan. 11, 2024) (File No. SR-LCH SA-2023-007) (“Notice”).

⁴ 15 U.S.C. 78s(b)(2).

⁵ Exchange Act Release No. 99569 (Feb. 21, 2024), 89 FR 14538 (Feb. 27, 2024) (File No. SR-LCH SA-2023-007).

19(b)(2)(B) of the Exchange Act,⁶ to determine whether to approve or disapprove the proposed rule change.

II. Summary of the Proposed Rule Change

LCH SA is a clearing agency that offers clearing of, among other things, credit-default swaps (“CDS”).⁷ LCH SA is registered with the Commission for clearing CDS that are security-based swaps and with the Commodity Futures Trading Commission for clearing CDS that are swaps. As part of its clearing business, LCH SA maintains cash and other liquid financial resources to meet its financial obligations. The Framework and other procedures describe how LCH SA maintains these resources and manages its liquidity risk, meaning the risk that LCH SA will not have enough liquid financial resources to meet its financial obligations.⁸ The Framework specifically describes how LCH SA’s Collateral and Liquidity Risk Management department ensures that LCH SA has enough cash available to meet any financial obligations, both expected and unexpected, that may arise over the liquidation period for each of LCH SA’s clearing services.

The Framework describes LCH SA’s liquidity in terms of sources and needs. The Framework lists various sources of liquidity for LCH SA, such as cash and non-cash collateral provided by Clearing Members to meet their margin and default fund

⁶ 15 U.S.C. 78s(b)(2)(B).

⁷ Capitalized terms used but not defined herein have the meanings specified in the LCH SA Rule Book or Framework as applicable.

⁸ LCH SA, a subsidiary of LCH Group and an indirect subsidiary of the London Stock Exchange Group plc (“LSEG”), manages its liquidity risk pursuant to, among other policies and procedures, the Group Liquidity Risk Policy and the Group Liquidity Plan applicable to each entity within LCH Group. In addition to its CDS Clear service, LCH SA provides clearing services in connection with cash equities and derivatives listed for trading on Euronext (EquityClear), commodity derivatives listed for trading on Euronext (CommodityClear), and tri-party Repo transactions (RepoClear).

requirements. With respect to needs for liquidity, the Framework places these into three broad categories: (i) those arising from LCH SA's business-as-usual operations; (ii) those arising from Clearing Members' defaults; and (iii) those arising from the default of LCH SA's interoperating central counterparty ("CCP").

The purpose of the Proposed Rule Change is to make a variety of updates to the Framework. In general, these changes will: (a) revise the manner in which settlement obligation liquidity requirements are calculated; (b) revise the way LCH SA determines the potential value of liquidity obtained from pledging securities to the Banque de France; (c) extend the length of time for which LCH SA must maintain liquidity resources sufficient to meet its liquidity requirements; (d) include the liquidity needs generated by the expiration of physically settled stock futures in determining overall liquidity needs; and (e) require LCH SA, in calculating its required liquidity resources, to consider that Clearing Members may switch from depositing non-cash collateral in a Full Title Transfer Account to depositing non-cash collateral instead in a Single Pledged Account.

III. Proceedings to Determine Whether to Approve or Disapprove the Proposed Rule Change and Grounds for Disapproval Under Consideration

The Commission is instituting proceedings pursuant to Section 19(b)(2)(B) of the Exchange Act to determine whether the Proposed Rule Change should be approved or disapproved.⁹ Institution of proceedings is appropriate at this time in view of the legal and policy issues raised by the Proposed Rule Change. Institution of proceedings does not indicate that the Commission has reached any conclusions with respect to any of the

⁹ 15 U.S.C. 78s(b)(2)(B).

issues involved. Rather, the Commission seeks and encourages interested persons to comment on the Proposed Rule Change, which would provide the Commission with arguments to support the Commission's analysis as to whether to approve or disapprove the Proposed Rule Change.

Pursuant to Section 19(b)(2)(B) of the Exchange Act,¹⁰ the Commission is providing notice of the grounds for disapproval under consideration. The Commission is instituting proceedings to allow for additional analysis of, and input from commenters with respect to, the Proposed Rule Change's consistency with Section 17A of the Exchange Act¹¹ and the rules thereunder, including the following provisions:

- Section 17A(b)(3)(F) of the Exchange Act,¹² which requires, among other things, that the rules of a clearing agency are designed to promote the prompt and accurate clearance and settlement of securities transactions and derivative agreements, contracts, and transactions; to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible; to foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions; and, in general, to protect investors and the public interest;
- Rule 17Ad-22(e)(7) under the Exchange Act,¹³ which requires, in part, that a covered clearing agency establish, implement, maintain, and enforce written policies and procedures reasonably designed to effectively measure, monitor, and

¹⁰ *Id.*

¹¹ 15 U.S.C. 78q-1.

¹² 15 U.S.C. 78q-1(b)(3)(F).

¹³ 17 CFR 240.17Ad-22(e)(7).

manage the liquidity risk that arises in or is borne by the covered clearing agency, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity; and

- Rules 17Ad-22(e)(7)(vi)(B) and (C) under the Exchange Act,¹⁴ which requires that a covered clearing agency establish, implement, maintain, and enforce written policies and procedures reasonably designed to determine the amount and regularly testing the sufficiency of the liquid resources held for purposes of meeting the minimum liquid resource requirement under Rule 17Ad-22(e)(7)(i) by, at a minimum: (i) conducting a comprehensive analysis on at least a monthly basis of the existing stress testing scenarios, models, and underlying parameters and assumptions used in evaluating liquidity needs and resources, and considering modifications to ensure they are appropriate for determining its identified liquidity needs and resources in light of current and evolving market conditions and (ii) conducting a comprehensive analysis of the scenarios, models, and underlying parameters and assumptions used in evaluating its liquidity needs and resources more frequently than monthly when the products cleared or markets served display high volatility or become less liquid, when the size or concentration of positions held by its participants increases significantly, or in other appropriate circumstances described in such policies and procedures that a covered clearing agency establish, implement, maintain, and enforce written policies and procedures reasonably designed to identify, monitor, and manage

¹⁴ Id.

risks related to any link the covered clearing agency establishes with one or more other clearing agencies, financial market utilities, or trading markets.

IV. Procedure: Request for Written Comments

The Commission requests that interested persons provide written submissions of their views, data, and arguments with respect to the issues identified above, as well as any other concerns they may have with the Proposed Rule Change. In particular, the Commission invites the written views of interested persons concerning whether the Proposed Rule Change is consistent with Section 17A(b)(3)(F)¹⁵ and Rules 17Ad-22(e)(7), and (e)(7)(vi)(B) and (C)¹⁶ of the Exchange Act, or any other provision of the Exchange Act, or the rules and regulations thereunder. Although there do not appear to be any issues relevant to approval or disapproval that would be facilitated by an oral presentation of views, data, and arguments, the Commission will consider, pursuant to Rule 19b-4(g) under the Exchange Act,¹⁷ any request for an opportunity to make an oral presentation.¹⁸

The Commission asks that commenters address the sufficiency of LCH SA's statements in support of the Proposed Rule Change, which are set forth in the Notice, in addition to any other comments they may wish to submit about the Proposed Rule Change.

¹⁵ 15 U.S.C. 78q-1(b)(3)(F).

¹⁶ 17 CFR 240.17Ad-22(e)(7).

¹⁷ 17 CFR 240.19b-4(g).

¹⁸ Section 19(b)(2) of the Exchange Act grants to the Commission flexibility to determine what type of proceeding—either oral or notice and opportunity for written comments—is appropriate for consideration of a particular proposal by a self-regulatory organization. *See* Securities Act Amendments of 1975, Senate Comm. on Banking, Housing & Urban Affairs, S. Rep. No. 75, 94th Cong., 1st Sess. 30 (1975).

Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's internet comment form (<https://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include file number SR-LCH SA-2023-007 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-1090.

All submissions should refer to file number SR-LCH SA-2023-007. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<https://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the Proposed Rule Change that are filed with the Commission, and all written communications relating to the Proposed Rule Change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549 on official business days between the hours of 10 am and 3 pm. Copies of such filing also will be available for inspection and copying at the principal office of LCH SA and on LCH SA's website at <https://www.lch.com/resources/rulebooks/proposed-rule-changes>.

Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection.

All submissions should refer to file number SR-LCH SA-2023-007 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*]. Rebuttal comments should be submitted by [INSERT DATE 35 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁹

Sherry R. Haywood,

Assistant Secretary.

¹⁹ 17 CFR 200.30-3(a)(31).