

substantially similar substitutes for the Wireless Connections.

#### IV. Solicitation of Comments on Partial Amendment No. 3

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether Partial Amendment No. 3 to each of the Wireless I and Wireless II proposals 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 email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Nos. SR-NYSE-2020-05, SR-NYSEAMER-2020-05, SR-NYSEArca-2020-08, SR-NYSECHX-2020-02, SR-NYSENAT-2020-03, SR-NYSE-2020-11, SR-NYSEAMER-2020-10, SR-NYSEArca-2020-15, SR-NYSECHX-2020-05, SR-NYSENAT-2020-08 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 Nos. SR-NYSE-2020-05, SR-NYSEAMER-2020-05, SR-NYSEArca-2020-08, SR-NYSECHX-2020-02, SR-NYSENAT-2020-03, SR-NYSE-2020-11, SR-NYSEAMER-2020-10, SR-NYSEArca-2020-15, SR-NYSECHX-2020-05, and SR-NYSENAT-2020-08. The file numbers should be included on the subject line if email 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 such filing also will be available for inspection and copying at the principal office of the Exchanges. 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 publicly available. All submissions should refer to File Nos. SR-NYSE-2020-05, SR-NYSEAMER-2020-05, SR-NYSEArca-2020-08, SR-NYSECHX-2020-02, SR-NYSENAT-2020-03, SR-NYSE-2020-11, SR-NYSEAMER-2020-10, SR-NYSEArca-2020-15, SR-NYSECHX-2020-05, and SR-NYSENAT-2020-08 and should be submitted on or before November 12, 2020.

#### V. Accelerated Approval of Proposed Rule Changes, as Modified by Partial Amendment No. 3

The Commission finds good cause to approve the proposed rule changes, each as modified by Partial Amendment No. 3, prior to the thirtieth day after the date of publication of notice of the amended proposal in the **Federal Register**. The revisions made to the proposals in Partial Amendment No. 3 would place restrictions on the use of a pole or other structure on the grounds of the Mahwah, New Jersey data center that is used for the Wireless Connections. The Commission believes that Partial Amendment No. 3 addresses issues raised by the comments and provides substantially greater support for the conclusion that the Wireless Connections are offered in a market characterized by significant competition in which substantially similar substitutes are available. Further, approval of the proposals will permit competition to continue, rather than reduce the number of competitors in the market for wireless connectivity services. Accordingly, the Commission finds good cause, pursuant to Section 19(b)(2) of the Act,<sup>164</sup> to approve the proposed rule changes, each as modified by Partial Amendment No. 3, on an accelerated basis.

#### VI. Conclusion

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>165</sup> that the proposed rule changes (SR-NYSE-2020-05, SR-NYSEAMER-2020-05, SR-NYSEArca-2020-08, SR-NYSECHX-2020-02, SR-NYSENAT-2020-03, SR-NYSE-2020-11, SR-NYSEAMER-2020-10, SR-NYSEArca-2020-15, SR-NYSECHX-2020-05, SR-NYSENAT-2020-08) be, and hereby are, approved on an accelerated basis.

<sup>164</sup> 15 U.S.C. 78s(b)(2).

<sup>165</sup> See *id.*

By the Commission.

**Vanessa A. Countryman,**  
*Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-90207; File No. SR-LCH SA-2020-004]

### Self-Regulatory Organizations; LCH SA; Order Approving Proposed Rule Change Relating to the Clearing of Single Name Credit Default Swaps Referencing Monoline Insurance Companies and the Amendment of LCH SA's Rules in Accordance With Its Risk Policies

October 15, 2020.

#### I. Introduction

On August 28, 2020, Banque Centrale de Compensation, which conducts business under the name LCH SA ("LCH SA"), filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4,<sup>2</sup> a proposed rule change as described below. The proposed rule change was published for comment in the **Federal Register** on September 10, 2020.<sup>3</sup> The Commission did not receive comments on the proposed rule change. For the reasons discussed below, the Commission is approving the proposed rule change.

#### II. Description of the Proposed Rule Change

As discussed in more detail below, the proposed rule change would: (i) Allow LCH to clear credit default swap ("CDS") contracts on a monoline insurance company (meaning an insurance company issuing financial guaranty insurance policies or similar financial guarantees); (ii) add two new types of margin and make other changes related to margin; (iii) apply LCH SA's stress testing to margin collateral; (iv) revise LCH's use of credit scores of Clearing Members; (v) enhance LCH SA's process for managing Clearing Member defaults; (vi) clarify the timeframes associated with the end of day price submission process and

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

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

<sup>3</sup> Self-Regulatory Organizations; LCH SA; Notice of Filing of Proposed Rule Change Relating to the Clearing of Single Name Credit Default Swaps Referencing Monoline Insurance Companies and the Amendment of LCH SA's Rules in Accordance With its Risk Policies, Exchange Act Release No. 89760 (Sep. 3, 2020), 85 FR 55908 (Sep. 10, 2020) (SR-LCH SA-2020-004) ("Notice").

enhance the consequences for failing to submit end of day prices; (vii) clarify certain aspects of the calculation of Clearing Members' contributions to the CDS Default Fund; and (viii) make other miscellaneous updates, including correcting typographical errors.<sup>4</sup>

#### *A. CDS Contracts Referencing a Monoline Insurance Company*

Currently, LCH SA clears CDS contracts on indices that contain monoline insurance companies as constituents, such as the CDX.NA.IG and CDS.NA.HY. LCH SA would now like to permit clearing of CDS contracts on a monoline insurance company as a single name, rather than as part of an index, using the additional legal provisions published by the International Swaps and Derivatives Association, Inc. on September 15, 2014 (the "Monoline Supplement"). Thus, as a result of the changes described below, Clearing Members would be able to clear single name CDS contracts on monoline insurance companies, and the Monoline Supplement would apply to any single name CDS contract on a monoline insurance company.

To allow clearing of single name CDS contracts on monoline insurance companies, the proposed rule change would first amend the LCH SA CDS Clearing Supplement (the "CDS Supplement"). The CDS Supplement specifies contractual provisions that apply to transactions among LCH, Clearing Members, and clients. Part B, Section 2, sets out the terms of cleared transactions for index CDS and single name CDS that incorporate the 2014 ISDA Credit Derivatives Definitions. In Part B, Section 2.3 of the CDS Supplement, the proposed rule change would amend paragraph (g) to include a reference to the Monoline Supplement. As a result of this change, the Monoline Supplement would apply to any single name cleared transaction involving a monoline insurer.

Similarly, the proposed rule change would amend Section 2.2 of Part B to include a reference to the Monoline Supplement. Part B, Section 2, sets out the terms of cleared transactions for index CDS and single name CDS that incorporate the 2014 ISDA Credit Derivatives Definitions, and Section 2.2 of Part B applies to index CDS transactions. Although, as discussed above, LCH currently clears CDS contracts on indices that contain

monoline insurance companies as constituents, LCH believes it is unclear whether the Monoline Supplement would apply to such index transactions containing monoline insurance companies. Thus, LCH is making this change to remove any doubt and to clarify that the Monoline Supplement would be applicable to each constituent of an index that is a monoline insurer.

The proposed rule change also would amend Section 4 of the LCH SA CDS Clearing Procedures (the "Procedures"), which specifies the requirements a transaction must satisfy to be eligible for clearing by LCH SA. The proposed rule change would modify these requirements to add two conditions to LCH SA's clearing of single-name CDS contracts on monoline insurance companies. Pursuant to these conditions, LCH SA would only clear a single-name CDS contract on a monoline insurance company where the contract type is Standard North American Corporate and the Monoline Supplement is specified as applicable.

Finally, LCH represents that the proposed introduction of clearing single name CDS contracts on monoline insurers requires no change in LCH SA's margin methodology or stress testing, and thus no further changes are needed to begin clearing.<sup>5</sup>

#### *B. Changes Related to Margin*

Unrelated to the clearing of single name CDS contracts referencing monoline insurers, the proposed rule change would also make a number of changes related to LCH SA's margin requirements.

First, the proposed rule change would add a new type of margin called Legal Entity Identifier Margin ("LEI Margin"). LCH SA is proposing this new type of margin to remedy a potential issue in how it treats Clearing Members and collects margin. Currently, LCH SA may, for operational or historical reasons, treat a single Clearing Member as two different Clearing Members, with separate transaction accounts and margin requirements. LCH SA represents that in most cases, this results in higher margins than should otherwise be the case, because the different accounts result in separate margin requirements that are not netted against each other (as they would be in a single account).<sup>6</sup> LCH SA also believes, however, that this arrangement could potentially undercount the liquidation costs that could result from having to liquidate both accounts simultaneously in the event the single

Clearing Member defaulted, which could result from potential concentration effects not taken into account when the accounts are considered separately.

To remedy this potential undercounting, the proposed rule change would introduce LEI Margin. The LEI Margin would calculate an additional, incremental margin amount based on the open positions registered in the margin accounts of one or more Clearing Members identified by the same Legal Entity Identifier ("LEI"). Thus, the LEI Margin would address the potential undercounting of liquidation costs by considering the risks posed by the Clearing Member as a whole, in all accounts with the same LEI.

Second, the proposed rule change would add another additional margin, called Stress Test Loss Over Additional Margin/Net Capital Ratio Margin ("STLOAM"). The purpose of STLOAM would be to ensure that Clearing Members have enough capital to absorb losses that could materialize under an extreme but plausible market risk scenario. To calculate STLOAM, LCH SA would first determine a Clearing Member's stress risk—how much the cost of a Clearing Member's default in an extreme but plausible market risk scenario exceeds its margin and CDS Default Fund contributions already deposited with LCH SA. LCH SA would then charge the Clearing Member the amount needed to bring this stress risk to within 30 percent of the Clearing Member's net capital. In other words, LCH SA has determined that a Clearing Member's stress risk should not exceed 30 percent of its net capital, and STLOAM would charge to a Clearing Member the amount needed to ensure that its stress risk does not exceed 30 percent of its net capital.

The proposed rule change would implement these new margins by adding them to the LCH SA Reference Guide: CDS Margin Framework. The proposed rule change would also amend the definition of "Margin" in the Section 1.1.1 of the LCH SA CDS Clearing Rule Book (the "Rule Book") to include these two new margins. Moreover, as with other margins, the LEI Margin and STLOAM would be calculated in accordance with Section 2 of the Procedures. Thus, the proposed rule change would add to Section 2 new language to describe these margins and how they are calculated.

In addition to introducing these two new margins, the proposed rule change would also distinguish Vega Margin from Spread Margin. Because Vega Margin is currently calculated as part of Spread Margin, these changes would not

<sup>4</sup> This discussion is excerpted from the Notice, 85 FR at 55908. Capitalized terms not otherwise defined herein have the meanings ascribed to them in the LCH SA CDS Clearing Rule Book, the LCH SA CDS Clearing Procedures, or the LCH SA CDS Clearing Supplement, as applicable.

<sup>5</sup> See Notice, 85 FR at 55909, n.4.

<sup>6</sup> See Notice, 85 FR at 55909.

result in a new or additional margin requirement. Rather, these changes would separate and distinguish Vega Margin from Spread Margin, with the goal of providing additional detail and clarity to Clearing Members regarding their amounts of Vega Margin. The proposed rule change would make this distinction by: Adding a new definition for Vega Margin in Section 1.1.1 of the Rule Book; amending the definition of Margin in Section 1.1.1 to include Vega Margin; and adding in Section 2 of the Procedures references to Vega Margin and new language to describe Vega Margin.

Finally, the proposed rule change would make two organizational changes with respect to defined terms related to margin. First, the proposed rule change would delete the defined term Margin Account Uncovered Risk from Section 1.1.1 of the Rule Book because this defined term is no longer used in the Rule Book. Rather, the term is currently only used in Section 6 of the Procedures when discussing the calculation of the CDS Default Fund. The proposed rule change would replace references to Margin Account Uncovered Risk in Section 6 of the Procedures with references to the defined term Group Member Uncovered Risk instead. The definition of Group Member Uncovered Risk is the same as the definition of Margin Account Uncovered Risk, except that the Group Member Uncovered Risk applies to a Clearing Member and its affiliates rather than just a Clearing Member. Thus, the Group Member Uncovered Risk covers the Margin Account Uncovered Risk, and, as such, there is no need to separately refer to the Margin Account Uncovered Risk.

Second, the proposed rule change would rearrange the order in which the various types of margin are listed in the definition of Margin in Section 1.1.1 of the Rule Book and in paragraph 2.2(a) of Section 2 of the Procedures to be consistent with the order of description of the margins in paragraph 2.7 of Section 2 of the Procedures. LCH SA is making this change to ensure consistency.<sup>7</sup>

### C. Stress Testing

The proposed rule change also would amend LCH SA's stress testing to apply it to margin collateral. The proposed rule change would amend Appendix 4 of the LCH Group Financial Resource Adequacy Policy (the "FRAP"). Appendix 4 contains a glossary of defined terms related to stress testing. The proposed rule change would amend the definition of Stress Test Loss so that

the definition includes the profit and loss amount determined from LCH stress test scenarios to a Clearing Member's margin collateral. Currently, the definition of Stress Test Loss only includes the profit and loss amount determined from LCH stress test scenarios to a Clearing Member's portfolio. By including the profit and loss amount to a Clearing Member's margin collateral, as well as its portfolio, this proposed change would assure that LCH SA includes a Clearing Member's non-cash collateral in a stress test. LCH SA is making this change to implement a recommendation from a regulator that LCH SA better monitor the risks associated with Clearing Members posting non-cash collateral, including sovereign debt.<sup>8</sup>

The proposed rule change would make three other changes to further carry out this change. First, the proposed rule change would amend the LCH Group Collateral Risk Policy to describe the Stress Test Loss as the profit and loss amount determined from LCH stress test scenarios to a Clearing Member's portfolio and margin collateral. Second, the proposed rule change would amend the definition of "Group Member Uncovered Risk" in Section 1.1.1 of the Rule Book to add a reference to the stress-tested potential loss that would be incurred in relation to collateral. Third, the proposed rule change would amend the LCH SA CDS Clear Default Fund Methodology to reflect the inclusion of a Clearing Member's margin collateral in stress tests.

Finally, the proposed rule change would amend the FRAP to specify that the Stress Testing Regime must be independently validated and reviewed at least annually in consultation with the LCH SA Risk Committee.

### D. Credit Scores

Next, the proposed rule change would make amendments related to the use of Internal Credit Scores ("ICS") of Clearing Members. The ICS is the credit score that LCH SA assigns to a Clearing Member based on its assessment of the Clearing Member's credit risk. LCH SA uses a Clearing Member's ICS as an input in determining various margins, such as the Default Fund Additional Margin. The proposed rule change would amend Appendix 4 of the FRAP to clarify that where a Clearing Member is part of a group of affiliated Clearing Members, each having a different ICS, then LCH SA would consider the ICS of the affiliate having the largest exposure to LCH SA.

Moreover, the proposed rule change would amend the LCH Group Counterparty Credit Risk Policy to clarify that where there is a change in a Clearing Member's ICS, LCH SA's Executive Risk Committee must approve the change. Currently, the policy only requires that a changed ICS be sent to the Executive Risk Committee for notification.

### E. CDS Default Management

In addition to the changes discussed above, LCH SA proposes to make a number of changes to its Rule Book and Procedures to enhance its process for managing Clearing Member defaults. These proposed enhancements are a result of lessons learned from fire drills—simulated tests of LCH SA's default management process.<sup>9</sup> These changes fall into two groups: Changes to Article 4.3.3.1 of the Rule Book and changes to Appendix 1 of the Rule Book. In addition to these two groups of changes, the proposed rule change would also amend Article 5.1.1.3 of the Rule Book, relating to the default of a client's Clearing Member.

Article 4.3.3.1 generally identifies certain resources available to LCH SA for recourse following the default of a Clearing Member. Paragraph (i)(b) of Article 4.3.3.1 identifies the resources that LCH SA may use to reduce or cover any Damage that it incurs from the liquidation of non-ported transactions of a Defaulting Clearing Member in any client account. The proposed rule change would amend paragraph (i)(b) of Article 4.3.3.1 to add to these resources any remaining collateral posted by a Defaulting Clearing Member as margin in respect of a proprietary account in connection with another LCH SA clearing service where (i) LCH SA has declared the Defaulting Clearing Member to be in default and (ii) to the extent such collateral has not been applied in such other clearing service.

Specifically, this new provision would generally mirror current Article 4.3.3.1(i)(b)(y). Current Article 4.3.3.1(i)(b)(y) provides LCH SA recourse to any collateral posted by a defaulting Clearing Member for a CCM Individual Segregated Account Client in connection with another LCH SA clearing service in certain conditions. The proposed rule change would add to the existing conditions in Article 4.3.3.1(i)(b)(y) the additional condition that LCH SA has declared the Clearing Member to be in default. LCH SA is making this change to mirror the conditions in the new resource discussed immediately above, thus

<sup>7</sup> See Notice, 85 FR at 55910.

<sup>8</sup> See Notice, 85 FR at 55910.

<sup>9</sup> See Notice, 85 FR at 55910.

maintaining consistency between these two provisions.<sup>10</sup>

Finally, the proposed rule change would renumber the sub-paragraphs of paragraph (i)(b) of Article 4.3.3.1, consistent with these changes and additions.

The second group of changes would amend Appendix 1 of the Rule Book. Appendix 1 contains the provisions that govern LCH SA's default management process for its CDS service. Clause 4 of Appendix 1 describes the default management process for client clearing. Article 4.3 of Clause 4 sets out the process that LCH SA would use to transfer a client's open positions to a backup Clearing Member following the default of the client's primary Clearing Member. The proposed rule change would amend Article 4.3 to add references to a clearing notice which would be published by LCH SA. The clearing notice would explain how a client would inform LCH SA of the identity of its backup Clearing Member and how the backup Clearing Member would confirm to LCH SA its willingness to serve as the backup.

Clause 8 of Appendix 1 sets out the process for closure of LCH SA's CDS service. Service closure is the last step in the default management process following a Clearing Member's default. As part of the service closure process, LCH SA calculates the value of a Clearing Member's transactions and the value of a Clearing Member's collateral. LCH SA nets these values together to produce an amount that LCH SA owes to the Clearing Member or that the Clearing Member owes to LCH SA. The proposed rule change would reorganize the provisions relating to these calculations to better reflect how LCH SA makes the calculations in practice, with LCH SA first calculating the value of transactions and the value of collateral before netting the two together.<sup>11</sup>

Moreover, the proposed rule change would amend Clause 8 of Appendix 1 to reflect the value in Euro of collateral. Specifically, where LCH SA determines the value of a Clearing Member's transactions and this amount is negative (meaning the Clearing Member owes a payment to LCH SA), LCH SA would take into consideration, when determining the value of that Clearing Member's collateral, the value of Euro denominated cash collateral and any amount resulting from the liquidation in Euro of the collateral other than cash collateral denominated in Euro. Where LCH SA determines the value of a

Clearing Member's transactions and this amount is positive (meaning LCH SA owes a payment to the Clearing Member), LCH SA would take into consideration, when determining the value of that Clearing Member's collateral, the value of Euro denominated cash collateral. In this case LCH SA would not take into consideration the amount resulting from the liquidation in Euro of collateral other than Euro cash collateral because LCH SA would return that non-cash collateral to the Clearing Member, rather than liquidating it.

Finally, the proposed rule change would make three other miscellaneous changes to Clause 8. First, Article 8.3 of Clause 8 describes the sources of prices that LCH would use to determine the value of a Clearing Member's transactions, as discussed above. Article 8.3 lists these sources in order of priority. The proposed rule change would reorganize this list of sources to reflect the priority in which LCH SA would access these sources in practice. Second, the proposed rule change would amend Article 8.6 regarding the time period by which LCH SA must notify a Clearing Member of the amounts which LCH SA will pay to the Clearing Member or which the Clearing Member must pay to LCH SA. Currently, LCH SA must notify a Clearing Member by 15:00 on the Early Termination Trigger Date or on the first Business Day following the Early Termination Trigger Date. LCH SA determined that this deadline was not feasible in practice because the values which it uses to determine the amount payable to or receivable from a Clearing Member are based on prices determined as at the end of the first Business Day following the Early Termination Trigger Date.<sup>12</sup> Thus, the proposed rule change would revise Article 8.6 to require instead that LCH SA notify a Clearing Member by no later than the end of the second Business Day following the Early Termination Trigger Date. Finally, the proposed rule change would amend Article 8.7 to specify the deadline by which LCH SA would repay or redeliver collateral to Clearing Members.

Finally, the proposed rule change also would amend Article 5.1.1.3 of the Rule Book. Article 5.1.1.3 sets out the provisions that apply to a client of a Clearing Member receiving clearing services from that Clearing Member. Among other things, Article 5.1.1.3 provides that LCH SA will rely on the latest documentation and information received from the Clearing Member for the purpose of making certain payments

to the client upon the default of the client's Clearing Member. The proposed rule change would expand this provision to specify that LCH SA may rely on the latest documentation and information received from the Clearing Member on the client for that purpose or for any other purpose. LCH SA is making this change to account for the possibility that it may need to rely on this documentation for other purposes upon the default of a client's Clearing Member, such as communicating with the client regarding the transfer of the client's positions to a backup Clearing Member.<sup>13</sup>

#### F. Price Submissions

Next, the proposed rule change would amend Section 5 and Section 8 of the Procedures with respect to the submission of end of day prices by Clearing Members. The proposed rule change would first amend paragraph 5.18.3 of Section 5. Paragraph 5.18.3 details the procedures for Clearing Members to submit prices to LCH SA. Currently, paragraph 5.18.3 provides that files listing the open positions for which Clearing Members are required to submit prices will be available at certain specified times. Current paragraph 5.18.3 separately lists the times for CDS and options on index CDS even though the actual times are the same. Because these times are the same, the proposed rule change would combine the separately listed times, listing one time for both CDS and options on index CDS. The proposed rule change would make the same change to paragraph 5.18.5. Moreover, paragraph 5.18.3 notes that the files may be available at earlier times, as notified in advance by LCH SA, preceding certain holidays that are listed in paragraph 5.18.3. The proposed rule change would replace the list of holidays and instead specify that the files may be available at earlier times as notified in advance by LCH SA. LCH SA is making both of these changes to simplify the drafting of paragraph 5.18.3, and thereby reduce the possibility for confusion or error.<sup>14</sup>

The proposed rule change would next amend paragraphs 5.18.3, 5.18.4, and 5.18.5 to clarify that the existing references in those paragraphs to options on index CDS are options with a CDS contractual currency in Euro.

The proposed rule change would also replace the reference to "Clearing Day" in paragraph 5.18.5(d) with a reference to "Price Contribution Day". Paragraph 5.18.5(d) specifies certain deadlines associated with the price submission

<sup>10</sup> See Notice, 85 FR at 55910.

<sup>11</sup> See Notice, 85 FR at 55911.

<sup>12</sup> See Notice, 85 FR at 55911.

<sup>13</sup> See Notice, 85 FR at 55912.

<sup>14</sup> See Notice, 85 FR at 55912.

process for transactions with a contractual currency in Euro and for those with a contractual currency in US dollars. The definition of Price Contribution Day makes a distinction between transactions with a contractual currency in Euro and those with a contractual currency in US dollars, while the definition of Clearing Day does not. Thus, given the application of paragraph 5.18.5(d) to transactions with a contractual currency in Euro and those with one in US dollars, using the term Price Contribution Day is more appropriate and precise.<sup>15</sup>

Finally, throughout Section 5 of the Procedures, the proposed rule change would replace reference to the “Operations department” with a reference to the “CDSClear Operations Department”.

Section 8 of the Procedures governs LCH SA’s discipline of Clearing Members that breach their obligations. Among other things, these disciplinary procedures provide the measures that LCH SA will take where a Clearing Member fails to submit complete end of day prices. Currently, paragraph 8.3 gives the LCH SA CEO or the CDSClear CEO the ability to impose a fine on a Clearing Member who is alleged to have failed to submit complete prices as required. Under paragraph 8.3 as proposed to be revised, the LCH SA CEO or the CDSClear CEO would still be able to impose a fine on a Clearing Member who is alleged to have failed to submit complete prices as required. The proposed rule change would also, in certain circumstances, give the LCH SA CEO or the CDSClear CEO the ability to increase a Clearing Member’s Contribution Requirement for the next monthly calculation by an amount equal to the aggregate amount of fines incurred for such failure to submit complete prices. With this change, rather than just fining a Clearing Member, LCH SA would be able to collect the amount of the fine each month as part of a Clearing Member’s Contribution Requirement, which is a Clearing Member’s required contribution to the CDS Default Fund. To further facilitate this change, the proposed rule change would amend Article 4.4.1.3 of the Rule Book, which deals with the calculation of a Clearing Member’s Contribution Requirement, to reference actions taken by LCH SA under Section 8 of the Procedures. LCH SA represents that the failure to submit prices is not an issue among Clearing Members currently, but it is making the amendment to anticipate potential failures by Clearing Members admitted

as their number grows and to assure that LCH SA has the authority to discipline a Clearing Member that repeatedly fails to provide timely and accurate pricing data.<sup>16</sup>

#### *G. Amendments to Default Fund Contributions*

Currently, LCH SA calculates a Clearing Member’s contribution to the CDS Default Fund based on its initial margins calculated with respect to the Clearing Member’s account over the last sixty clearing days, as provided in Article 4.4.1.3 of the Rule Book. The proposed rule change would not amend this provision, but it would add additional language to clarify that if there is less than sixty Clearing Days of initial margin calculations for a Clearing Member’s account, then LCH SA would base the Clearing Member’s contribution on the initial margin calculations of all of the available clearing days. LCH SA is making this change to facilitate the possible transfer of positions of Clearing Members to accounts at LCH SA. In that case LCH SA may not have sixty clearing days of initial margin calculations on which to base the calculation of the contribution.<sup>17</sup>

Next, the proposed rule change would amend Article 4.4.1.8 of the Rule Book. Currently, 4.4.1.8 provides that LCH SA may recalculate a Clearing Member’s required contribution to the default fund outside of the normal monthly cycle in certain circumstances, such as a material change in the Clearing Member’s business. Article 4.4.1.8 also provides, however, that nothing shall permit LCH SA to increase the contribution of a Clearing Member whose aggregate amount of initial margin has not increased. The proposed rule change would delete this provision, thus allowing LCH SA to recalculate and increase a Clearing Member’s required contribution to the default fund outside of the normal monthly cycle in certain circumstances, even where the Clearing Member’s aggregate amount of initial margin has not increased. LCH SA is making this change because it has found that there may be circumstances where a change in a Clearing Member’s positions has increased its risk, and thus should increase its required default fund contribution, even though the Clearing Member’s initial margin has not increased.<sup>18</sup>

Finally, the proposed rule change would amend Section 6 of the Procedures, which concerns calculating

the size of, and making contributions to, the CDS Default Fund. The proposed changes would clarify that a Clearing Member, if required to make an additional contribution, must submit the contribution through the TARGET2 payment system. The proposed rule change also would clarify the deadlines for submitting the additional contribution, which would depend on when LCH SA sends out the request for additional contribution.

#### *H. Miscellaneous Amendments*

In addition to the specific amendments discussed above, the proposed rule change would update references and correct typographical errors in the Supplement, the Rule Book, and the Procedures. The proposed rule change would also make a number of miscellaneous updates to the Supplement, the Rule Book, and the Procedures, as discussed below.

With respect to the Supplement, the proposed rule change would amend Part A and Part B. Sections 4.8 in both Part A and Part B refer to a Cleared Transaction Portfolio Report. The proposed rule change would replace the specific references to the Cleared Transaction Portfolio Report with general references to the reports referred to in Section 5 of the Procedures. Other parts of the Supplement refer generally to the reports referred to in Section 5 of the Procedures rather than specific reports. Thus, LCH SA is making this change to be consistent with the approach taken in other parts of the Supplement. This change will also increase flexibility as it would avoid the need for modifying the Supplement if there is a change in the name of the reports provided for in Section 5 of the Procedures.<sup>19</sup>

Moreover, the proposed rule change would remove unnecessary language from Paragraph (c) of Sections 9.1 of Parts A and B of the Supplement. Currently, those sections refer to the risks resulting from a Clearing Member being party to a Self Referencing Transaction where the Reference Entity is that Clearing Member. Because Section 9.1 only applies to Self Referencing Transactions where the Reference Entity is the Clearing Member, LCH SA does not believe this additional language, specifying that the Self Referencing Transaction is one where the Reference Entity is that Clearing Member, is necessary.<sup>20</sup> Thus, the proposed rule change would delete the phrase “where the Reference Entity is that Clearing Member” from

<sup>16</sup> See Notice, 85 FR at 55911.

<sup>17</sup> See Notice, 85 FR at 55911.

<sup>18</sup> See Notice, 85 FR at 55911.

<sup>19</sup> See Notice, 85 FR at 55912.

<sup>20</sup> See Notice, 85 FR at 55912.

<sup>15</sup> See Notice, 85 FR at 55913.

Paragraph (c) of Sections 9.1 of Parts A and B of the Supplement.

With respect to the Rule Book, the proposed rule change would amend Section 1.2.2. Section 1.2.2 provides procedures that LCH SA must follow when modifying the CDS Clearing Documentation (which includes, among other things, the Rule Book and the Procedures). These procedures include, among other things, consultation with the appropriate legal, risk, operational and other forums established by LCH SA. Article 1.2.2.1 of Section 1.2.2 provides that LCH SA may only amend the CDS Clearing Documentation in accordance with Section 1.2.2. Article 1.2.2.1 further provides that Section 1.2.2 does not apply to LCH SA's issuance of clearing notices. The proposed rule change would amend this exception such that it does not apply to Article 1.2.2.8 and Article 1.2.2.9. Thus, while Section 1.2.2 does not generally apply to LCH SA's issuance of clearing notices, under Article 1.2.2.1 as proposed to be amended, Article 1.2.2.8 and Article 1.2.2.9 of Section 1.2.2 would apply to LCH SA's issuance of clearing notices. Both of those articles set out specific procedures and requirements with respect to LCH SA's issuance of clearing notices. Thus, both Article 1.2.2.8 and Article 1.2.2.9 should apply to the issuance of clearing notices and the general exception in Article 1.2.2.1 should not be read to override these more specific articles. LCH SA is therefore making this change to clarify the applicability of Article 1.2.2.8 and Article 1.2.2.9.<sup>21</sup>

The proposed rule change also would make a number of updates to defined terms in the Rule Book and rearrange the terms for alphabetical order. First, the proposed rule change would delete the defined term "LCH Settlement Price" from the Rule Book. The proposed rule change would likewise remove any reference to that defined term from the Rule Book, including in Section 4.2.7, Article 5.1.1.3, and Article 6.1.1.3. Currently, Section 4.2.7 of the Rule Book uses two terms to refer to settlement prices: For options on index CDS there is the LCH Settlement Price, and for index and single name CDS there is the Markit LCH Settlement Price. The proposed rule change would amend Section 4.2.7 to use, instead, only the term Markit LCH Settlement Price for index CDS, single name CDS, and options on index CDS. Thus, with this change, there is no need for the term LCH Settlement Price, and, accordingly, the proposed rule change

would delete that term and references to it.

Next, the proposed rule change would amend the definition of "CDS Contractual Currency" from Section 1.1.1 of the Rule Book. CDS Contractual Currency means the currency required under the terms of any Cleared Transaction. The proposed rule change would amend this definition to specify that, for an option on an index CDS, it means the currency required under the terms of the Underlying Index Transaction. Relatedly, the proposed rule change would add to Section 1.1.1 of the Rule Book the defined term Underlying Index Transaction, which will have the meaning given to it in Part C of the Supplement (where it is defined as the index CDS subject to the option).

Moreover, the proposed rule change would delete the terms "CDS Intraday Transaction" and "Index Swaption Intraday Transaction" from Section 1.1.1 of the Rule Book and consolidate them together in the defined term "Intraday Transaction." LCH SA maintains that it established a distinction between CDS and Index Swaption intraday transactions because, for a time, the weekly backloading service was only available to CDS transactions.<sup>22</sup> Because the weekly backloading service is now available to Index Swaption transactions as well, LCH SA believes this distinction is no longer necessary.<sup>23</sup> The proposed rule change would accordingly update references to these defined terms in the Rule Book and the Procedures.

The proposed rule change also would amend the definitions of "FCM Client Margin Requirement" and "FCM House Margin Requirement" to clarify that the types of margin referred to in those definitions do not include Variation Margin. Because LCH SA does not calculate Variation Margin for FCM Clearing Members, neither of those definitions should include Variation Margin. Thus, LCH SA is making this change to clarify the scope of these definitions and ensure they are consistent with current practice.<sup>24</sup>

Similarly, the proposed rule change would clarify the definition of "Procedures" by specifying that such documents are issued by LCH SA and entitled "CDS Clearing Procedures."

Finally, the proposed rule change would delete a redundant defined term.

The defined term "Converting Clearing Member" is currently defined in both Article 3.1.10.8 and Section 1.1.1 of the Rule Book. The proposed rule change would delete the term from Article 3.1.10.8, leaving just the definition in Section 1.1.1.

With respect to the Procedures, the proposed rule change would remove all of the Appendices from Section 5 of the Procedures. The Appendices are template forms that are used to transfer client transactions from one Clearing Member to another. LCH SA is making this change so it can keep the contact information and other parts of the forms updated without having to amend Section 5 of the Procedures.<sup>25</sup>

### III. Commission Findings

Section 19(b)(2)(C) of the Act directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to the organization.<sup>26</sup> For the reasons given below, the Commission finds that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act,<sup>27</sup> Section 17A(b)(3)(G) of the Act,<sup>28</sup> and Rules 17Ad-22(e)(1), (e)(4)(v), (e)(4)(vi)(A), (e)(6)(i), (e)(6)(iv), and (e)(13) thereunder.<sup>29</sup>

#### A. Consistency With Section 17A(b)(3)(F) of the Act

Section 17A(b)(3)(F) of the Act requires, among other things, that the rules of LCH SA be designed to promote the prompt and accurate clearance and settlement of securities transactions and, to the extent applicable, derivative agreements, contracts, and transactions and to assure the safeguarding of securities and funds which are in the custody or control of LCH SA or for which it is responsible.<sup>30</sup>

The Commission believes the changes discussed in Part II.A above should facilitate LCH SA's clearance of single name CDS contracts on monoline insurance companies by allowing LCH SA to accept such contracts for clearing. Moreover, LCH is adding these particular contracts to its existing rules, which the Commission has determined generally to promote the prompt and accurate clearance and settlement of

<sup>22</sup> See Notice, 85 FR at 55912.

<sup>23</sup> See Self-Regulatory Organizations; LCH SA; Order Approving Proposed Rule Change Relating to Extension of Weekly Backloading Cycle to Index Swaptions, Exchange Act Release No. 87296 (Oct. 11, 2019), 84 FR 55992 (Oct. 18, 2019) (SR-LCH-SA-2019-006).

<sup>24</sup> See Notice, 85 FR at 55912.

<sup>25</sup> See Notice, 85 FR at 55913.

<sup>26</sup> 15 U.S.C. 78s(b)(2)(C).

<sup>27</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>28</sup> 15 U.S.C. 78q-1(b)(3)(G).

<sup>29</sup> 17 CFR 240.17Ad-22(e)(1), (e)(4)(v), (e)(4)(vi)(A), (e)(6)(i), (e)(6)(iv), and (e)(13).

<sup>30</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>21</sup> See Notice, 85 FR at 55912.

derivatives transactions.<sup>31</sup> The Commission believes this aspect of the proposed rule change should promote the prompt and accurate clearance and settlement of derivatives contracts, *i.e.*, single name CDS contracts on monoline insurance companies, consistent with Section 17A(b)(3)(F) of the Act.<sup>32</sup>

The Commission believes the changes discussed in Part II.B above should facilitate LCH SA's collection of two additional margins: LEI Margin and STLOAM. Moreover, the Commission believes the changes discussed in Part II.B above should clarify the margin that LCH SA currently collects by distinguishing Vega Margin from Spread Margin, eliminating the no-longer used defined term Margin Account Uncovered Risk, and re-organizing the defined term Margin. The Commission believes all of these changes should improve LCH SA's collection of margin, thereby improving LCH SA's ability to use margin to protect against potential losses. Because such potential losses could impede LCH SA's ability to promptly and accurately clear and settle transactions and safeguard securities and funds, the Commission believes that the changes discussed in Part II.B above, in improving LCH SA's ability to use margin to protect against such potential losses, should be consistent with Section 17A(b)(3)(F) of the Act.<sup>33</sup>

The Commission believes the changes discussed in Part II.C above should improve LCH SA's stress testing by including a Clearing Member's collateral in stress testing, thereby expanding the coverage of such testing, and clarifying that stress testing would need to be independently validated. Because LCH SA uses stress testing to ensure it has additional financial resources to cover the default of the two Clearing Member families that would potentially cause the largest aggregate credit exposure for LCH SA in extreme but plausible market conditions (and, therefore, to meet their regulatory requirements under Rule 17Ad-22(e)(4)(ii)), the Commission believes that this aspect of the proposed rule change should help to ensure that LCH SA's financial resources are

adequate and cover the potential losses resulting from Clearing Member collateral. Because such potential losses could impede LCH SA's ability to promptly and accurately clear and settle transactions and safeguard securities and funds, the Commission believes that the changes discussed in Part II.C above, in improving LCH SA's stress testing, should be consistent with Section 17A(b)(3)(F) of the Act.<sup>34</sup>

The Commission believes the changes discussed in Part II.D above should improve LCH SA's use of credit scores by better describing how LCH SA would determine credit scores for an affiliated group of Clearing Members and by explicitly requiring LCH SA's Executive Risk Committee to approve a change in credit score. The Commission believes these changes should improve LCH SA's ability to determine accurate credit scores for Clearing Members and groups of Clearing Members, thereby improving its ability to determine the financial risk associated with transacting with such Clearing Members. Moreover, because, as discussed in Part II.D above, LCH SA uses credit scores as a component in calculating certain margins, the Commission believes these changes should improve LCH SA's ability to calculate and collect those margins. The Commission thus believes these aspects of the proposed rule change should better enable LCH SA to manage the potential risks and losses associated with transacting with Clearing Members. Because such losses could impede LCH SA's ability to promptly and accurately clear and settle transactions and safeguard securities and funds, the Commission believes that the changes discussed in Part II.D above, in improving LCH SA's use of credit scores, should be consistent with Section 17A(b)(3)(F) of the Act.<sup>35</sup>

The Commission believes the changes discussed in Part II.E above should improve LCH SA's ability to manage Clearing Member defaults by providing an additional resource for recourse in certain circumstances. In giving LCH SA flexibility to specify in a clearing notice how clients would notify LCH SA of backup Clearing Members to be used in case of a default of their primary Clearing Members, the Commission believes the proposed rule change should improve the ability of clients to continue clearing through backup Clearing Members. Moreover, the Commission believes the changes discussed above regarding closure of the CDS clearing service should improve the process for such closure by better

organizing and explaining how LCH SA would calculate payments owed to Clearing Members or owed by Clearing Members to it; allowing LCH SA to consider the liquidation value in Euro of non-cash collateral where Clearing Members owe payments to LCH SA; clarifying the order in which LCH SA would consider sources or prices; and clarifying timelines for payment and return of collateral. The proposed rule change should also allow LCH SA to rely on information provided by a Clearing Member with respect to its client for purposes of default management, including for purposes of making certain payments. The Commission believes that all of these changes should improve LCH SA's ability to manage the repercussions of a Clearing Member's default, including possible closure of LCH SA's CDS clearing service. In doing so, the Commission believes this aspect of the proposed rule change should help LCH SA avoid potential losses arising from such a default, thereby helping to maintain LCH SA's ability to promptly and accurately clear and settle transactions and safeguard securities and funds, consistent with Section 17A(b)(3)(F) of the Act.<sup>36</sup>

The Commission believes the changes discussed in Part II.F above should improve LCH SA's ability to collect end of the day prices from Clearing Members by clarifying the timelines associated with price collection and updating references. Moreover, by giving the LCH SA CEO and the CDS Clear CEO the ability to increase a Clearing Member's Contribution Requirement for the next monthly calculation by an amount equal to the aggregate amount of fines incurred for such Clearing Member's failure to submit complete prices, the Commission believes that the proposed rule change should give LCH SA a tool to incentivize Clearing Members to submit complete prices. Because LCH SA uses prices as an input in calculating margin requirements, the Commission believes that these aspects of the proposed rule change, like the changes related to margin discussed above, should improve LCH SA's ability to use margin to protect against potential losses that could impede LCH SA's ability to promptly and accurately clear and settle transactions and safeguard securities and funds, consistent with Section 17A(b)(3)(F) of the Act.<sup>37</sup>

The Commission believes the changes discussed in Part II.G above should better allow LCH SA to adjust contributions to the CDS Default Fund

<sup>31</sup> See Self-Regulatory Organizations: LCH SA; Order Granting Application for Registration as a Clearing Agency and Request for Exemptive Relief, Exchange Act Release No. 79707 (Dec. 29, 2016), 82 FR 1398, 1408 (Jan. 5, 2017) (finding that "LCH SA is so organized and has the capacity to facilitate the prompt and accurate clearance and settlement and has rules designed to promote these same goals, in accordance with Sections 17A(b)(3)(A) and 17A(b)(3)(F) of the Act" and further that "LCH SA's rules, policies and procedures meet the requirements of Sections 17A(b)(3)(A) and 17A(b)(3)(F) of the Exchange Act").

<sup>32</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>33</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>34</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>35</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>36</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>37</sup> 15 U.S.C. 78q-1(b)(3)(F).

by basing contributions on initial margin for all available clearing days if less than 60 clearing days are available; allowing LCH SA to recalculate a Clearing Member's contribution outside of the normal monthly cycle in certain circumstances even though the Clearing Member's aggregate amount of initial margin has not increased; and clarifying the deadlines and method for submitting an additional contribution to the CDS Default Fund. The Commission believes that these changes should enable LCH SA to ensure that the CDS Default Fund remains properly sized in accordance with the potential losses presented by Clearing Members' portfolios. Because LCH SA uses the CDS Default Fund to cover the default of the two Clearing Member families that would potentially cause the largest aggregate credit exposure for LCH SA in extreme but plausible market conditions, the Commission believes that this aspect of the proposed rule change should help to ensure that LCH SA's financial resources are adequate and cover the potential losses resulting from Clearing Member collateral. Because such potential losses could impede LCH SA's ability to promptly and accurately clear and settle transactions and safeguard securities and funds, the Commission believes that the changes discussed in Part II.G above, in improving LCH SA's ability to adjust Clearing Member contributions to the CDS Default Fund, should be consistent with Section 17A(b)(3)(F) of the Act.<sup>38</sup>

Finally, the Commission believes the changes discussed in Part II.H above should clarify and improve the readability of the Rule Book and the Procedures by updating references and correcting typographical errors; clarifying the applicability of Article 1.2.2.8 and Article 1.2.2.9; deleting the unused defined term LCH Settlement Price; making other updates to defined terms in the Rule Book; and removing the appendices from Section 5 of the Procedures. In doing so, the Commission believes that these aspects of the proposed rule change should help to ensure that the Rule Book and the Procedures are applied consistently with reduced chances for error or mistakes. For these reasons, the Commission believes these aspects of the proposed rule change should be consistent with Section 17A(b)(3)(F) of the Act.<sup>39</sup>

Taking these reasons together, the Commission finds that the proposed

rule change is consistent with 17A(b)(3)(F) of the Act.<sup>40</sup>

#### *B. Consistency With Section 17A(b)(3)(G) of the Act*

Section 17A(b)(3)(G) of the Act requires, among other things, that the rules of LCH SA provide that its participants shall be appropriately disciplined for violation of any provision of the rules of LCH SA by expulsion, suspension, limitation of activities, functions, and operations, fine, censure, or any other fitting sanction.<sup>41</sup> The Commission believes the changes discussed in Part II.F above, by giving the LCH SA CEO and the CDS Clear CEO the ability to increase a Clearing Member's Contribution Requirement for the next monthly calculation by an amount equal to the aggregate amount of fines incurred for such Clearing Member's failure to submit complete prices, should give LCH SA a tool to collect fines and discipline Clearing Members for failing to submit complete prices, in violation of LCH SA's rules. For this reason, the Commission finds this aspect of the proposed rule change is consistent with Section 17A(b)(3)(G) of the Act.<sup>42</sup>

#### *C. Consistency With Rule 17Ad-22(e)(1)*

Rule 17Ad-22(e)(1) requires that LCH SA 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.<sup>43</sup> The Commission believes the changes discussed in Part II.A above should establish the legal basis for LCH SA's clearance of single name CDS contracts on monoline insurance companies by amending the CDS Supplement to establish the legal terms for such transactions and amending the Procedures to allow LCH SA to accept such contracts for clearing. Moreover, the Commission believes the changes discussed in Part II.H above should make the Rule Book and the Procedures more clear by updating references and correcting typographical errors; clarifying the applicability of Article 1.2.2.8 and Article 1.2.2.9; deleting the unused defined term LCH Settlement Price; making other updates to defined terms in the Rule Book; and removing the appendices from Section 5 of the Procedures. For these reasons, the Commission finds these aspects of the

proposed rule change are consistent with Rule 17Ad-22(e)(1).<sup>44</sup>

#### *D. Consistency With Rule 17Ad-22(e)(4)(v)*

Rule 17Ad-22(e)(4)(v) requires that LCH SA establish, implement, maintain, and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes, including by maintaining the financial resources required under Rule 17Ad-22(e)(4)(ii) in combined or separately maintained clearing or guaranty funds.<sup>45</sup> The Commission believes the changes discussed in Part II.G above would improve LCH SA's ability to maintain the CDS Default Fund, which consists of the financial resources required under Rule 17Ad-22(e)(4)(ii), by giving LCH SA the ability to base contributions on initial margin for all available Clearing Days; the ability to recalculate a Clearing Member's contribution outside of the normal monthly cycle in certain circumstances even though the Clearing Member's aggregate amount of initial margin has not increased; and clarifying the deadlines and method for submitting an additional contribution to the CDS Default Fund. For these reasons, the Commission finds these aspects of the proposed rule change are consistent with Rule 17Ad-22(e)(4)(v).<sup>46</sup>

#### *E. Consistency With Rule 17Ad-22(e)(4)(vi)(A)*

Rule 17Ad-22(e)(4)(vi)(A) requires that LCH SA establish, implement, maintain, and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes, including by testing the sufficiency of its total financial resources available to meet the minimum financial resource requirements under Rules 17Ad-22(e)(4)(i) through (e)(4)(iii), as applicable, by conducting stress testing of its total financial resources once each day using standard predetermined

<sup>44</sup> 17 CFR 240.17Ad-22(e)(1).

<sup>45</sup> 17 CFR 240.17Ad-22(e)(4)(v). Rule 17Ad-22(e)(4)(ii) requires that LCH SA maintain additional financial resources at the minimum to enable it to cover a wide range of foreseeable stress scenarios that include, but are not limited to, the default of the two participant families that would potentially cause the largest aggregate credit exposure for LCH SA in extreme but plausible market conditions.

<sup>46</sup> 17 CFR 240.17Ad-22(e)(4)(v).

<sup>40</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>41</sup> 15 U.S.C. 78q-1(b)(3)(G).

<sup>42</sup> 15 U.S.C. 78q-1(b)(3)(G).

<sup>43</sup> 17 CFR 240.17Ad-22(e)(1).

<sup>38</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>39</sup> 15 U.S.C. 78q-1(b)(3)(F).

parameters and assumptions.<sup>47</sup> The Commission believes the changes discussed in Part II.C above should improve LCH SA's stress testing by including margin collateral in stress testing, thereby expanding the coverage of such testing, and clarifying that stress testing would need to be independently validated. The Commission therefore believes this aspect of the proposed rule change should improve the conduct of LCH SA's daily stress testing required by Rule 17Ad-22(e)(4)(vi)(A).<sup>48</sup> Thus, the Commission finds these aspects of the proposed rule change are consistent with Rule 17Ad-22(e)(4)(vi)(A).<sup>49</sup>

#### F. Consistency With Rule 17Ad-22(e)(6)(i)

Rule 17Ad-22(e)(6)(i) requires that LCH SA establish, implement, maintain, and enforce written policies and procedures reasonably designed to cover its credit exposures to its participants by establishing a risk-based margin system that, at a minimum considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market.<sup>50</sup> The Commission believes the changes discussed in Part II.B above, by facilitating LCH SA's collection of LEI Margin and STLOAM, should help to ensure that LCH SA's risk-based margin system considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market. Moreover, the Commission believes the other changes discussed in Part II.B above, by distinguishing Vega Margin from Spread Margin, eliminating the no-longer used defined term Margin Account Uncovered Risk, and reorganizing the defined term Margin, should clarify the margin LCH SA collects and should thereby help ensure the consistent operation of LCH SA's risk-based margin system. Finally, because, as discussed in Part II.D above, LCH SA uses credit scores as a component in calculating certain margins, the Commission believes the changes discussed above with respect to credit scores should improve LCH SA's ability to calculate and collect those margins. For these reasons, the Commission finds these aspects of the

proposed rule change are consistent with Rule 17Ad-22(e)(6)(i).<sup>51</sup>

#### G. Consistency With Rule 17Ad-22(e)(6)(iv)

Rule 17Ad-22(e)(6)(iv) requires that LCH SA establish, implement, maintain, and enforce written policies and procedures reasonably designed to cover its credit exposures to its participants by establishing a risk-based margin system that, at a minimum uses reliable sources of timely price data and uses procedures and sound valuation models for addressing circumstances in which pricing data are not readily available or reliable.<sup>52</sup> The Commission believes the changes discussed in Part II.F above should improve LCH SA's ability to obtain end of the day prices from Clearing Members by clarifying the timelines associated with price collection, updating references, and improving the ability of LCH SA to hold accountable Clearing Members that do not make complete price submissions. The Commission believes these aspects of the proposed rule change should help to ensure that LCH SA's risk-based margin system, which uses end of day prices submitted by Clearing Members to calculate margin, uses reliable sources of timely price data and uses procedures and sound valuation models for addressing circumstances in which pricing data are not readily available or reliable. Thus, the Commission finds these aspects of the proposed rule change are consistent with Rule 17Ad-22(e)(6)(iv).<sup>53</sup>

#### H. Consistency With Rule 17Ad-22(e)(13)

Rule 17Ad-22(e)(13) requires that LCH SA establish, implement, maintain, and enforce written policies and procedures reasonably designed to, among other things, ensure LCH SA has the authority and operational capacity to take timely action to contain losses and liquidity demands.<sup>54</sup> The Commission believes the changes discussed in Part II.E above should improve LCH SA's ability to take timely action to contain losses and liquidity demands in managing Clearing Member defaults by providing an additional resource for recourse in certain

circumstances. Moreover, in giving LCH SA flexibility to specify in a clearing notice how clients would notify LCH SA of backup Clearing Members to be used in case of a default of their primary Clearing Members, the Commission believes this change should improve clients' ability to designate a backup Clearing Member and thereby continue clearing in case of the default of a primary Clearing Member. The Commission further believes this should, in turn, reduce the possibility for losses resulting from the default of the primary Clearing Member. Finally, the Commission believes the changes discussed in Part II.E above regarding closure of the CDS clearing service should improve the process for such closure which should, in turn, help to ensure that LCH SA has the authority and operational capacity to take timely action to contain losses and liquidity demands resulting from such a closure. Thus, the Commission finds these aspects of the proposed rule change are consistent with Rule 17Ad-22(e)(13).<sup>55</sup>

#### IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act, and in particular, with the requirements of Section 17A(b)(3)(F) of the Act,<sup>56</sup> Section 17A(b)(3)(G) of the Act,<sup>57</sup> and Rules 17Ad-22(e)(1), (e)(4)(v), (e)(4)(vi)(A), (e)(6)(i), (e)(6)(iv), and (e)(13) thereunder.<sup>58</sup>

*It is therefore ordered* pursuant to Section 19(b)(2) of the Act<sup>59</sup> that the proposed rule change (SR-LCH SA-2020-004) be, and hereby is, approved.<sup>60</sup>

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>61</sup>

**J. Matthew DeLesDernier,**  
Assistant Secretary.

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<sup>55</sup> 17 CFR 240.17Ad-22(e)(13).

<sup>56</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>57</sup> 15 U.S.C. 78q-1(b)(3)(G).

<sup>58</sup> 17 CFR 240.17Ad-22(e)(1), (e)(4)(v), (e)(4)(vi)(A), (e)(6)(i), (e)(6)(iv), and (e)(13).

<sup>59</sup> 15 U.S.C. 78s(b)(2).

<sup>60</sup> In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>61</sup> 17 CFR 200.30-3(a)(12).

<sup>47</sup> 17 CFR 240.17Ad-22(e)(4)(vi)(A).

<sup>48</sup> 17 CFR 240.17Ad-22(e)(4)(vi)(A).

<sup>49</sup> 17 CFR 240.17Ad-22(e)(4)(vi)(A).

<sup>50</sup> 17 CFR 240.17Ad-22(e)(6)(i).

<sup>51</sup> 17 CFR 240.17Ad-22(e)(6)(i).

<sup>52</sup> 17 CFR 240.17Ad-22(e)(6)(iv).

<sup>53</sup> 17 CFR 240.17Ad-22(e)(6)(iv).

<sup>54</sup> 17 CFR 240.17Ad-22(e)(13).