

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-87296; File No. SR-LCH SA-2019-006)

October 11, 2019

Self-Regulatory Organizations; LCH SA; Order Approving Proposed Rule Change
Relating to Extension of Weekly Backloading Cycle to Index Swaptions

I. Introduction

On August 20, 2019, 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 to amend its CDS Clearing Rule Book (“Rule Book”) and CDS Clearing Procedures (“Procedures”) (collectively the “CDS Clearing Rules”) to make conforming, clarifying, and clean-up changes intended to extend the weekly backloading process to Index Swaptions and amend the structure of the documentation relating to the backloading process (“Weekly Backloading Cycle”).³ The proposed rule change was published for comment in the Federal Register on September 9, 2019.⁴ 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.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Capitalized terms used herein but not otherwise defined have the meaning set forth in the Rule Book and Procedures.

⁴ Securities Exchange Act Release No. 34-86858 (September 3, 2019), 84 FR 47328 (Sept. 9, 2019) (SR-LCH SA-2019-006) (“Notice”).

II. Description of the Proposed Rule Change

LCH SA is proposing to update the CDS Clearing Rules to permit the clearing process of Index Swaptions through the Weekly Backloading Cycle, which is currently the case for CDS.⁵ For the purpose of this proposal, existing defined terms and provisions in the Rule Book and Sections 4 and 5 of the Procedures have been amended as described below.⁶

LCH SA proposes to make amendments to the existing defined term "Weekly Backloading Transaction" contained within Title I, Chapter 1, Section 1.1.1. of the Rule Book by adding a reference to "Index Swaption."⁷

Section 4 of the Procedures will be updated to make the relevant eligibility requirements applicable to Index Swaptions to be submitted to LCH SA for clearing through the Weekly Backloading Cycle where necessary.⁸ Specifically, the reference to an "Index Swaption Intraday Transaction" in Section 4.1 (c) (i) (V) will be replaced by a reference to an "Index Swaption" and the reference to an "Index Swaption Intraday Transaction" in Section 4.1 (c) (iii) (C) will be replaced by a reference to an "Index Swaption that is an Index Swaption Intraday Transaction or a Weekly Backloading Transaction."⁹

⁵ 84 FR at 47328-47329.

⁶ 84 FR at 47329.

⁷ Id.

⁸ Id.

⁹ Id.

Section 5 of the Procedures will be updated by adding a reference to “Index Swaptions” in Section 5.2 (b) so that Index Swaptions are eligible for the Weekly Backloading Cycle.¹⁰

LCH SA is also proposing to revise the CDS Clearing Rules to make typographical corrections and changes made for consistency purposes. Specifically, information on the Daily Backloading Cycle and the Weekly Backloading Cycle will be moved from the Rule Book and Section 5 of the Procedures to new Clearing Notices (*i.e.* a Clearing Notice named “Daily Backloading Cycle” and a Clearing Notice named “Weekly Backloading Cycle”) rather than leaving them in the CDS Clearing Rules.¹¹

Section 5.2 (b) and (c) of the Procedures will refer to a Clearing Notice processing schedule for each of the Daily Backloading Cycle and Weekly Backloading Cycle is proposed to be removed from these paragraphs.¹² In the Rule Book, defined terms of “Eligible Weekly Backloading Transaction” and “Irrevocable Weekly Backloading Transaction” will therefore refer to a Clearing Notice instead of Section 5 of the Procedures, as well as Sections 3.1.1 and 3.1.2 of the Rule Book.¹³

In addition, the definitions of “Weekly Backloading Start Day” and “Weekly Backloading Novation Day” in the Rule Book are proposed to be amended in order to make a general reference to a day as determined by LCH SA in accordance with Article 3.1.1.10 of the Rule Book as these days will be provided for in the new Clearing Notice

¹⁰ Id.

¹¹ Id.

¹² Id.

¹³ Id.

named “Weekly Backloading Cycle.”¹⁴ Article 3.1.1.10 will be amended to remove the publication date of this Clearing Notice as the provisional calendar, which specifies the Weekly Backloading Cycle, will not change each year.¹⁵

Finally, minor typographical corrections will be made to the definition of “Converting Clearing Member” in the Rule Book and Section 4.1 (c) (vii) (B) of the Procedures.¹⁶ The reference to Section 3 in Article 3.1.1.1 of the Rule Book is also proposed to be deleted as it is redundant of the provisions of the previous sentence of this Article.¹⁷

III. Discussion and 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 such proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such organization.¹⁸ For the reasons given below, the Commission finds that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act.¹⁹

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

Section 17A(b)(3)(F) of the Act requires that the rules of LCH SA be designed, among other things, to promote the prompt and accurate clearance and settlement of

¹⁴ Id.

¹⁵ Id.

¹⁶ Id.

¹⁷ Id.

¹⁸ 15 U.S.C. 78s(b)(2)(C).

¹⁹ 15 U.S.C. 78q-1(b)(3)(F).

securities transactions and, to the extent applicable, derivative agreements, contracts, and transactions, as well as, in general, to protect investors and the public interest.²⁰

The Commission believes that by changing its CDS Clearing Rules as described above to allow for the clearing of Index Swaptions trades that were not previously cleared, LCH SA's rule proposal would promote the prompt and accurate settlement of derivative agreements, contracts, and transactions by subjecting these products to its clearance system through the backloading cycle. The Commission believes that this, in turn, will protect investors and the public interest because the proposal ensures that trading in these products will adhere to the LCH SA clearing rules and procedures.

Further, the Commission believes that for the same reasons that including Index Swaptions into the backloading cycle fosters prompt and accurate settlement, moving the processing schedules for the weekly and daily backloading cycles from the CDS Clearing Rules to Clearing Notices is similarly consistent with an overall prompt system of clearance and settlement. Clearing members will continue to have access to this processing detail in the Clearing Notice.

Thus, the Commission believes that the proposal, in general, is consistent with Section 17A(b)(3)(F) of the Act.²¹

²⁰ 15 U.S.C. 78q-1(b)(3)(F).

²¹ 15 U.S.C. 78q-1(b)(3)(F).

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 Act.²²

IT IS THEREFORE ORDERED pursuant to Section 19(b)(2) of the Act that the proposed rule change (SR-LCH SA-2019-006) be, and hereby is, approved.²³

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.²⁴

Jill M. Peterson
Assistant Secretary

²² 15 U.S.C. 78q-1(b)(3)(F).

²³ 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).

²⁴ 17 CFR 200.30-3(a)(12).