

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-82863; File No. SR-LCH SA-2018-002)

March 13, 2018

Self-Regulatory Organizations; LCH SA; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to End of Day Price Contribution

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder<sup>2</sup> notice is hereby given that on March 8, 2018,<sup>3</sup> 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 described in Items I, II and III below, which Items have been prepared primarily by LCH SA. LCH SA has filed the proposed rule change pursuant to Section 19(b)(3)(A)<sup>4</sup> of the Act and Rule 19b-4(f)(4)<sup>5</sup> thereunder, so that the proposal was effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Clearing Agency’s Statement of the Terms of Substance of the Proposed Rule Change

LCH SA is proposing to amend its CDS Clearing Procedures (the “Procedures”) in order to implement a new window for end of day price contribution for CDX North

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> This notice supersedes and replaces the notice of this proposed rule change previously made public on the Commission’s website on March 5, 2018.

<sup>4</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>5</sup> 17 CFR 240.19b-4(f)(4).

American indices and related USD denominated single name CDS transactions at New York close of business (the “Proposed Rule Change”).

The text of the proposed rule change has been annexed as Exhibit 5.

II. Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, LCH SA included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. LCH SA has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of these statements.

A. Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change.

1. Purpose

In connection with the clearing of CDX North American indices and related USD denominated single name CDS transactions, LCH SA proposes to modify the end of day price contribution process by changing the following timelines for a CDS Contractual Currency<sup>6</sup> in US Dollar:

- The daily Price Requirement Files availability for download from between 14:30 and 15:00 GMT to from 14:30 New York City local time except when the Price Contribution Day occurs on the Price Contribution Day immediately preceding 1<sup>st</sup> January, 4<sup>th</sup> July or 25<sup>th</sup> December for which the files may be available earlier as notified by LCH SA in advance;

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<sup>6</sup> Capitalized terms not defined herein are defined in LCH SA’s Rulebook, available at: <https://www.lch.com/resources/rules-and-regulations/sa-rulebooks>

- The daily Market Data submission by Price Contribution Participants from between 16:00 and 16:35 GMT to between 16:30 and 16:35 New York City local time, except when the Price Contribution Day occurs on the Price Contribution Day immediately preceding 1<sup>st</sup> January, 4<sup>th</sup> July or 25<sup>th</sup> December for which the files may be available earlier as notified by LCH SA in advance;
- The fallback to composite spread/prices from 17:15 GMT to 17:15 New York City local time;
- The disclosure of the occurrence of a Firm Day to Price Contribution Participants from promptly after the closure of the submission window at 16:35 GMT to promptly after the closure of the submission window at 16:35 New York City local time;
- The execution of a CDS Cross Trade by Price Contribution Participants on a Firm Day from prior to 18:30 GMT to prior to 17:30 New York City local time;
- The notification of execution of Cross Trades on a Firm Day by a Price Contribution Participant to LCH SA from before 18:30 GMT to before 17:30 New York City local time.

LCH SA is also taking this opportunity to make the following amendments to Section 5 of the Procedures with respect to the timeline of the end of day price contribution process for a CDS with a CDS Contractual Currency in Euro and an Index Swaption:

- The daily Price Requirement Files availability for download from between 14:30 and 15:00 GMT to from 13:15 GMT, except when the Price Contribution Day occurs on the Price Contribution Day immediately preceding 1<sup>st</sup> January or 25<sup>th</sup> December for which the files may be available earlier as notified by LCH SA in advance;
- The daily Market Data submission by Price Contribution Participants from between 16:00 and 16:35 GMT to between 16:30 and 16:35 GMT, except when the Price Contribution Day occurs on the Price Contribution Day immediately preceding 1<sup>st</sup> January or 25<sup>th</sup> December for which the files may be available earlier as notified by LCH SA in advance.

The main purpose of the Proposed Rule Change is to allow LCH SA to mark to market USD denominated index and single names positions with prices contributed at the close rather than in the middle of the trading session for these instruments such that both the Initial Margin and Variation Margin to be settled at the following First Margin Run are reflecting accurately the entirety of the previous trading session and the associated market moves.

## 2. Statutory Basis.

LCH SA believes that the Proposed Rule Change is consistent with the requirements of Section 17A of the Act<sup>7</sup> and regulations thereunder applicable to it, including the standards under Rule 17Ad-22.<sup>8</sup>

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<sup>7</sup> 15 U.S.C. 78q-1.

<sup>8</sup> 17 CFR 240.17Ad-22.

Specifically, Section 17A(b)(3)(F)<sup>9</sup> of the Act requires, among other things, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions and derivative agreements, contracts, and transactions and 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. As noted above, the Proposed Rule Change will allow LCH SA to reflect more accurately in its Initial Margin and Variation Margin calculations the entirety of the market moves for USD denominated index and single names observed in the previous trading session, and thus further strengthen the safeguarding of securities and funds under control of LCH SA.

LCH SA believes that the Proposed Rule Change satisfies the requirements of Rule 17Ad-22(b)(2), (b)(3), (e)(1), (e)(4), and (e)(6).<sup>10</sup>

Rule 17Ad-22(b)(2) requires a clearing agency acting as a central counterparty to use margin requirements to limit its credit exposures to participants under normal market conditions and to use risk-based models and parameters to set margin requirements.<sup>11</sup> Rule 17Ad-22(b)(3)<sup>12</sup> requires each clearing agency acting as a central counterparty for security-based swaps to maintain sufficient financial resources to withstand, at a minimum, a default by the two participant families to which it has the largest exposure in extreme but plausible market conditions (the “cover two standard”). Rule 17Ad-22(e)(4)(i) requires a covered clearing agency to effectively identify,

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<sup>9</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>10</sup> 17 CFR 240.17Ad-22(b)(2), (b)(3), (e)(1), (e)(4), and (e)(6).

<sup>11</sup> 17 CFR 240.17Ad-22(b)(2).

<sup>12</sup> 17 CFR 240.17Ad-22(b)(3).

measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing and settlement processes by maintaining sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence<sup>13</sup>, and Rule 17Ad-22(e)(6) requires a covered clearing agency that provides central counterparty services to cover its credit exposures to its participants by establishing a risk-based margin system that meets certain minimum requirements.<sup>14</sup>

As described above, LCH SA proposes to amend the timeline of the end of price contribution process for USD denominated index and single name positions to reflect the market moves observed during the entirety of the previous trading session in the calculation of the Initial Margin and Variation Margin to be settled at the following First Margin Run. This implies that the margin requirements set by LCH SA and use of such margin requirements limit LCH SA's credit exposures to participants in clearing USD denominated index and single name CDS transactions under normal market conditions, consistent with Rule 17Ad-22(b)(2).<sup>15</sup> LCH SA also believes that its current risk-based margin methodology, by relying on prices contributed at the close of the trading session, takes into account, and generates margin levels commensurate with, the risks and particular attributes of USD denominated index and single name CDS transactions at the product and portfolio levels, appropriate to the relevant market it serves, consistent with Rule 17Ad-22(e)(6)(i) and (v).<sup>16</sup> In addition, LCH SA believes that the margin

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<sup>13</sup> 17 CFR 240.17Ad-22(e)(4)(i).

<sup>14</sup> 17 CFR 240.17Ad-22(e)(6).

<sup>15</sup> 17 CFR 240.17Ad-22(b)(2).

<sup>16</sup> 17 CFR 240.17Ad-22(e)(6)(i) and (v).

calculation under the current CDSClear margin framework and based on prices for USD denominated index and single name positions contributed at the close of the trading session would also sufficiently account for the 5-day liquidation period for house account portfolio and 7-day liquidation period for client portfolio and therefore, is reasonably designed to cover LCH SA's potential future exposure to participants in the interval between the last margin collection and the close out of positions following a participant default, consistent with Rule 17Ad-22(e)(6)(iii).<sup>17</sup>

Further, Rule 17Ad-22(b)(3) requires a clearing agency acting as a central counterparty for security-based swaps to establish policies and procedures reasonably designed to maintain the cover two standard.<sup>18</sup> Similarly, Rule 17Ad-22(e)(4)(ii) requires a covered clearing agency that provides central counterparty services for security-based swaps to maintain financial resources additional to margin to enable it to cover a wide range of foreseeable stress scenarios that include, but are not limited to, meeting the cover two standard.<sup>19</sup> LCH SA believes that its current Default Fund methodology based on prices for USD denominated index and single name positions provided at the close of the trading session will also appropriately incorporate the risk of clearing USD denominated index and single name CDS transactions, as together with the existing CDSClear margin framework, will be reasonably designed to ensure that LCH SA

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<sup>17</sup> 17 CFR 240.17Ad-22(e)(6)(iii).

<sup>18</sup> 17 CFR 240.17Ad-22(b)(3).

<sup>19</sup> 17 CFR 240.17Ad-22(e)(4)(ii).

maintains sufficient financial resources to meet the cover two standard, in accordance with Rule 17Ad-22(b)(3) and (e)(4)(ii).<sup>20</sup>

LCH SA also believes that the proposed rule change is consistent with Rule 17Ad-22(e)(1), which requires each covered clearing agency's policies and procedures be reasonably designed to provide for a well-founded, clear, transparent, and enforceable legal basis for each aspect of its activities in all relevant jurisdictions.<sup>21</sup> As described above, the proposed rule change would make a clear distinction on the timelines associated to the end of day price contribution process for Euro and USD denominated positions. LCH SA believes that this change would provide for a clear and transparent legal basis for CDS Clear clearing members' requirement to provide accurate prices on all of their open positions, consistent with Rule 17Ad-22(e)(1).<sup>22</sup>

For the reasons stated above, LCH SA believes that the proposed rule change is consistent with the requirements of prompt and accurate clearance and settlement of securities transactions and derivatives agreements, contracts and transactions, and assuring the safeguarding of securities and funds in the custody or control of the clearing agency or for which it is responsible, in accordance with 17A(b)(3)(F) of the Act.<sup>23</sup>

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<sup>20</sup> 17 CFR 240.17Ad-22(b)(3) and (e)(4)(ii).

<sup>21</sup> 17 CFR 240.17Ad-22(e)(1).

<sup>22</sup> 17 CFR 240.17Ad-22(e)(1).

<sup>23</sup> 15 U.S.C. 78q-1(b)(3)(F).



B. Clearing Agency's Statement on Burden on Competition.

Section 17A(b)(3)(I) of the Act requires that the rules of a clearing agency do not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.<sup>24</sup>

The Proposed Rule Change will apply equally to all CDSClear members and clients and does not adversely affect their ability to engage in cleared transactions or to access clearing services offered by LCH SA CDSClear.

Therefore, LCH SA does not believe that the Proposed Rule Change would have any impact, or impose any burden, on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

C. Clearing Agency's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

Written comments relating to the proposed rule change have not been solicited or received. LCH SA will notify the Commission of any written comments received by LCH SA.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>25</sup> and paragraph (f) of Rule 19b-4 thereunder.<sup>26</sup> At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or

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<sup>24</sup> 15 U.S.C. 78q-1(b)(3)(I).

<sup>25</sup> 15 U.S.C. 78s.

<sup>26</sup> 17 CFR 240.19b-4.

appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

##### Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-LCH SA-2018-002 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-2018-002. 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 (<http://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 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of LCH SA and on LCH SA's website at <http://www.lch.com/asset-classes/cdsclear>.

All comments received will be posted without change; Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-LCH SA-2018-002 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>27</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>27</sup> 17 CFR 200.30-3(a)(12).