

- Discussion on Diversity, Equity, and Inclusion
- Antarctic Research Vessel Updates
- Subcommittee on South Pole Prioritization
- Physical Qualifications in Polar Programs
- International Engagement

April 13, 2023; 10 a.m.–4:30 p.m. (In Person and Virtual)

- Joint session with AC–GEO
 - Geosciences Directorate Update
 - Update on Sexual Assault/Harassment Prevention and Response Briefing by head of NSF Office of Legislative and Public Affairs
 - NSF Leadership presentation

Dated: March 10, 2023.

Crystal Robinson,

Committee Management Officer.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–97100; File No. SR–LCH SA–2023–001]

Self-Regulatory Organizations; LCH SA; Order Approving Proposed Rule Change Relating to the Liquidity Risk Model Framework

March 9, 2023.

I. Introduction

On January 4, 2023, 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”),¹ and Rule 19b–4 thereunder,² a proposed rule change (the “Proposed Rule Change”) to amend its Liquidity Risk Modelling Framework (the “Framework”). The Proposed Rule Change was published for comment in the **Federal Register** on January 24, 2023.³ The Commission has not received any 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

LCH SA is a clearing agency registered with the Commission for the

purpose of clearing security-based swaps (also known as credit-default swaps or “CDS”). LCH SA provides clearing services for eligible CDS contracts, including both European and US Indices and Single Names Index constituents, and clearing services for eligible options on European Index CDS. In offering clearing services for these CDS contracts, LCH SA acts as a central counterparty (“CCP”). Being a CCP means that LCH SA, in clearing a trade, becomes a counterparty to, and responsible for, the corresponding trade obligations arising from the original bilateral trade between its clearing members. In other words, as a CCP, LCH SA acts functionally as the buyer to every seller and the seller to every buyer.

As a CCP providing clearing services, LCH SA is subject to liquidity risk in that it may not have enough cash in the relevant currency to meet its payment obligations when they become due, in particular upon the default of a clearing member. For example, LCH SA would be unable to make a payment in United States Dollars (“USD”) if, at the time the payment were due, all of LCH SA’s resources were held in securities or British Pounds Sterling. To comprehensively measure, monitor, and manage its liquidity risk, LCH SA has established, among other policies and procedures,⁴ the Framework.

The Framework supports LCH SA’s management of liquidity risk by identifying LCH SA’s sources of liquidity and corresponding liquidity risks, identifying LCH SA’s liquidity requirements with respect to its members and its interoperable central counterparty,⁵ describing the metrics and limits that LCH SA monitors, and describing the scenarios under which these metrics are computed.⁶

Broadly, the Proposed Rule Change seeks to amend the Framework in four ways: (1) more accurately describe how LCH SA currently manages its liquidity

requirements and operational target⁷ calculation when there is a scheduled reduction to LCH SA’s Default Fund⁸ or when LCH SA needs to provide an extraordinary liquidity injection to facilitate settlement of transactions during a business day; (2) reflect changes to two of LCH SA’s committed credit lines; (3) add a list of LCH SA’s existing options to address default situations in which there is a liquidity shortfall in a currency different from EUR;⁹ and (4) make two changes relating to LCH SA’s existing processes for injecting liquidity in the settlement system to ease settlement flow at International Central Securities Depositories (“ICSDs”). Each of these proposed changes is discussed in turn below.

A. Liquidity Requirements and Operational Target

Based on a recommendation from its independent risk model validation department, LCH SA proposes to amend the Framework to address more fully its liquidity requirements in the event of a Default Fund scheduled reduction or an extraordinary intraday liquidity injection in the settlement platform.

A Default Fund scheduled reduction refers to an instance where LCH SA returns Default Fund contributions to its clearing members. As background, at the start of each month, LCH SA determines the amount of its Default Fund according to its internal procedures.¹⁰ If the new amount for a given clearing member is lower than the current amount, then LCH SA will return the appropriate difference to that clearing member. Before a Default Fund

⁷ The operational target “represents the amount of liquidity to be held to satisfy the liquidity needs related to the operational management of the CCP in a stressed environment that does not lead to a member’s default.” Notice, 88 FR at 4228, n.6.

⁸ LCH SA maintains a Default Fund for its CDS clearing service. The Default Fund consists of financial resources that LCH SA can use to cover losses in the event of a default by a clearing member, in accordance with its rules and procedures. LCH SA requires clearing members to contribute to the Default Fund, and Article 4.4.1.3 of the LCH SA CDS Clearing Rulebook explains how LCH SA determines the amount of each clearing member’s contribution. Generally, LCH SA calculates the amount of the Default Fund and each clearing member’s contribution thereto each month. If a clearing member’s contribution decreases for a given month, LCH SA could be obligated to return cash to that clearing member in the amount of the reduction in its contribution. Such a return of cash to a clearing member would decrease the amount of liquidity available to LCH SA.

⁹ As described below, LCH SA did not propose adopting new authorities, but rather, specified existing options to conform the Framework to the LCH SA Liquidity Plan and the LCH SA CDS Clearing Rulebook. See LCH SA CDS Clearing Rule Book Chapter 3 Article 1.3.1.7, Appendix 1 Article 8.2, Appendix 1 Article 8.10.

¹⁰ Notice, 88 FR at 4228, n.8.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b–4.

³ Securities Exchange Act Release No. 96694 (Jan. 18, 2023), 88 FR 4227 (Jan. 24, 2023) (File No. SR–LCH–2023–001) (“Notice”).

⁴ For example, as described in the Notice, LCH SA, as a subsidiary of LCH Group, manages its liquidity risk pursuant to, among other policies and procedures, the LCH Group Liquidity Risk Policy and the LCH Group Liquidity Plan. *Id.* at 4228.

⁵ LCH SA has an interoperability agreement with Cassa di Compensazione e Garanzia (“CC&G”), an Italian CCP, pursuant to which LCH SA’s clearing members and CC&G’s clearing members are able to benefit from common clearing services without having to join the other CCP. Each CCP is a clearing member of the other one with a particular status when accessing the clearing system of the other counterparty.

⁶ For additional information regarding the Framework, see Self-Regulatory Organizations; LCH SA; Order Approving Proposed Rule Change Relating to Liquidity Risk Management, Exchange Act Release No. 83691 (July 24, 2018), 83 FR 36635 (July 30, 2018) (SR–LCH SA–2018–003).

reduction takes place, a latency period occurs between the final approval of the new Default Fund amount and the settlement of the new contributions. LCH SA is proposing changes to the Framework in order to properly reflect the Default Fund reduction in the operational target calculation until the settlement of the new contributions occurs.¹¹

In the Framework, LCH SA proposes additional text to describe enhancements to the operational target calculation. The additional content includes (1) a statement that the Default Fund recomputed is compared to the Default Fund actually paid and in the account of LCH SA, (2) a description of the reported amount of the Default Fund, including adjustments made to the calculation of the operational target, and (3) a detailed description of the operational steps in the calculation.

Moreover, LCH SA proposes to make conforming changes to another section of the Framework to reflect the significance of a Default Fund reduction. The Framework currently lists five different reasons for LCH SA's operational liquidity needs, including repayment of excess cash and non-cash collateral to members, the substitution of cash collateral upon members' request, and LCH SA's provision of liquidity to facilitate settlement, among others. LCH SA proposes to add the planned reduction of Default Fund amounts as another reason for its operational liquidity needs.

LCH SA also proposes various Framework changes to more fully address the impact of intraday liquidity injections into the settlement platform. According to LCH SA, when volumes in the settlement platform are particularly high, additional liquidity may need to be injected during the day to ensure the smooth function of the settlement flows.¹²

The Proposed Rule Change would add governance details regarding the provision of intraday liquidity injections. In particular, the Proposed Rule Change would add language to note that LCH SA has delegated to its Fixed Income Operations team authority to provide up to one billion euros in additional liquidity intraday for settlement. LCH SA's Chief Risk Officer and Head of Collateral and Liquidity Management, or their delegates, would need to approve any intraday amounts greater than one billion euros.¹³

LCH SA proposes changes to the Framework that would require the recalculation of LCH SA's operational liquidity target in response to an intraday injection of more than 1 billion euros. The Framework does not currently take into consideration extraordinary liquidity injections in the settlement system in the daily operational target calculation.

In addition, LCH SA proposes to add a footnote to provide additional context for LCH SA's provision of liquidity in order to facilitate settlement.¹⁴ The proposed footnote would indicate that the provision of liquidity to facilitate settlement includes both beginning-of-day liquidity injections as well as intraday injections above one billion euros.

B. Committed Credit Lines

As part of its liquidity resources, LCH SA maintains different credit lines that it can draw upon as needed to obtain liquid financial resources.¹⁵ LCH SA proposes changes to the Framework to reflect that (1) one such credit line, with KAS Bank to cover non-euro variation margin payments for listed derivatives activity, is no longer active, and (2) LCH SA has established a flexible, intraday credit line with Norges Bank to cover non-euro variation margin payments for listed derivatives activity. Specifically, LCH SA proposes to update the Framework to delete outdated references to the KAS Bank credit line and add references to the Norges Bank credit line.

C. Liquidity Shortfall Options

LCH SA's Liquidity Plan and CDS Clearing Rulebook identify and define a set of tools, or options, that LCH SA can utilize to address a Clearing Member default that leads to a liquidity shortfall in a currency different from EUR, including the following:

- Non-euro cash deposited as collateral;
- The sale of the non-euro securities of the defaulting member;
- Bilateral repo transactions (non-euro cash taker and non-euro collateral giver);

¹⁴ See Article 1.3.3.5 of LCH SA's rules (stating that "LCH SA ensures the delivery of Securities or the payment of cash, in accordance with the Clearing Rule Book . . ."). Further, LCH SA injects liquidity in the settlement platforms or lodges non-cash collateral at ICSDs to facilitate settlement, including fails. LCH SA handles these injections since they represent one of the main intraday liquidity needs for the CCP. See LCH SA Liquidity Risk Modelling Framework Section 4.2.1.4.

¹⁵ For example, LCH SA has a multi-currency overdraft facility of €10 million with an international bank and a secured, committed, intraday credit line with a different bank. Notice, 88 FR at 4229.

- Cross-currency bilateral repo (non-euro cash taker and euro collateral giver);
- Cross-currency triparty repo (non-euro cash taker and euro collateral giver);
- LCH SA's multicurrency overdraft facility with an International Bank;
- FX spot market transactions;
- ECB weekly tender in USD (last resort); and
- Replacing LCH SA's liabilities in non-euros by euros as per clearing rulebook.¹⁶

Currently, the Framework does not identify these tools as the options LCH SA has to address default situations in which there is a liquidity shortfall in a currency different from EUR. The Proposed Rule Change would update the Framework to include the list of tools that LCH SA may use.

D. Injection of Liquidity To Ease Settlement Flow

The current Framework describes LCH SA's requirements and process for injecting liquidity into settlement platforms of various ICSDs to facilitate settlement related to certain sovereign debt, such as French, Spanish, German, Belgian, and Italian debt. It includes a table that describes the settlement platforms, the debt activities covered by those settlement platforms, and an associated maximum level of liquidity. LCH SA is proposing two specific changes to this portion of the Framework. First, LCH SA proposes to reduce the maximum level of liquidity to be injected daily in the settlement system to ease settlement flow at an Italian ICSD. This change is being proposed to ensure the maximum level of liquidity specifically related to Italian debt is appropriate given actual settlement activity related to Italian debt observed by LCH SA's Operations Team. Second, LCH SA proposes to include additional text to specify the dates of its most recent tests to successfully transfer securities related to settlement for Italy, Spain, Germany, and Belgium transactions.

III. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act requires 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

¹⁶ See LCH SA CDS Clearing Rule Book Chapter 3 Article 1.3.1.7, Appendix 1 Article 8.2, Appendix 1 Article 8.10; see LCH SA Liquidity Plan Section 6.2.2.2.

¹¹ *Id.* at 4228.

¹² *Id.* at 4228, n.9.

¹³ An injection of more than \$1 billion euro would also trigger certain internal reporting requirements.

the organization.¹⁷ For the reasons given below, the Commission finds that the Proposed Rule Change is consistent with Section 17A(b)(3)(F) of the Act¹⁸ and Rule 17Ad-22(e)(7) thereunder.¹⁹

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

Under Section 17A(b)(3)(F) of the Act, LCH SA's rules, among other things, must be "designed to promote the prompt and accurate clearance and settlement of . . . derivative agreements, contracts, and transactions . . ." ²⁰ Based on its review of the record, and for the reasons discussed below, the Commission believes that LCH SA's changes are consistent with Section 17A(b)(3)(F) of the Act because they contribute to LCH SA's management of its liquidity risk.

LCH SA relies on the Framework to support its management of liquidity risk arising from a potential member default, default of CC&G, and operational liquidity requirements. Managing such risks, such as through the maintenance of liquid resources sufficient to meet payment obligations, reduces the likelihood that LCH would fail to make payments when due, thereby avoiding disruptions to the settlement of transactions for which such payments are due. Thus, the Framework, as a rule of LCH SA, supports the prompt and accurate clearance and settlement of the derivatives transactions LCH SA clears, including security-based swaps.

Certain of the changes LCH SA proposes would update and clarify existing aspects of the Framework. These include changes meant to accurately portray LCH SA's banking relationships, changes describing the options LCH SA has to address default situations in which there is a liquidity shortfall in a currency different from EUR, and changes reflecting that LCH SA has successfully tested the transfer of securities coming from settlement for Italy, Spain, Germany, and Belgium transactions. These updates and clarifications contribute to the effectiveness of the Framework as a tool supporting LCH SA's management of liquidity risk arising from a potential member default, default of CC&G, and operational liquidity requirements, which facilitates prompt and accurate clearance and settlement.

LCH SA proposes changes designed to control and more accurately quantify LCH SA's liquidity risk with regard to its operational liquidity needs,

including changes to the Framework that would take into account decreases in the Default Fund, adding arrangements governing how extraordinary intraday liquidity injections are approved and considered in the operational target, and updating the maximum level of liquidity to be injected daily in the settlement system to ease settlement flow for ICSDs. Control over and accurate measurement of liquidity risk is necessary to ensure that LCH SA's exposure does not exceed its resource so that LCH SA can meet its payment obligations on time without disrupting settlement. Thus, these changes promote prompt and accurate clearance and settlement.

The Commission believes, therefore, that the Proposed Rule Change is consistent with the requirements of Section 17A(b)(3)(F) of the Act.²¹

B. Consistency With Rule 17Ad-22(e)(7) Under the Act

Rule 17Ad-22(e)(7) requires covered clearing agencies to establish, implement, maintain, and enforce written policies and procedures reasonably designed to measure, monitor, and manage the liquidity risk that arises in or is borne by the covered clearing agency.²² In adopting Rule 17Ad-22(e)(7), the Commission provided guidance that a covered clearing agency should consider in establishing and maintaining policies and procedures that address liquidity risk. Specifically, the Commission stated that a covered clearing agency should generally consider whether it has a robust framework to manage its liquidity risks from its participants and other entities.²³

LCH SA proposes changes that would make the Framework more robust by broadening the description of potential sources of liquidity risk and describing internal processes governing when prior approval must be obtained for an intraday liquidity injection. For example, LCH SA proposes to expand the list of actions that may cause liquidity needs to arise, and would adjust how LCH SA considers decreases in the Default Fund and intraday liquidity injections with regard to its operational target. These proposed changes would provide LCH SA with a more accurate understanding of both its liquidity needs and its operational target. LCH SA's increased ability to measure its liquidity risk due to these

changes makes the Framework more robust. Additionally, as noted above, LCH SA proposes changes that would describe internal processes governing when prior approval must be obtained for an intraday liquidity injection. These changes provide for stronger internal controls regarding liquidity risk management. The Commission believes that the proposed changes to LCH SA's Framework described in Section II A above are consistent with Rule 17Ad-22(e)(7) because they are strengthening changes to the Framework and thus support LCH SA's ability to measure, monitor, and manage its liquidity risk.

The Commission believes, therefore, that the Proposed Rule Change is consistent with the requirements of Rule 17Ad-22(e)(7) under the Act.²⁴

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, Section 17A(b)(3)(F) of the Act²⁵ and Rule 17Ad-22(e)(7) thereunder.²⁶

It is therefore ordered pursuant to Section 19(b)(2) of the Act that the Proposed Rule Change (SR-LCH SA-2023-001) be, and hereby is, approved.²⁷

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.²⁸

J. Matthew DeLesDernier,
Deputy Secretary.

[FR Doc. 2023-05271 Filed 3-14-23; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-97094; File No. SR-ICC-2023-002]

Self-Regulatory Organizations; ICE Clear Credit LLC; Notice of Filing of Proposed Rule Change Relating to the Clearance of Additional Credit Default Swap Contracts

March 9, 2023.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934,¹ and Rule 19b-4,² notice is hereby given that on February 24, 2023, ICE Clear Credit

¹⁷ 15 U.S.C. 78s(b)(2)(C).

¹⁸ 15 U.S.C. 78q-1(b)(3)(F).

¹⁹ 17 CFR 240.17Ad-22(e)(7).

²⁰ 15 U.S.C. 78q-1(b)(3)(F).

²¹ In approving the Proposed Rule Change, the Commission considered the proposal's impacts on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

²² 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

¹⁷ 15 U.S.C. 78s(b)(2)(C).

¹⁸ 15 U.S.C. 78q-1(b)(3)(F).

¹⁹ 17 CFR 240.17Ad-22(e)(7).

²⁰ 15 U.S.C. 78q-1(b)(3)(F).

²¹ 15 U.S.C. 78q-1(b)(3)(F).

²² 17 CFR 240.17Ad-22(e)(7).

²³ Securities Exchange Act Release No. 78961 (Sept. 28, 2016), 81 FR 70786, 70823 (Oct. 13, 2016) (File No. S7-03-14).