

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-94423; File No. SR-LCH SA-2022-002)

March 15, 2022

Self-Regulatory Organizations; LCH SA; Notice of Filing of Proposed Rule Change  
Relating to the CDS Clearing Rule Book, Supplement, and Procedures

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 11, 2022, 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. 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**

(a) Banque Centrale de Compensation, which conducts business under the name LCH SA (“LCH SA”), is proposing to amend its (i) CDS Clearing Rule Book (the “Rule Book”), (ii) CDS Clearing Supplement (the “Clearing Supplement”), (iii) some of its CDS Clearing Procedures (the “Procedures”), and (iv) a Clearing Notice (“Clearing Notice”), to allow LCH SA to enhance its clearing services as follows : (i) implement the queuing of trades received outside of the Real Time Session, therefore avoiding automatic rejection of such trades by the Clearing System; (ii) allow Daily Backloading

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

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

for Index Swaptions, which is currently only permitted for CDS; and (iii) accept ad-hoc compression requests directly from Clients of Clearing Members.

In addition, LCH SA is also proposing to revise a number of its rules to make conforming amendments to the recently amended CFTC Regulation 39.13(g)(8)(ii).

Finally, LCH SA is proposing additional clarifying amendments for consistency purposes.

The text of the proposed rule changes (the “Proposed Rule Change”) has been annexed [sic] as Exhibit 5.

The launch of this initiative will be contingent upon LCH SA’s receipt of all necessary regulatory approvals, including the approval by the Commission of the proposed rule change described herein.

(b) Not applicable.

(c) Not applicable.

## **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**

#### **(a) Purpose**

The purpose of the Proposed Rule Change is to revise LCH SA’s rules, procedures and supplement to (1) allow LCH SA to implement various initiatives

enhancing the CDSClear clearing services offering and (2) make additional amendments and conforming and clarifying amendments for consistency purposes.

**1. Proposed amendments to permit LCH SA to offer the queuing of trades received outside of the Real Time Session**

On each Clearing Day, the Real Time Session begins at the Start of Real Time and ends at the End of Real Time, as described in a Clearing Notice. To be eligible for novation, an Intraday Transaction, which is a CDS or Index Swaption which (i) has been entered into between two Approved Trade Source System (ATSS) Participants; and (ii) is submitted for clearing to LCH SA by the relevant ATSS Participants through an Approved Trade Source System, must pass the Eligibility Controls and the Client Transaction Checks (if applicable), and must be submitted to LCH SA during the Real Time Session. Should any of these criteria not be satisfied, the Intraday Transaction shall be automatically rejected and become a Rejected Transaction. However, in order to avoid automatic rejection of Intraday Transactions sent by an Approved Trade Source System to LCH SA outside of the Real Time Session, and to align with LCH Limited's offering and practice, Intraday Transactions which are submitted to LCH SA for clearing outside of the Real Time Session will not be rejected but will be deemed to have been submitted at the Start of the next Real Time Session.

The proposed changes described below would allow LCH SA to offer the operational queuing of such Intraday Transactions.

**i. Rule Book**

**a. Changes to Article 3.1.4.3**

Article 3.1.4.3 of the Rule Book would be amended to provide that any Intraday Transaction received for clearing by LCH SA outside of the Real Time Session will be

deemed to have been submitted at the Start of the Real Time Session on the following Clearing Day. As such, the submission of Intraday Transactions outside of the Real Time Session would no longer be a cause of automatic rejection. However, the Eligibility Controls, the Client Transaction Checks (if applicable) or the Notional and Collateral Checks shall remain so.

**ii. Clearing Notice 2016/057 on Real Time Session**

The Clearing Notice on Real Time Session would also be subject to clarifying changes, provided as Exhibit 3 to File No. SR-LCH SA-2022-002, to introduce flexibility in the Start and End of Real Time, and explicitly provide that LCH SA may change the time for the Start of Real Time (SoRT) or the End of Real Time (EoRT), in exceptional circumstances and where it is deemed necessary (e.g., a long-running backloading process, other operational incident, request from the CDS Members community, etc.). In such event, the new effective time for the Real Time Session shall be communicated to the Clearing Members and correspond to the time where the relevant service notification of the opening or the closing (as applicable) of the Real Time Session is sent.

Clarifying this process would avoid uncertainty and potential adverse consequences with regard to the “deemed” time of submission of Intraday Transactions sent by an ATSS to LCH SA outside of the Real Time Session, and therefore queued, in an event where the following Start of Real Time would be postponed to a later time (or brought forward earlier) than 9:05 AM CET.

**2. Proposed amendments to permit LCH SA to offer daily backloading services to Index Swaptions**

Backloading describes the process of clearing trades which were held uncleared for a period of time after trading. LCH SA is currently offering Daily Backloading Cycle,

whether for House Trade Legs or Client Trade Legs, for Credit Default Swaps (CDS) only. LCH SA proposes to extend such Daily Backloading Cycle to Index Swaptions as well, upon request from the Clearing Members.

The proposed changes described below would allow the extension of Daily Backloading Cycles to Index Swaptions by LCH SA.

**i. Rule Book**

Daily Backloading Cycles are only available for Daily Backloading Transactions, which may be either house transactions (CM Backloading Transaction) or Client transactions (Client Backloading Transaction), both being defined in Section 1.1.1 of the Rule Book as an existing CDS. The definitions of *CM Backloading Transaction* and *Client Backloading Transaction* would therefore be amended to relate to existing CDS or Index Swaptions.

**ii. Clearing Procedures**

In addition, with the details regarding Backloading Transactions being set out in Section 5.2 of the Clearing Procedures, Section 5.2(c) – Daily Backloading Cycle, would also be amended to expressly include Index Swaptions within its scope.

**3) Amendments to permit LCH SA to accept ad hoc compression request from Clients**

Compression is a process of reducing the number of trades in clearing members or clients' portfolios. It simplifies the management of their positions and frees up valuable capital that would otherwise be held unnecessarily against offsetting positions that can be compressed. Risk-free compression of trades can be performed automatically or through ad-hoc compression requests, at the initiative of the Clearing Member. Ad-hoc compression can currently be performed upon request of a Clearing Member whether on

house transactions or client transactions. It has been brought to LCH SA's attention that, for Clearing Members to process each request for ad-hoc compression from each of their Clients was creating an operational burden that LCH SA would like to alleviate. In order to do so, and given that such compression operations are risk-free, LCH SA proposes to allow Clients to make ad-hoc compression requests for their own trades directly to LCH SA, without the need to go through their Clearing Member.

The following proposed rules changes would be necessary to proceed with this enhanced service.

**i. Rule Book**

Section 3.3.1 – General of the Rule Book sets out the conditions and methods of compression, and notably that compression of a Cleared Transaction may only be requested by a Clearing Member. Articles 3.3.1.1, 3.3.1.2, 3.3.1.4 and 3.3.1.5 would consequently be amended to reflect that the request may come from a Clearing Member or a Client, as applicable. However, LCH SA would accept Clients' requests for ad-hoc compression only, and any request to setup an automatic compression of trades shall come from Clearing Members exclusively. It is therefore important that the proposed amendments specify, where necessary, that the compression methods are available upon request of Clearing Members or Client, as applicable.

**ii. Clearing Procedures**

In addition, for consistency purposes, this initiative to allow Client compression requests would require bringing the same amendments as described above within Sections 5.5 and 5.16(f) of the Procedures. LCH SA is also proposing to update Section 5.5(a) to reflect the following operational changes: 1) the Ad Hoc Compression Order

File has evolved and no longer defines the Cleared Transaction resulting from compression and 2) the means and details to upload this Ad Hoc Compression Order File would now be found on the LCH website, rather than in a Clearing Notice, for easier access to Clearing Members. Uploading the request file would also be done through the LCH Portal (LCH's IT interface) only, and processed the same day, or at the Start of the next Real Time Session in case of exceptional unavailability of the LCH Portal. The contingency solution provided for in Section 5.5(a) has become obsolete and would be deleted. Finally, to avoid any risk of inconsistency, references to specific opening and closing times of the Real Time Session in the 3<sup>rd</sup> paragraph of Section 5.5(a), currently defined in a Clearing Notice, would be replaced by references to the Real Time Session as defined in the Rule Book and in the Clearing Notice.

### **iii. Clearing Supplement**

Similarly, Parts A, B and C of the Clearing Supplement would be conformed, such that the definition of *Compression Cut-off Date* would be amended to reflect that the ad- hoc compression request may come from a Clearing Member or a Client, as applicable. Similar amendments would be made to Section 2.1(c)(i)(A) and (C) and Section 4.3 in the relevant Parts of the Clearing Supplement, serving the same purpose.

### **4. Other proposed amendments to the Clearing Rules made for clarification, consistency, or regulatory compliance purposes**

#### Compliance with CFTC regulation Part 39.13(g)(8)(ii)

Following a recent amendment to the CFTC Regulation §39.13(g)(8)(ii), with a compliance date of January 27, 2021,<sup>3</sup> the Rule Book needs to be updated as follows.

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<sup>3</sup> 85 Fed. Reg. at 4812 and 4856.

Prior to such amendment, the CFTC Regulation §39.13(g)(8)(ii) provided that a Derivatives Clearing Organisation (DCO) require its Futures Commission Merchant (FCM) Clearing Members to collect Initial Margin from customers entering into non-hedging transactions “at a level that is greater than 100 percent of” the Initial Margin required by the DCO.<sup>4</sup> Current Section 2.2(e) of the Procedures thus requires each FCM/BD Clearing Member to collect additional Collateral from the relevant FCM/BD Client with respect to a non-hedging Client Cleared Transaction at a level of 10% above the normal FCM/BD Client Margin Requirement.

DCOs (i.e. LCH SA) are now required to apply prudential standards that result in Clearing Members (more specifically FCMs) identifying categories of customers with “heightened risk profiles” and collecting collateral for each such customer account, at a level that exceeds the Initial Margin requirement determined by the DCO, and that is commensurate with the risk presented by each such account.<sup>5</sup>

Consequently, LCH SA would no longer require one standard 10% percentage applicable to all Clearing Members and their relevant customers, but an adjustable level of customer Initial Margin requirement applicable to each Clearing Member/customer according to the risk related to such customer’s portfolio. The Rule Book, in its Article 6.2.6.1, would therefore be amended to reflect this new regulatory standard for FCM/BD Clients with heightened risk profiles. In a similar way, Section 2.2(e) of the Procedures would be modified to remove the 10% additional margin requirement and reflect such regulatory change.

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<sup>4</sup> 85 Fed. Reg. at 4812.

<sup>5</sup> 17 CFR 39.13(g)(8)(ii).



For harmonization purposes, the wording used in LCH SA's proposed rules changes has been closely inspired from the wording used in the SwapClear rules of LCH Limited for the same conforming purposes.

#### Treasury Reports re-design

For consistency and clarity purposes, LCH SA proposes to clean up and modify the names of several treasury collateral management reports detailed in Section 5.16(a)(iii) of the Procedures, and certain monthly reports detailed in Section 5.16(d) of the Procedures, following a rebranding of such treasury reports in LCH's system that allow them to be machine readable.

#### Introduction of the Trading City concept and simplification of the Clearing Day definition

In anticipation of CDSClear's future commercial initiatives, and notably the extension of clearing services to iTraxx Asia (excl. Japan) and Australia (subject to regulatory approval), i.e., instruments which may be denominated in US Dollars (USD) but traded outside of the United States of America, it appears that the current correlation made in the Rule Book between instruments denominated in USD and the business calendar of commercial banks in New York City will become obsolete and problematic. As such, the Proposed Rule Change aims at de-correlating all products denominated in USD from the same specific calendar, by introducing the concept of *Trading City*, which would correspond to the city in which a CDS or Index Swaption is typically traded, as determined by LCH SA and published on the LCH website. As an example, for single name products, the Trading City would usually be determined by Transaction Type in the ISDA Physical Settlement Matrix. However, there may be occasions where this determination would need to be overridden, for example in the event of a corporate action

resulting in a change of place where such single name is traded. In that way, CDS and Index Swaption products denominated in USD but traded in Asia, Australia, etc., would no longer be bound to the New York City business calendar, but rather to the business calendar of the relevant Trading City. The definition of *Trading City* would be added in Section 1.1.1 of the Rule Book, together with the definitions of *Latest Contributed Price Time* and *Latest Cross Trade Execution Time* that refer to the Trading City for the purpose of Section 5.18.4 (Use of composite spreads/prices) and 5.18.5 (Trade crossing) of the Procedures, respectively. The definition of *Price Contribution Day* in Section 1.1.1 of the Rule Book would be revised in the same fashion to remove references to currencies and specific calendars and would instead refer to Trading City for USD denominated products. Sections 5.18.3 (*Price submission procedure*), 5.18.4 (*Use of composite spreads/prices*), and 5.18.5 (*Trade crossing*) of the Procedures would consequently be amended to remove any specific calendar and timings for the price contribution process and refer to the new defined term of “Trading City” .

Finally, LCH SA proposes to amend the definition of *Clearing Day* in Section 1.1.1 of the Rule Book for greater flexibility, by removing the references to a Business Day and a day on which commercial banks in London are open for business and replacing them with a reference to any day on which LCH SA is open for business as set forth on the Website and in member notification from time to time.

#### Minimum Bid Size Multiplier

Within the Appendix 1 of the Rule Book, relating to CDS Default Management Process, the name of Minimum Bid Size Denominator used during the bidding process for auctions appeared to be misleading as the relating amount, used to determine the

Minimum Bid Size above which an auction participant is required to bid, is in fact a multiplier rather than a denominator. For clarity and consistency purposes, it is therefore proposed to rename this amount as the Minimum Bid Size Multiplier, and to amend its definition in paragraph 5.4.2(iii) of Appendix 1 and its reference as the variable “C” in the calculation methodology set forth in paragraph 5.4.4 (Minimum Bid Size) of Appendix 1.

(b) Statutory Basis

LCH SA believes that the Proposed Rule Change is consistent with the requirements of Section 17A of the Exchange Act<sup>6</sup> and the regulations thereunder, including the standards under Exchange Act Rule 17Ad-22.<sup>7</sup> Section 17A(b)(3)(F) of the Exchange Act<sup>8</sup> 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.

By avoiding automatic rejection of trades received outside of the Real Time Session, the proposed implementation of the queuing mechanism of such trades is clearly intended to promote the prompt and accurate clearance of these transactions subject to satisfying the requirements of the Rule Book provisions.

Further, LCH SA is proposing to extend the Daily Backloading Cycle (currently limited to CDS transactions) to Index Swaptions upon request from its Clearing Members. It is widely considered beneficial to backload as much of a bilateral portfolio

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<sup>6</sup> 15 U.S.C. 78q-1.

<sup>7</sup> 17 CFR 240.17Ad-22.

<sup>8</sup> 15 U.S.C. 78q-1(b)(3)(F).

as possible to more efficiently manage the stock of outstanding trades. This significantly improves operational efficiency and also improves the likelihood of old trades being compressed.

LCH SA is also proposing to accept ad-hoc compression requests from Clients of Clearing Members directly. The result of a compression process is a cleaner portfolio, with less complexity and the potential to provide Clearing Members with some relief in terms of meeting regulatory capital requirements.

Therefore, LCH SA believes that these proposed enhancements to the CDSClear services described herein are consistent with the prompt and accurate clearance and settlement of securities transactions and derivative agreements, contracts and transactions, in accordance with Section 17A(b)(3)(F) of the Exchange Act.<sup>9</sup>

LCH SA is proposing to modify its existing rules in order to comply with the new regulatory provisions of CFTC Regulation 39.13(g)(8)(ii)<sup>10</sup> that have a compliance date of January 27, 2021, and require each FCM to analyse the risk profile of each of their customers to determine if they present a heightened risk profile. LCH SA believes that this proposed change is consistent with Exchange Act Rule 17Ad-22(e)(1)<sup>11</sup> that requires a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to provide for a well-founded, clear, transparent, and enforceable legal basis for each aspect of its activities in all relevant jurisdictions.

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

<sup>10</sup> 17 CFR 39.13(g)(8)(ii).

<sup>11</sup> 17 CFR 240.17Ad-22(e)(1).

Finally, as described above, LCH SA is also proposing to make certain clarifying and conforming changes in the Rule Book regarding the (i) Treasury Reports re-design, (ii) Minimum Bid Size Multiplier, (iii) introduction of the Trading City concept and (iv) simplification of the Clearing Day definition. By ensuring that such rules and definitions are clear, transparent, and consistent with applicable laws and regulations in all relevant jurisdictions, LCH SA believes these proposed changes reduce potential legal risk at LCH SA and are therefore consistent with the requirements of Exchange Act Rule 17Ad-22(e)(1).<sup>12</sup>

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

Section 17A(b)(3)(I) of the Exchange Act requires that the rules of a clearing agency not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.<sup>13</sup> The Proposed Rule Change will comply with regulatory requirements or will enhance the CDS Clearing Service in order to promote competition and the risk management process. Accordingly, LCH SA will continue to apply its existing fair and open access criteria to its CDS Clearing Service. Thus LCH SA does not believe that the Proposed Rule Change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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<sup>12</sup> 17 CFR 240.17Ad-22(e)(1).

<sup>13</sup> 15 U.S.C. 78q-1(b)(3)(I).

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**

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve or disapprove such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

**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-2022-002 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-2022-002. 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 am and 3:00 pm. 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: <https://www.lch.com/resources/rulebooks/proposed-rule-changes>.

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-2022-002 and should be submitted on or before [insert date 21 days from date of publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>14</sup>

J. Matthew DeLesDernier  
Assistant Secretary

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<sup>14</sup> 17 CFR 200.30-3(a)(12).