

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-94821; File No. SR-LCH SA-2022-002)

April 29, 2022

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

I. Introduction

On March 11, 2022, Banque Centrale de Compensation, which conducts business under the name LCH SA (“LCH SA”), filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act” or “Exchange Act”),¹ and Rule 19b-4,² a proposed rule change to amend the (i) CDS Clearing Rule Book (the “Rule Book”), (ii) CDS Clearing Supplement (the “Clearing Supplement”), (iii) certain CDS Clearing Procedures (the “Procedures”), and (iv) a Clearing Notice (“Clearing Notice”).³ The proposed rule change was published for comment in the Federal Register on March 21, 2022.⁴ The Commission did not receive comments regarding 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 but not defined herein have the meanings specified in the Rule Book, Clearing Supplement, Procedures, or Clearing Notice, as applicable.

⁴ Self-Regulatory Organizations; LCH SA; Notice of Filing of Proposed Rule Change to Relating to the CDS Clearing Rule Book, Supplement, and Procedures, Exchange Act Release No. 4423 (March 15, 2022); 87 Fed. Reg. 16035 (March 21, 2022) (SR-LCH SA-2022-002) (“Notice”).

II. Description of the Proposed Rule Change

As detailed below, the changes to the Rule Book, Clearing Supplement, Procedures, and Clearing Notice would: (i) queue trades received outside of the Real Time Session; (ii) backload Index Swaptions; (iii) allow Clients to request ad-hoc compression; (iv) revise certain provisions to conform to amended Commodity Futures Trade Commission (“CFTC”) Rule 39.13(g)(8)(ii);⁵ (v) revise Treasury Reports; (vi) introduce a new Trading City concept; and (vii) rename a component of the minimum bid size formula used in default auctions.

A. Real Time Session

The Real Time Session is the period during a Clearing Day in which LCH SA accepts transactions for clearing. Currently Article 3.1.4.3 of Rule Book requires that LCH SA automatically reject any Intraday Transaction submitted outside of the Real Time Session. The proposed rule change would revise Article 3.1.4.3 to provide instead that any Intraday Transaction submitted outside of the Real Time Session will be deemed to have been submitted at the Start of the Real Time Session on the following Clearing Day. Rather than automatically rejection any Intraday Transaction submitted outside of the Real Time Session, under the proposed rule change LCH SA would instead queue those transactions for submission at the Start of the Real Time Session on the following Clearing Day. However, LCH SA would still automatically reject such transactions if they do not successfully complete the Eligibility Controls, Client Transaction Checks (if applicable), or the Notional and Collateral Checks.

⁵ 17 CFR 240.39.13(g)(8)(ii).

The proposed rule change also would give LCH SA additional flexibility regarding the start of the Real Time Session. The Rule Book defines the Real Time Session as the period commencing at the Start of Real Time and ending at the End of Real Time in respect of each Clearing Day. The Rule Book further defines the Start of Real Time as the time specified in a Clearing Notice. Currently, Clearing Notice 2016/057 provides that the Start of Real Time for each Clearing Day is the earlier of: (i) the time when all relevant Clearing Members have satisfied the Morning Call and (ii) 09.05 Central European Time. Clearing Notice 2016/057 also provides that the End of Real Time is 19.30 Central European Time on each Clearing Day.

The proposed rule change would revise Clearing Notice 2016/057. The proposed rule change would maintain the same start and end times as currently found in the Clearing Notice, but it would give LCH SA flexibility to vary the start and end times. Specifically, the revised Clearing Notice would explain that if for any reason LCH SA is not able to start or end the Real Time Session at the specified times, or if LCH SA is required to start or end the Real Time Session other than at those times, then LCH SA may change the Start of Real Time and / or the End of Real Time. In that case, LCH SA will communicate the times to Clearing Members and the Start of Real Time and / or the End of Real Time will be the time when LCH SA sends the relevant notification of the opening or the closing (as applicable) of the Real Time Session.

Finally, the proposed rule change would amend Section 5.5(a) of the Procedures to replace a reference to the specific start and end times of the Real Time Session with a general reference to the Real Time Session. This change would resolve a potential conflict from Section 5.5(a) of the Procedures, which could have arisen if LCH SA diverged from the times specified in the Clearing Notice.

B. Backload Index Swaptions

Currently LCH SA allows Clearing Members and Clients to backload CDS transactions, but not Index Swaptions (meaning options to purchase index CDS). Backloading is the process of clearing a transaction that the buyer and seller have held for some time after completion of the trade without submitting it to clearing. The proposed rule change would extend the backloading process to allow Clearing Members and Clients to backload Index Swaptions, in addition to CDS.

To do so, the proposed rule change would amend the definition of CM Backloading Transaction and Client Backloading Transaction. The proposed rule change would add Index Swaptions to both definitions. These changes would allow a Clearing Member, in the case of a CM Backloading Transaction, and a Client, in the case of a Client Backloading Transaction, to backload Index Swaptions.

The proposed rule change also would make a conforming change to the Procedures. In Section 5.2(c), the proposed rule change would specify that either a CDS or an Index Swaption may be submitted for clearing through the Daily Backloading Cycle.

C. Ad-Hoc Compression Requests

Compression is the process of reducing the number of trades in portfolios by offsetting positions. It simplifies the management of positions and reduces the capital that Clearing Members and Clients need to hold against their positions. LCH SA provides compression automatically or through ad-hoc requests. Currently, LCH SA allows Clearing Members to request compression, either for their own transactions or for transactions of their Clients.

Clearing Members may request compression ad-hoc or may request automatic compression in certain circumstances.

The proposed rule change would allow Clients to submit requests for ad-hoc compression directly to LCH SA, rather than having Clearing Members submit such requests on their behalf. To do so, the proposed rule change would amend Articles 3.3.1.1, 3.3.1.2, 3.3.1.4 and 3.3.1.5 of the Rule Book to allow Clients to submit ad-hoc compression requests. The proposed rule change also would make conforming amendments in Section 5 of the Procedures and the Clearing Supplement. These changes would allow Clients to submit compression requests on an ad-hoc basis only; Clients would not be able to request automatic compression.

In addition to these changes, the proposed rule change would amend Section 5.5(a) of the Procedures to make certain changes to the operation of compression requests. Under the proposed rule change, the Ad-Hoc Compression Order File would no longer define the resulting Clearing Transaction, as is currently specified. Moreover, Section 5.5(a) currently provides that a Clearing Notice will specify how to submit the Ad-Hoc Compression Order File. The proposed rule change would eliminate the use of a Clearing Notice and provide instead that LCH SA's website will specify the means of submission. LCH SA is making this particular change because Clearing Members and Clients will submit their requests through the LCH Portal on LCH SA's website.

D. Amended CFTC Rule 39.13(g)(8)(ii)

Currently Section 2.2(e) of the Procedures requires that an FCM/BD Clearing Member collect additional Collateral from an FCM/BD Client in respect of a Client Cleared Transaction in an amount that is 10% above what LCH SA would normally require for such Client Cleared

Transaction. This requirement applies to any Client Cleared Transaction registered in a FCM/BD Client Trade Account that is of a “non-hedging nature”, as such term is used in Part 39 of the CFTC regulations.

LCH SA represents that this requirement was intended to comply with CFTC Rule 39.13(g)(8)(ii).⁶ LCH SA further represents that it needs to update Section 2.2(e) to comply with a recent amendment to the CFTC rule.⁷

As amended, Section 2.2(e) would no longer impose a single, uniform additional margin requirement. Rather, FCM/BD Clearing Members would identify categories of FCM/BD Clients with heightened risk profiles and collect additional Collateral from the FCM/BD Clients at a level that exceeds what LCH SA would normally require, commensurate with the risk presented in each account.

In addition to the amendment to Section 2.2(e), the proposed rule change would amend Article 6.2.6.1 of the Rule Book. As amended, Article 6.2.6.1 would refer to FCM/BD Clients with heightened risk profiles, as required in Section 2 of the Procedures.

E. Treasury Reports

The proposed rule change would amend Section 5.16 of the Procedures, which detail certain treasury collateral management reports. The amendments would re-name the reports, update certain details, and make the reports machine-readable.

⁶ 17 CFR 240.39.13(g)(8)(ii); Notice, 87 Fed. Reg. at 16037.

⁷ Notice, 87 Fed. Reg. at 16037.

F. Trading City

The proposed rule change would introduce to the Rule Book the new concept of a Trading City. The Trading City would be the city in which a CDS or Index Swaption is typically traded, as determined by LCH SA and published on the LCH website.

Use of the Trading City concept would allow LCH SA to tie certain deadlines and requirements to the specific calendar and business hours of that Trading City. For example, under Section 5.18.5 of the Procedures, LCH SA requires Clearing Members to enter into transactions with one another in certain circumstances. LCH SA requires such transactions as a way of validating the prices that Clearing Members submit. Currently, the timelines associated with such transactions are set out in Central European Time for products denominated in Euro and New York City local time for products denominated in US dollar.

Under the proposed rule change, these deadlines would instead refer to the local time associated with the Trading City for the product. Thus, to the extent that LCH SA clears CDS or Index Swaptions typically traded in cities outside of Central European Time or New York City local time, use of the Trading City concept would allow these deadlines to conform to the local time zones where those products are typically traded.

The proposed rule change therefore would add a definition to the Rule Book for Trading City and the associated terms Latest Contributed Price Time and Latest Cross Trade Execution Time. The proposed rule change also would amend Section 5.18 of the Procedures to incorporate these terms.

G. Clearing Day

The proposed rule change would amend the definition of Clearing Day in the Rule Book. Currently, the Rule Book defines Clearing Day as any day that is: (i) a Business Day and (ii) a day on which commercial banks in London are open for business. The Rule Book defines the term Business Day as any day that is not a holiday in the TARGET2 calendar. The proposed rule change would amend the Rule Book so that the term Clearing Day would instead mean any day on which LCH SA is open for business as set forth on the Website and in member notifications from time to time. This change therefore would give LCH SA flexibility to define its Clearing Day, rather than relying on the calendars for TARGET2 and London commercial banks.

H. Minimum Bid Size

Finally, the proposed rule change would amend Appendix 1 of the Rule Book to correct the description of a term used to determine the minimum bid size in default auctions. Currently, LCH SA calculates the minimum bid size using a formula set out in Appendix 1. The formula includes a variable that is currently known as the Minimum Bid Size Denominator. The proposed rule change would change the name of this variable to the Minimum Bid Size Multiplier. LCH SA maintains that this variable is actually a multiplier and not a denominator, so renaming the variable would make the formula more clear and consistent.⁸

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

⁸ Notice, 87 Fed. Reg. at 16037.

requirements of the Act and the rules and regulations thereunder applicable to such organization.⁹ For the reasons given below, the Commission finds that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act,¹⁰ and Rules 17Ad-22(e)(13) and (e)(17) thereunder.¹¹

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, in general, to protect investors and the public interest.¹² Based on its review of the record, and for the reasons discussed below, the Commission believes the proposed changes are consistent with the promotion of the prompt and accurate clearance and settlement of transactions at LCH SA.

The Commission believes that the proposed changes to LCH SA's real time session would promote the prompt and accurate clearance and settlement of transactions at LCH SA. Queuing Intraday Transactions submitted outside of the Real Time Session for submission at the Start of the Real Time Session on the following Clearing Day, rather than automatically rejecting those transactions, would allow Clearing Members to submit transactions outside of the Real Time Session, thus expanding the period of time in which Clearing Members can submit

⁹ 15 U.S.C. 78s(b)(2)(C).

¹⁰ 15 U.S.C. 78q-1(b)(3)(F).

¹¹ 17 CFR 240.17Ad-22(e)(13) and 17Ad-22(e)(17).

¹² 15 U.S.C. 78q-1(b)(3)(F).

transactions to LCH SA. The Commission believes that doing so could provide Clearing Members more opportunity to submit transactions and would therefore promote the submission of Intraday Transactions to LCH SA, consistent with the promotion of the prompt and accurate clearance and settlement of transactions. Moreover, the Commission believes that giving LCH SA flexibility to vary the start and end times of the Real Time Session should help to ensure that LCH SA is able to operate the Real Time Session even in the face of operational delays, and therefore clear and settle transactions. Finally, the Commission believes that amending Section 5.5(a) of the Procedures to replace a reference to the specific start and end times of the Real Time Session with a general reference to the Real Time Session should ensure LCH SA is able to vary the start and end of the Real Time Session as needed.

The Commission believes that the proposed changes to allow Clearing Members and Clients to backload Index Swaptions also should promote the prompt and accurate clearance and settlement of transactions at LCH SA. The Commission believes that allowing Clearing Members and Clients to submit Index Swaptions as part of the Daily Backloading Cycle should give Clearing Members and Clients an opportunity of clearing Index Swaptions that could not be submitted during the intraday clearing process. The Commission believes that this should overall increase the availability of clearing services for Index Swaptions at LCH SA, and the Commission believes this should promote the prompt and accurate clearance and settlement of these transactions.

The Commission further believes that the proposed changes to permit Clients to submit ad-hoc compression requests directly to LCH SA should promote the prompt and accurate clearance and settlement of transactions at LCH SA. As discussed above, compression simplifies

the management of positions and reduces capital needs by offsetting positions. The Commission believes that compression should therefore make clearing transactions through LCH SA more efficient and attractive. The Commission believes that allowing Clients to submit ad-hoc compression requests directly to LCH SA should improve the efficiency of such compression, by eliminating the need to send requests through Clearing Members. The Commission believes this change should therefore promote the use of compression by Clients. The Commission similarly believes that the amendments to Section 5.5(a) of the Procedures discussed above should make compression more efficient by allowing Clearing Members and Clients to submit their compression requests through the LCH Portal. The Commission believes that all of these changes, taken together, should promote the use of compression at LCH SA, and by doing so should promote the prompt and accurate clearance and settlement of transactions at LCH SA.

The Commission believes that the proposed changes to conform to amended CFTC Rule 39.13(g)(8)(ii)¹³ should, in general, be consistent with the protection of investors and the public interest. The Commission believes that these changes, as represented by LCH SA,¹⁴ should help ensure that LCH SA complies with amended CFTC Rule 39.13(g)(8)(ii).¹⁵ The Commission believes that LCH SA's compliance with CFTC's regulations and other legal requirements is generally consistent with the protection of investors and the public interest.

¹³ 17 CFR 240.39.13(g)(8)(ii).

¹⁴ Notice, 87 Fed. Reg. at 16037.

¹⁵ 17 CFR 240.39.13(g)(8)(ii).

The Commission believes that the proposed changes to rename and update the Treasury Reports also should promote the prompt and accurate clearance and settlement of transactions at LCH SA. Among other things, the updates would make the reports machine-readable. The Commission believes doing so should allow LCH SA to use the reports more efficiently, and that this change therefore should increase the overall efficiency of LCH SA's clearance and settlement operations and should thereby promote the prompt and accurate clearance and settlement of transactions at LCH SA.

The Commission believes the new Trading City concept also should promote the prompt and accurate clearance and settlement of transactions at LCH SA. The Commission believes that, as discussed above, use of the Trading City concept should allow LCH SA to tie certain deadlines and requirements to the specific calendar and business hours of that Trading City. Doing so should make it easier for LCH SA to introduce for clearing products that typically trade in cities outside of Central European Time or New York City local time. The Commission therefore believes that this change should facilitate LCH SA's ability to clear additional products and transactions, promoting the prompt and accurate clearance and settlement of transactions at LCH SA.

The Commission further believes that providing LCH SA additional flexibility with respect to the definition of Clearing Day should promote the prompt and accurate clearance and settlement of transactions at LCH SA. As discussed above, the Rule Book currently defines Clearing Day with reference to the TARGET2 Calendar and business days of London commercial banks, both of which are outside the control of LCH SA. The Commission believes changing the definition of Clearing Day to one that is set by LCH SA should therefore give it

control over its Clearing Days. The Commission believes this change therefore should promote the overall reliability of LCH SA's operations and in doing so should promote the prompt and accurate clearance and settlement of transactions at LCH SA.

Finally, the Commission believes that correcting the description of the Minimum Bid Size Multiplier should help to ensure the accuracy and clarity of LCH SA's default auction process. The Commission further believes that a more accurate and clear default auction process should help to ensure that LCH SA is able to manage a Clearing Member default through an auction and that LCH SA is able to continue providing clearing services in the face of such a default. The Commission therefore believes this change would promote the prompt and accurate clearance and settlement of transactions at LCH SA.

Therefore, the Commission finds that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act.¹⁶

B. 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 ensure LCH SA has the authority and operational capacity to take timely action to contain losses and liquidity demands and continue to meet its obligations by, at a minimum, requiring LCH SA's participants and, when practicable, other stakeholders to participate in the testing and review of its default procedures, including any close-out procedures, at least annually and following material changes thereto.¹⁷ The

¹⁶ 15 U.S.C. 78q-1(b)(3)(F).

¹⁷ 17 CFR 240.17Ad-22(e)(13).

Commission believes that renaming the Minimum Bid Size Multiplier should help to ensure the accuracy and clarity of LCH SA's default auction process. The Commission believes that a more accurate and clear default auction process should help to ensure that LCH SA has the authority and operational capacity to take timely action to contain losses in the case of a Clearing Member default. Therefore, the Commission finds that this aspect of the proposed rule change is consistent with Rule 17Ad-22(e)(13).¹⁸

C. Consistency with Rule 17Ad-22(e)(17)

Rule 17Ad-22(e)(17) requires that LCH SA establish, implement, maintain and enforce written policies and procedures reasonably designed to manage its operational risks by, among other things, ensuring that systems have a high degree of resiliency and operational reliability.¹⁹

The Commission believes that a number of the changes discussed above should help to ensure that LCH SA's systems have a high degree of resiliency and operational reliability. For example, the Commission believes queuing Intraday Transactions submitted outside of the Real Time Session for submission at the Start of the Real Time Session on the following Clearing Day should allow Clearing Members to submit transactions whenever they are best able to do so. Thus, if a Clearing Member is not able to submit an Intraday Transaction during the Real Time Session due to operational issues, the Clearing Member could still submit after the end of the Real Time Session if it is able to do so, with the knowledge that LCH SA would queue the transaction for the submission at the Start of the Real Time Session on the following Clearing

¹⁸ 17 CFR 240.17Ad-22(e)(13).

¹⁹ 17 CFR 240.17Ad-22(e)(17).

Day. The Commission thus believes this change should increase the availability and reliability of LCH SA's clearing operations. Moreover, permitting Clients to submit ad-hoc compression requests directly to LCH SA should help to ensure that LCH receives such requests even when Clearing Members are unable to transmit them on behalf of their Clients, and the Commission believes this should increase the operational reliability of this aspect of LCH SA's operations. Similarly, the proposed changes to re-name and update the Treasury Reports would make the reports machine-readable, and the Commission believes this should help to ensure that such reports are easier to use and operationally reliable.

Finally, the Commission believes the new Trading City concept and the change to the definition of Clearing Day should help to increase the resiliency of LCH SA's operations. The Trading City concept would allow LCH SA to tailor certain deadlines and requirements, such as those related to end-of-day price submissions, to the time zone where Clearing Members typically trade. The Commission believes this should help increase the resiliency of LCH SA's operations by tying deadlines and requirements to the local time zones in which Clearing Members are operating, rather than forcing Clearing Members to operate according to European Central or New York local time. Similarly, the Commission believes that providing LCH SA additional flexibility with respect to the definition of Clearing Day should eliminate the reliance on the TARGET2 Calendar and the operations of London commercial banks. The Commission believes this change should therefore help increase the resiliency of LCH SA's operations by giving LCH SA the ability to determine its Clearing Days based on its own schedule and operations.

Therefore, the Commission finds that these aspects of the proposed rule change are consistent with Rule 17Ad-22(e)(17).²⁰

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,²¹ and Rules 17Ad-22(e)(13) and (e)(17) thereunder.²²

IT IS THEREFORE ORDERED pursuant to Section 19(b)(2) of the Act²³ that the proposed rule change (SR-LCH SA-2022-002) be, and hereby is, approved.²⁴

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁵

J. Matthew DeLesDernier
Assistant Secretary

²⁰ 17 CFR 240.17Ad-22(e)(17).

²¹ 15 U.S.C. 78q-1(b)(3)(F).

²² 17 CFR 240.17Ad-22(e)(13) and (e)(17).

²³ 15 U.S.C. 78s(b)(2).

²⁴ 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).

²⁵ 17 CFR 200.30-3(a)(12).