

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- 94016; File No. SR-LCH SA-2022-001)

January 20, 2022

Self-Regulatory Organizations; LCH SA; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to the New Swaption Standard Terms Supplement

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder² notice is hereby given that on January 18, 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. LCH SA filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act³ and Rule 19b-4(f)(4)(i) thereunder,⁴ such that the proposed rule change was immediately effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

(a) Banque Centrale de Compensation, which conducts business under the name LCH SA (“LCH SA”), is proposing to amend its CDS Clearing Supplement (the “**Clearing Supplement**”) to incorporate new terms and to make conforming, clarifying,

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(4)(i).

and clean-up changes intended to take into account the new iTraxx and CDX swaption documentation, to be published by the relevant Markit entity, updating swap curve references and model inputs to the relevant risk-free rates and making references to the new 2021 ISDA Interest Rate Derivatives Definitions published by the International Swaps and Derivatives Association, Inc. (“ISDA”) (the “**Proposed Rule Change**”).⁵

The text of the Proposed Rule Change has been annexed 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.

⁵ Capitalized terms not defined or modified in this rules proposal will have the same meaning as in LCH SA’s existing CDS Clearing Rule Book or Clearing Supplement.

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 make the necessary amendments to the Clearing Supplement to take into account upcoming versions of the:

- iTraxx® Europe Untranchéd Transactions Swaption Standard Terms Supplement; and
- CDX Untranchéd Transactions Swaption Standard Terms Supplement,

due to be published respectively by Markit Indices GmbH and Markit North America, Inc., in December 2021 and later in 2022 (together the “**New Swaption STSs**”).

Minimal changes have been made to the New Swaption STSs mainly in order to (i) update the model inputs to risk-free rates, and (ii) incorporate the new 2021 ISDA Interest Rate Derivatives Definitions.

The new amendments proposed to be made to Part C of the Clearing Supplement in order to take into account the New Swaption STSs have been replicated in Part B for consistency purposes.

1) **Proposed amendments to reflect the New Swaption STSs**

In Part C of the Clearing Supplement, the definitions of “CDX Swaption Standard Terms Supplement” and “iTraxx® Swaption Standard Terms Supplement” as set out in Section 1.2 have been amended to refer to the latest version in force as published by the relevant Markit entity or any affiliate hereof. Similar changes have been made to the definition of “Index Swaption Cleared Transaction Confirmation”.

Consequently, Section 1.2 of Part C has been also amended to include the new defined term of “2021 Definitions” which mean the 2021 ISDA Interest Rate Derivatives Definitions published by ISDA as the New Swaption STSs to be published in 2022 will

refer to them instead of the 2006 Definitions. Therefore the defined term “ISDA Swap Transaction Definitions” has been also added in Section 1.2 of Part C to refer to the 2021 Definitions or the 2006 Definitions which are incorporated by reference in the Markit Standard Terms Supplement.

Any reference to the “2006 Definitions” in the Clearing Supplement has been replaced with a reference to the new defined term “ISDA Swap Transaction Definitions” so that depending on the version of the iTraxx® or CDX Swaption Standard Terms Supplement in force, either the 2006 Definitions or the 2021 Definitions will apply.

The definition of “Exercise Notice” in Section 1.2. of Part C has been amended to add a reference to the relevant provisions of the 2021 Definitions.

The new defined term “Markit Standard Terms Supplement” has been included in Section 1.2 of Part C, for the purpose of referring to the iTraxx® Swaption Standard Terms Supplement and/or the CDX Swaption Standard Terms Supplement, as the context requires.

A new Section 2.4 “Markit Standard Terms Supplement Updates” has been added in Section 2 of Part C to allow LCH SA to compress Index Swaption Cleared Transactions subject to different versions of the Markit Standard Terms Supplement, provided they are of the same Swaption Type, following consultation with the CDSClear Product Committee. For consistency purpose, we have added a reference to this new Section 2.4 in the definition of “Swaption Type” in Section 1.2 of Part C. The purpose of the amendment is to make the link between the new Section 2.4 that would allow for the compression of the relevant transactions and the definition of “Swaption Type” which is a

condition to be complied with for compression purpose in accordance with the CDS Clearing Rule Book and Section 5 of the Procedures.

In the 2021 Definitions and the New Swaptions STSs, the defined term of “Underlying Swap Transaction” is replaced by “Underlying Transaction”: this change has been replicated in Sections 7.2, 7.3 and 7.4 and Appendix VIII of Part C of the Clearing Supplement by making an additional reference to this equivalent defined term in the 2021 Definitions so that the correct defined term will apply depending on whether the 2006 Definitions or the 2021 Definitions are applicable.

2) **Proposed amendments for consistency purpose**

In Part B of the Clearing Supplement, the definition of “Index Cleared Transaction Confirmation” has been amended to reflect the proposed changes made to equivalent definitions in Part C. that would only apply to index transaction as they are subject to the relevant standard terms supplement published by Markit (contrary to the single name transactions). Thus, the sub-paragraphs of the definition refers to the last version of the confirmation or relevant Standard Terms Supplement which is published by the relevant Markit entity or its affiliate. The reference to the Implementation Date of the 2019 ISDA Narrowly Tailored Credit Event Protocol has been removed from these sub-paragraphs as the Implementation Date has already passed.

Fungibility provisions which are equivalent to the new Section 2.4 of Part C have been included in a new Section 2.6 for consistency purposes so that should there be two versions of the relevant Markit Standard Terms Supplement that would apply, there would be the necessary provisions for allowing LCH SA to proceed with the compression of transactions subject to different versions. Consequently, the new defined term of

“Markit Standard Terms Supplement” has been added in Section 1.2 of Part B and shall mean any of the published Standard Terms Supplements as referred to in the definition of “Index Cleared Transaction Confirmation” in this Section 1.2 and a reference to the new Section 2.6 has been added in the definition of “CDS Type” in Section 1.2 of Part B. The purpose of the amendment is to make the link between the new Section 2.6 that would allow for the compression of the relevant transactions and the definition of “CDS Type” which is a condition to be complied with for compression purpose in accordance with the CDS Clearing Rule Book and Section 5 of the Procedures.

(b) Statutory Basis

LCH SA believes that the Proposed Rule Change is consistent with the requirements of Section 17A of the Securities Exchange Act of 1934⁶ (the “Act”) and the regulations thereunder, including the standards under Rule 17Ad-22⁷. In particular, Section 17(A)(b)(3)(F) of the Act requires, among other things, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions and, to the extent applicable, derivatives agreements, contracts, and transactions and to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.⁸ Consistent with this requirement, the Proposed Rule Change is needed so that LCH SA can duly continue clearing the CDS products referencing the new standard terms supplement properly, promptly and accurately. In addition, making the Proposed

⁶ 15 U.S.C. 78q-1.

⁷ 17 CFR 240.17Ad-22.

⁸ 15 U.S.C. 78q-1(b)(3)(F).

Rule Change would not require changes to the existing margin methodology, default management policies and procedures and operational process. All products proposed for clearing by CDSClear will continue to be cleared pursuant to LCH SA's existing clearing arrangements and related financial safeguards, protections and risk management procedures which is consistent with Exchange Act Rule 17Ad-22(e)(17).⁹

Further, Rule 17d-22(e)(1)¹⁰ requires a covered clearing agency to provide for a well-founded, clear, transparent and enforceable legal basis for each aspect of its activities in all relevant jurisdictions. Rule 17Ad-22(e)(2)(iii)¹¹ also requires a covered clearing agency to support the objectives of participants.

LCH SA believes that this Proposed Rule Change would help to ensure that LCH SA CDSClear service is referencing the current version in force of the standard terms supplement, and therefore would help to establish a clear, transparent, and enforceable legal basis for such products to be cleared contributing to the objectives of market participants to use the industry standard documentation and which is also fully consistent with the requirement for a covered clearing agency to have a clear, transparent and enforceable legal aspect for each aspect of its activities.

As explained above, the Proposed Rule Change is only intended to take into account the upcoming versions of the New Swaption STSs in order to duly update the model inputs to risk-free rates, and incorporate the new 2021 ISDA Interest Rate

⁹ 17 CFR 240.17Ad-22(e)(17).

¹⁰ 17 CFR 240.17Ad-22(e)(1).

¹¹ 17 CFR 240.17Ad-22(e)(2)(iii).

Derivatives Definitions under the CDS Clearing rules to make it up to date, clear and duly enforceable.

Further, the Proposed Rule Change will also permit market participants to have certainty over the fungibility of options executed under different versions of the STS, and clear options expiring in April 2022 and beyond using the market standard terms. As LCH SA lists the next three expiries, the April 2022 expiry options should be made available to clear the day after the January expiry, i.e. 20 January 2022.

For all the reasons above, LCH SA believes that the Proposed Rule Change is consistent with the requirements of Section 17A of the Securities Exchange Act of 1934¹² (the “Act”) and the regulations thereunder, including the standards under Rule 17Ad-22¹³ discussed above.

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

Section 17A(b)(3)(I) of the Act requires that the rules of a clearing agency not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.¹⁴

As mentioned above, the Proposed Rule Change is reflecting the New Swaption STSs including the ISDA Definitions that are an industry response and initiative applicable to all CDS market participants.

Further, this Proposed Rule Change would apply equally to all clearing members and their clients and would not adversely affect their ability to engage in cleared

¹² 15 U.S.C. 78q-1.

¹³ 17 CFR 240.17Ad-22.

¹⁴ 15 U.S.C. 78q-1(b)(3)(I).

transactions or to access LCH SA's clearing services as LCH SA will continue to apply its existing fair and open access criteria to the CDSClear service.

Therefore, LCH SA does not believe that the proposed rule would impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

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

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

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

The foregoing proposed rule change has become effective upon filing pursuant to Section 19(b)(3)(A) of the Act and paragraph (f) of Rule 19b-4 thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such proposed rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

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

Electronic Comments:

- Use the Commission's Internet comment form

(<http://www.sec.gov/rules/sro.shtml>); or

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-LCH SA-2022-001 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-2022-001. 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-2022-001 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁵

J. Matthew DeLesDernier
Assistant Secretary

¹⁵ 17 CFR 200.30-3(a)(12).