

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-104051; File No. SR-LCH SA-2025-007]

Self-Regulatory Organizations; LCH SA; Order Approving Proposed Rule Change Relating to LCH SA’s Risk Governance Framework and Collateral, Financial, Credit, Operational and Third Party Risk Policies September 25, 2025.

I. Introduction

On July 15, 2025, Banque Centrale de Compensation, which conducts business under the name LCH SA (“LCH SA”), filed with the Securities and Exchange Commission (the “Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change to submit for Commission approval the following risk policies (the “Risk Policies”): (i) the Collateral Risk Policy; (ii) the Financial Resource Adequacy Policy; (iii) the Counterparty Credit Risk Policy; (iv) the Operational Risk Management Policy; (v) the Third Party Risk Management Policy; and (vi) the Risk Governance Framework. The proposed rule change was published for comment in the *Federal Register* on August 1, 2025.³ On September 15, 2025, pursuant to Section 19(b)(2) of the Exchange Act,⁴ the Commission designated a longer period within which to approve, disapprove, or institute

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Securities Exchange Act Release No. 103573 (July 29, 2025), 90 FR 36257 (Aug. 1, 2025) (File No. SR-LCH SA-2025-007) (“Notice”).

⁴ 15 U.S.C. 78s(b)(2).

proceedings to determine whether to approve or disapprove the proposed rule change.⁵ The Commission did not receive comments regarding 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. Through its CDSClear business unit, LCH SA provides central counterparty services for security-based swaps, including credit default swaps and options on credit default swaps. LCH SA is an affiliate of LCH, Ltd, through common ownership by LCH Group Holdings Limited (“LCH Group”). LCH SA’s ultimate parent company is London Stock Exchange Group. LCH Group issued the Risk Policies, and, thereafter, LCH SA adopted them.

LCH SA’s Risk Policies formally enact the specific risk management requirements that govern its operations as a clearing agency. The policies and procedures set forth therein clarify the roles and responsibilities within LCH SA for compliance with the Risk Policies. LCH SA’s Risk Policies must ensure consistency with all relevant laws and regulations, including the European Markets Infrastructure Regulation (“EMIR”) and, relevant here, Section 17A of the Act⁶ and the regulations thereunder.⁷

A. Collateral Risk Policy

The Collateral Risk Policy (“CRP”) sets forth the LCH Group standards for the management of collateral risk at LCH SA, how LCH SA intends to monitor collateral risk, which personnel own the CRP, and the internal review cycle. LCH SA’s management of collateral risk

⁵ Securities Exchange Act Release No. 103965 (Sept. 15, 2025), 90 FR 45063 (Sept. 18, 2025) (File No. SR-LCH SA-2025-007).

⁶ 15 U.S.C. 78q-1.

⁷ Each of the Risk Policies generally identify the relevant provisions of law and regulation applicable to that policy.

is subject to the risk appetite defined in the Risk Governance Framework (“RGF”), which is discussed in greater detail below. Generally, the CRP ensures LCH SA’s capability to process and control the collateral posted by its members.

With respect to managing collateral risks, the CRP applies to collateral accepted by LCH SA to cover margin requirements and default fund contributions.⁸ The CRP also clarifies the roles and responsibilities within LCH SA for compliance with the CRP. The policy owner is the LCH SA Chief Risk Officer (“CRO”).

The CRP also sets forth requirements for the approval of eligible cash and non-cash collateral. In particular, the CRP establishes that margin requirements can be covered by a mixture of cash and eligible non-cash collateral (*i.e.*, traded securities and bank guarantees), subject to the criteria set out in the policy.

LCH SA primarily, but not exclusively, accepts EUR, GBP, and USD as the currencies for margin and default fund contributions. Further, the policy requires default fund contributions to be met by cash⁹ in the primary currencies designated by each Clearing Service.¹⁰

With regards to non-cash collateral, the CRP provides that all traded securities must meet certain credit, liquidity and market risk requirements to be eligible as collateral for margin.¹¹ The

⁸ Collateral accepted by LCH SA to cover risks associated with (i) securities accepted as part of LCH SA’s clearing services (e.g., RepoClear and Equity Clear, *see* note 10 *infra*), and (ii) secured cash investments (reverse repurchase agreements or outright purchases) conducted as part of LCH SA’s Collateral and Liquidity Management (“CaLM”) team’s investment activities, are outside the scope of the CRP and are covered by LCH SA’s Financial Resource Adequacy Policy and Investment Risk Policy, respectively. Notice, 90 FR 36259 at n. 7.

⁹ LCH SA’s CRP provides that default fund contributions can also be met by collateral equivalent to cash in the case of default such as Central Bank Guarantees, where authorized by the LCH SA Rulebook.

¹⁰ LCH SA currently maintains three separate Clearing Services: (i) CDSClear, which provides clearing services for credit default swaps; (ii) RepoClear SA, which provides clearing services in respect of repo and cash transactions on Euro-denominated government and supra-national debts across 13 markets, as well as a basket collateral service through the Euro GC+ clearing service; and (iii) DigitalAssetClear SA, which provides clearing services for cash-settled Bitcoin index futures and options contracts traded on GFO-X.

CRP includes a full list of traded securities that qualify as eligible non-cash collateral. The CRP also provides that central bank guarantees are eligible as collateral accepted as margin if they are issued by central banks in countries that are approved for investments LCH SA's Collateral and Liquidity Management team ("CaLM"). Commercial bank guarantees are not eligible.

The CRP also addresses changes to collateral eligibility, providing that for new currencies and new issuers within an approved collateral type to be accepted as collateral, discretionary approval from the LCH SA Executive Committee ("ERCo") is required.¹² New types of collateral that pose new or novel risk features, or that require a change to existing risk controls, require additional scrutiny from the LCH SA Risk Committee and LCH SA Board approval. Where the ERCo and/or Risk Committee promulgate new collateral guidance, the CRP requires, where possible, that LCH SA provide a notice period to its clearing members to allow them sufficient time to adjust the portfolio of collateral lodged.

The CRP also establishes a framework for monitoring market, credit, concentration/liquidity, wrong way and FX risks. Such risks are covered by baseline haircuts, haircut add-ons, limits, and/or price adjustments, as detailed in the policy. The policy provides that the ability of LCH SA to realize the value of collateral lodged by its member within the assumed holding period is affected by the collateral's market liquidity and the size of the position to be liquidated.

The CRP further provides that the ERCo may impose haircut add-ons and/or impose new limits or price adjustments on certain types of non-cash collateral based on their market liquidity, and, in particular, CaLM's ability to realize the value of the securities in the event of a default. In

¹² In addition, the CRP requires appropriate regulatory approval to be obtained prior to LCH SA accepting new currencies. The ERCo may also request that new issuers be reviewed by the LCH SA Risk Committee and approved by the LCH SA Board.

addition, the ERCo has the discretion to assess haircut add-ons on clearing members, based on their exposures, domicile, or portfolio of collateral posted, to protect LCH SA's financial resources and liquidity position. Collateral haircuts are subject to daily stress testing with any exceptions to be notified to the ERCo.¹³

The Executive Responsible for the CRP is the Chief Executive Officer ("CEO"), and the CRP policy owner is the Chief Risk Officer ("CRO"). The CRO's responsibilities include, in part, ensuring the monthly review of published collateral haircuts,¹⁴ and of changes which the CRO must submit to the ERCo for approval. Under the CRP, the LCH SA Risk Committee must be notified of any material changes. Moreover, members must be informed of changes to collateral haircuts in a timely manner through the issuance of a circular, an email or a website notification. Changes are required to be notified to the regulators, where appropriate. In addition, the policy requires that the LCH SA Risk Committee and the ERCo annually review the appropriateness of the CRP.¹⁵ Moreover, the LCH SA Board must approve the CRP annually. To that end, the application of the CRP is subject to review by LCH SA Internal Audit, the results of which must be reported to the Board.

B. Financial Resource Adequacy Policy

The Financial Resource Adequacy Policy ("FRAP") sets forth the standards governing the assessment of financial resources (*i.e.*, initial margins, margin add-ons, and default funds)

¹³ Under the CRP, the Stress Resting Regime must include the following elements: (i) historical risk factor moves beyond the 99.7% level; (ii) theoretical scenarios which are extreme but plausible are to be used to complement the historical scenarios and provide better coverage of the tail losses of collateral portfolios. To the extent that similar securities are cleared by LCH SA, the same stress test scenarios applied on the clearing positions may be used to stress test collateral haircuts.

¹⁴ In addition, the CRO also must ensure that monthly reviews are submitted to LCH SA CRO and/or the ERCo; quarterly reviews are submitted to the ERCo for approval; and more frequent reviews are conducted (and submitted to the ERCo)? where appropriate.

¹⁵ In the Notice LCH SA states that line with SEC Rule 17ad-22(e)(5), the sufficiency of collateral haircuts and concentration limits is performed no less than annually. Notice, 90 FR at 36259 n.30.

against Latent Market Risks¹⁶ in clearing member portfolios at LCH SA. In addition, the FRAP identifies the personnel responsible for discharging the FRAP and its internal review cycle. The FRAP requires additional (discretionary) margins to be held to cover member specific portfolio risks arising from house and client activity of the following types: (i) concentration/liquidity risk; (ii) sovereign risk; (iii) wrong way risk; and (iv) counterparty credit risk.

The FRAP also details the standards for addressing procyclicality in the risk frameworks and models used by the LCH CCPs. According to LCH SA, the Board's appetite for both Latent Market Risk and Procyclicality Risk is low.¹⁷

The FRAP requires LCH SA to impose, call, and collect margins at least daily on each day when its Clearing Services are open and operating in order to limit its credit exposures¹⁸ to its clearing members and, where relevant, from Central Clearing Counterparties ("CCPs") with which it has interoperability arrangements.¹⁹ The FRAP also sets forth LCH SA's standards for initial margin, margin add-ons, intraday margins, and variation margin. Among other things, the FRAP requires that LCH SA's initial margin models be calibrated to the 99.7% confidence level, be monitored daily, and meet the validation standards in the Model Governance, Validation & Review Policy. The FRAP further states that each service is expected to monitor intraday margin levels and have the capability to call for margin intraday should it be necessary to address any issues with member exposure.

¹⁶ Latent Market Risk is defined in the FRAP as the risk that the exposure to a clearing member's portfolio value increases due to the impact of changing market factors on the valuation of the portfolio. LCH SA describes this risk as latent because LCH SA is only exposed in the event of the member's default.

¹⁷ Notice, 90 FR at 36259.

¹⁸ The FRAP requires that such margins be sufficient to cover potential exposures that LCH SA estimates will occur until the liquidation of the relevant positions.

¹⁹ The FRAP also requires LCH SA to assess certain risks prior to entering any interoperating arrangements.

Similarly, the FRAP also specifies the standards for LCH SA's default fund arrangements. Among other things, LCH SA's default funds must meet the "cover-2" standard, *i.e.* the potential losses from a close-out in an extreme event of the largest two (2) member portfolios and all clients of both members. LCH SA must also contribute to its default funds, known as "skin in the game." Finally, the FRAP further states that LCH SA must apply a daily limit on clearing member exposures, with the primary limit being that no one member's stress test loss over additional margin cannot exceed 45% of the default fund.

The FRAP allows, in addition, offsets or reductions in the required margin, subject to certain conditions being met (*e.g.*, the economic offset must be demonstrably resilient during stressed market conditions and must be subject to the stress test regime). The FRAP also sets the standards to be applied to sources of procyclicality and requirements that were set out in LCH SA's Procyclicality Policy.²⁰ Specifically, the FRAP discusses how LCH SA manages the trade-off between increasing clearing member margins following a market stress event, with the potential resulting liquidity drain, which may be disruptive to the market. LCH SA states that it will address such procyclicality risks by employing specific standards for each of its clearing services to comply with.

The FRAP sets forth the limit framework for clearing exposures at the member and member group level, with the primary limit being that no one member or member group can use more than 45% of the default fund; lower credit quality members may be subject to more

²⁰ As explained in the Notice, as part of its annual review process, LCH SA moved the contents of its Procyclicality Policy into the FRAP and decommissioned the Procyclicality Policy. Section 9 of the FRAP therefore includes detail on how LCH SA manages procyclicality risk, including by assessing changes in margin requirements, collateral haircuts, Clearing Member credit scoring and how LCH SA may assess Clearing Members for additional default fund contributions. Notice, 90 FR at 36260.

stringent limits. The FRAP requires that LCH SA monitor these limits daily for each member in each Default Fund.

To address the risk that LCH SA may also have exposure to clearing members as investment counterparties, LCH SA imposes a concentration limit framework at the counterparty level. The FRAP defines a Capital at Risk (“CAR”) amount for each member or member group which, together with the aggregate risk exposure of that member or member group, must not be greater than 30% of the entire LCH SA capital.

The FRAP further requires that LCH SA run liquidity stress tests,²¹ collateral stress tests,²² exposure stress testing,²³ and reverse stress testing,²⁴ and sets out the review requirements for such testing.²⁵ In addition to this testing, per Appendix 6 to the FRAP, LCH SA will conduct a sensitivity analysis of its margin models and a review of its parameters and assumptions for back-testing on at least a monthly basis and consider modifications to ensure its back-testing practices are appropriate for determining the adequacy of margin resources.²⁶ LCH SA will bring the results of this analysis through internal governance to evaluate the adequacy of

²¹ These stresses are detailed in the Liquidity Risk Policy and must be run daily and reviewed at least quarterly or when there is a sudden change in liquidity conditions.

²² These stresses are described in the Collateral Risk Policy and must be run daily. Collateral haircuts must be reviewed at least quarterly.

²³ This is the stress testing regime carried out in the default fund sizing described above in the FRAP, which ensures that the “cover 2” standard is being met relative to extreme but plausible scenarios above the service initial margin confidence level. These stress tests must be run daily.

²⁴ Through reverse stress testing, LCH SA identifies scenarios which can lead to its financial resources being insufficient to cover LCH SA’s needs.

²⁵ For example, the FRAP requires that LCH SA run liquidity stress tests daily and review them quarterly or when there is a sudden change in liquidity conditions.

²⁶ The FRAP also requires LCH SA to conduct a sensitivity analysis of its margin models and a review of its parameters and assumptions for back-testing more frequently than monthly during periods of time when the products cleared or markets served display high volatility or become less liquid, or when the size or concentration of positions held by the participants increases or decreases significantly.

its margin methodology, model parameters, and any other relevant aspects of its margin framework.²⁷

The Executive Responsible for the FRAP is the LCH SA CEO, and the policy is owned by the Chief Risk Officer. The FRAP is also subject to oversight by both the LCH Ltd and LCH SA board Risk Committees. The FRAP's appropriateness is reviewed annually by the ERCo; any significant findings must be reported to the Risk Committee and Boards.

C. Counterparty Credit Risk Policy

The Counterparty Credit Risk Policy ("CCRP") describes how LCH SA assesses and manages counterparty credit risk, including the processes it uses to manage that risk, responsible personnel, and the review cycle for the policy. The CCRP defines counterparty credit risk as the risk that a counterparty, including members and all intermediaries where there is exposure through payment, clearing and settlement processes, will be unable to fully meet its financial obligations when due, or at any time in the future.

LCH SA manages and monitors counterparty credit risk primarily through internal credit scores ("ICS"). The CCRP requires that LCH SA assign an ICS to all clearing members and the sovereign of their country of risk (and that of their parent, if different); LCH SA's Credit Risk Team assigns and maintains ICS for each counterparty. The CCRP also requires that all applicable counterparties be subject to a formal documented ICS assessment before on-boarding, and then at least once a year.

On the front end, the CCRP contemplates preliminary vetting of a member applicant's credit profile. Specifically, LCH SA performs a Credit Assessment Review and provides an ICS recommendation for all new clearing member applications, including the sovereign credit

²⁷ Notice, 90 FR at 36261.

assessment, and an ICS recommendation of the prospective clearing member and its parent jurisdiction. The CCRP sets out certain minimum ICS that prospective clearing members must meet before approval. The LCH SA ERCo has the discretion to reject any clearing member application regardless of that prospective member's ICS.

The CCRP also sets out thresholds that LCH SA uses to limit its exposure to counterparties and explains how LCH SA monitors these thresholds; the LCH SA Credit Risk Team assigns, maintains, and monitors applicable limits. Each clearing member and clearing member group is subject to an uncovered stress losses/net capital threshold, as detailed in Annex I of the CCRP. Clearing members are also subject to a ratio of initial margin to net capital and an overall credit tolerance. LCH SA must monitor these thresholds daily.

Under the CCRP, if a clearing member's credit profile deteriorates, or a clearing member otherwise breaches a threshold, LCH SA may, on a discretionary basis, modify the member's margin requirements. LCH SA has stated that the aim of additional margin is to ensure that as a clearing member's credit quality deteriorates below its entry requirement, it can progressively call upon additional resources to mitigate stress losses with eligible resources.²⁸ Likewise, LCH SA Credit Risk Team and the first line business personnel may agree to separate procedures to apply additional margin to client accounts on a discretionary basis. Finally, any breaches of membership criteria listed in the LCH SA rulebook could result in suspension or termination of clearing member status, which, under the CCRP, the ERCo must also approve.

LCH SA monitors all thresholds daily and applies credit tolerances daily.

The CRO is the owner of the CCRP.

²⁸ Notice, 90 FR at 36261.

ERCo must review the appropriateness of the CCRP annually. Following ERCo's review, the LCH SA Risk Committee will review the appropriateness of the CCRP and recommend approval by the LCH SA Board. Finally, ERCo must approve, and notify the LCH SA Risk Committee of, changes to the annexes of the CCRP.²⁹

D. Operational Risk Management Policy

The Operational Risk Management Policy ("ORMP") describes how LCH SA manages operational risk, including the processes it uses to manage that risk, how LCH SA monitors that risk, the responsible personnel, and the review cycle for the policy. The ORMP defines operational risk as the risk of loss arising from inadequate or failed internal processes, people and systems, or from external events. The ORMP applies to all operations within LCH SA, including all LCH SA employees, regardless of the basis or term of their employment. The ORMP also applies where business functions are outsourced to any third party.

Per the ORMP, LCH SA uses the three lines of defense model to manage and mitigate operational risk. All services and functions responsible for business as usual and change activities are considered the First Line of Defence. The First Line of Defence is responsible for ensuring adherence to all aspects of the ORMP and are accountable for identifying, assessing, monitoring, mitigating and managing operational risk. The LCH SA Risk Department is the Second Line of Defence, and it is responsible for providing oversight, support and challenge to the First Line, ensuring that the ORMP is aligned to the Board risk appetite, and for providing appropriate training to all relevant LCH SA staff. Internal Audit is the Third Line of Defence, and it is responsible for validating that the control environment is operating in alignment with the Board's risk appetite and the policies approved by the Board. The First Line of Defence also uses

²⁹ The annexes set out factors used in determining a counterparty's ICS, applicable thresholds, and limits.

a risk taxonomy to identify applicable operational risks. LCH SA business and department heads also complete a self-assessment of the risk and control profile, which is reviewed and challenged by the Second Line of Defence. Finally, the First Line of Defence must have processes to assess whether the controls they use to mitigate operational risk are adequately designed and operating effectively.

The ORMP also accounts for risk contingencies, detailing the process to be followed when the following risk events occur triggering a re-assessment of risks and controls: (i) incidents and actual losses;³⁰ (ii) audit³¹ or risk and compliance issues, and external reviews;³² (iii) key risk and control indicator breaches;³³ (iv) control weakness; (v) other internal events including process changes or restructuring;³⁴ and (vi) external events arising outside of LCH SA and LCH Group's control (*e.g.*, natural disasters, pandemics, political changes, etc.).

The CRO is the responsible executive for the ORMP, and the LCH SA Chief Risk Officer is the policy owner. Moreover, the LCH SA Board is responsible for: (i) determining LCH SA's "risk appetite" regarding operational risk; (ii) overall compliance with the risk management

³⁰ A process must be in place to monitor and manage all types of incidents including IT system failures, failure or delays in key business processes, in order to minimize interruptions to business services. The ORMP requires all incidents to be classified in accordance with their materiality under Annex B and recorded in an appropriate system to facilitate the immediate escalation and resolution of the incident.

³¹ Any audit issue rated 'critical' or 'significant' may impact the risk profile of the business/function and the risk must be re-assessed accordingly.

³² LCH SA's regulators or management can initiate external reviews where a third party is engaged to perform a specific review, and such reviews will include, for example, management recommendations arising as part of the annual external audit process.

³³ Key Risk Indicators ("KRI") and Key Control Indicators ("KCI") are metrics with thresholds designed for management to use in order to effectively identify, assess and monitor their current and emerging risks against risk appetite. All businesses and functions must implement them based on the operational risk library and control guidance.

³⁴ Changes such as process redesign or organizational restructuring may impact the risk profile and require re-assessment of relevant risks, as could a threat assessment triggered by senior management or the LCH SA Board.

framework; and (iii) ensuring that management maintains an adequate system of internal controls appropriate to LCH SA and the risks to which it is exposed.³⁵

The Chief Risk Officer is the ORMP's policy owner. Changes to, and annual reviews of, the ORMP require approval by the LCH SA Risk Committee, the LCH SA Operational Resilience Committee, and the LCH SA Board. Changes to the annexes to the ORMP require approval of the LCH SA CRO and notification to the relevant governance committees.

E. Third Party Risk Management Policy

The Third Party Risk Management Policy ("TPRMP") describes how LCH SA manages risks while contracting with a third party, including how LCH SA manages and monitors this risk, the responsible personnel, and the review cycle for the policy. The TPRMP applies to all types of third parties, including internal and external service providers.

The TPRMP and the associated TPRMP Standard set forth in the RGF set out LCH Group's minimum requirements for managing potential risks when entering into and managing all third party relationships. LCH SA's third party relationships consist of what LCH SA identifies in the TPRMP as the "Third Party lifecycle." The Third Party Lifecycle consist of four (4) phases: (i) identify the need to leverage third party services and select the most appropriate third party provider ("Plan and Select");³⁶ (ii) set the conditions for the third party relationship

³⁵ The OMRP sets out the LCH SA Board's expectations, including that (i) risks be identified, assessed, monitored and managed in a proactive manner to minimize the impact to the LCH Group; (ii) risk assessments be carried out using the risk severity matrix contained in Annex A to the ORMP; and (iii) each operational risk be identified as either 'outside appetite', 'near limit (within appetite)' or 'within appetite'. Where risks are assessed as near or outside appetite, or where control weaknesses are identified, the First Line of Defence must develop solutions and implementation plans with clear interim milestones to address the weaknesses and bring the risks back to within appetite. The policy requires issues and actions to be raised at least for all risks assessed as near or outside appetite.

³⁶ As described in the Plan and Select section of the TPRMP, LCH SA must complete a risk assessment on all new third party engagements and details the contents of that risk assessment.

(“Contract and Onboard”);³⁷ (iii) ensure that the service, relationship and risks are effectively managed (“Manage and Monitor”);³⁸ and (iv) ensure orderly exit and transition at the completion of an engagement or an early termination (“Terminate and Exit”).³⁹

The TPRMP also sets out the roles and responsibility within LCH SA for implementing the standards undergirding the four phases identified above.⁴⁰ In this regard, LCH Group follows the aforementioned Three Lines of Defence model, with LCH SA’s Third Party Management Risk and Procurement team as first line,⁴¹ the LCH SA Risk Department as second line,⁴² and Internal Audit as third.⁴³

Finally, the TPRMP sets out the key principles that underpin LSEG’s approach to managing third party engagements, such as understanding and reducing concentration risk.

The LCH SA Chief Risk Officer is the Policy Owner. The LCH SA Chief Risk Officer must review the TPRMP on an annual basis, with approval by the LCH SA Chief Operating Officer. In addition, the LCH SA Board Operational Resilience Committee and Risk Committee must approve any material changes to the TPRMP.

³⁷ As described in the Contract and Onboard section of the TPRMP, LCH SA must have appropriate written agreements with Third Parties. This section further explains what those agreements should consider and the review process for those agreements.

³⁸ As described in the Manage and Monitor section of the TPRMP, LCH SA must establish and maintain a register of all relationships with third parties and all outsourcing arrangements. This section also explains how LCH SA must monitor these arrangements.

³⁹ As described in the Terminate and Exit section of the TPRMP, LCH SA must plan for both a stressed and an unstressed exit from its Third Party arrangements.

⁴⁰ Further detail on these roles and responsibilities can be found in Appendix E of the TPRMP.

⁴¹ As the first line, these teams are responsible for identifying, assessing, monitoring, and managing third party risk and ensuring there are appropriate controls designed, implemented and assessed to ensure LCH SA can operate within the agreed risk appetite.

⁴² As second line, the Risk Department is responsible for the oversight, support, and challenge.

⁴³ As third line, Internal Audit is responsible for developing and delivering a program of assurance aimed at validating that the control environment is operating in alignment with the LCH SA Board’s risk appetite and the policies approved by the LCH SA Board

F. Risk Governance Framework

Unlike the other Risk Policies, the Risk Governance Framework (“RGF”) does not focus on any specific risk at LCH SA. Rather, the RGF identifies and assesses five categories of Key Risks that LCH SA faces in its operations: (i) financial and model risks associated directly with clearing activities; (ii) risks relating to operational resilience; (iii) strategic risks; (iv) people and culture risks; and (v) regulatory compliance, legal and corporate disclosure risks. In assessing the magnitude each of these Key Risks, the RGF establishes a hierarchical taxonomy comprising of levels zero (0), one (1) and two (2).

With respect to these Key Risks, the RGF sets out: (i) the LCH SA Board’s “risk appetite” across the Key Risks; (ii) the taxonomy of the Key Risks (including the rated level of each Key Risk and the Board’s risk appetite for that risk); (iii) the roles and responsibilities within LCH SA for managing each identified Key Risk; (iv) the standards to be met by LCH SA when managing its business activities within the determined risk appetite; and (v) the indicators and tolerance thresholds by which each Key Risk is meant to be measured and reported.

The RGF again establishes the “Three Lines of Defence” model for managing and monitoring these Key Risks. Like the ORMP, LCH SA Function Heads and Business Heads (excluding the CRO, LCH SA Chief Compliance Officer, and Head of Internal Audit) manage the risks of all LCH SA’s business activities and therefore constitute the First Line of Defence. The CRO,⁴⁴ as part of the Second Line of Defence, is responsible for: (i) measuring, monitoring and reporting the risks identified in the RGF and ORMP and (ii) setting policies consistent with the standards identified in the RGF. Under the RGF, LCH SA Human Resources, Compliance,

⁴⁴ The CRO has a dual reporting line to the LCH SA Chief Executive Officer (“CEO”) and to the Chair of the LCH SA Risk Committee. For compliance and regulatory risks, the CCO is responsible for the second-line risk function, supported by the CRO.

Finance and Legal are responsible for corporate risks and for setting policies consistent with the RGF and for the management, monitoring and reporting of any policy noncompliance within their specific areas. Internal Audit is the Third Line of Defence.

The RGF also discusses the following: (i) the LCH SA Board's risk appetite and standards; (ii) relevant risk indicators and tolerance thresholds to assist with the assessment of whether each risk should be assessed as 'within', 'near' or 'outside' appetite;⁴⁵ (iii) the internal LCH SA stakeholders responsible for each risk and associated policy; and (iv) the LCH SA policy detailing how the LCH SA Board standards are applied across the business.

The RGF is reviewed and signed off by the LCH SA Board at least annually. In LCH SA's view, annual review of the RGF provides assurance that all risks continue to be appropriately identified and mapped, that the statement of risk appetite is clear and defined at the appropriate level of granularity, that ownership and responsibilities are clear, and that there is an appropriate process for monitoring and reporting on all risks against LCH SA's appetite.⁴⁶

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 the organization.⁴⁷ Under the Commission's Rules of Practice, the "burden to demonstrate that a proposed rule change is consistent with the Exchange Act and the rules and regulations issued thereunder . . . is on the self-regulatory organization ['SRO'] that proposed the rule change."⁴⁸

⁴⁵ Holistically, at each level, such risk status assessment will also take account of qualitative factors, tolerance thresholds, policies and culture.

⁴⁶ Notice, 90 FR at 36265.

⁴⁷ 15 U.S.C. 78s(b)(2)(C).

⁴⁸ Rule 700(b)(3), Commission Rules of Practice, 17 CFR 201.700(b)(3).

The description of a proposed rule change, its purpose and operation, its effect, and a legal analysis of its consistency with applicable requirements must all be sufficiently detailed and specific to support an affirmative Commission finding,⁴⁹ and any failure of an SRO to provide this information may result in the Commission not having a sufficient basis to make an affirmative finding that a proposed rule change is consistent with the Exchange Act and the applicable rules and regulations.⁵⁰ Moreover, “unquestioning reliance” on an SRO’s representations in a proposed rule change is not sufficient to justify Commission approval of a proposed rule change.⁵¹

After carefully considering the proposed rule change, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to LCH SA. More specifically, for the reasons given below, the Commission finds that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act,⁵² and Rules 17ad-22(e)(2)(i), 17ad-22(e)(2)(v), 17ad-22(e)(3)(i), 17ad-22(e)(4)(ii), 17ad-22(e)(4)(v), 17ad-22(e)(4)(vi)(A), 17ad-22(e)(5), 17ad-22(e)(6)(i), 17ad-22(e)(6)(ii), 17ad-22(e)(18)(ii), and 17ad-22(e)(18)(iii).⁵³

A. Section 17A(b)(3)(F)

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,

⁴⁹ *Id.*

⁵⁰ *Id.*

⁵¹ *Susquehanna Int’l Group, LLP v. Securities and Exchange Commission*, 866 F.3d 442, 447 (D.C. Cir. 2017).

⁵² 15 U.S.C. 78q-1(b)(3)(F).

⁵³ 17 CFR 240.17ad-22(e)(2)(i), (e)(2)(v), (e)(3)(i), (e)(4)(ii), (e)(4)(v), (e)(4)(vi)(A), (e)(5), (e)(6)(i), (e)(6)(ii), (e)(18)(ii), and (e)(18)(iii).

to the extent applicable, derivative agreements, contracts, and transactions, as well as to assure the safeguarding of securities and funds which are in the custody or control of LCH SA or for which it is responsible.⁵⁴

As discussed above, LCH SA's Risk Policies formally enact the specific risk management requirements that govern its day-to-day operations as a clearing agency. The policies and procedures set forth therein clarify the roles and responsibilities within LCH SA for compliance with the Risk Policies. To that end, LCH SA has identified specific risks areas that may compromise its business operations. Such risk areas include, but are not limited to, collateral risk, Latent Market Risks, counterparty credit risk, third party risk, other "Key Risks," as discussed above, and operational risk. The corresponding risk policies consist of detailed risk management requirements that govern LCH SA's clearing agency operations.

These risks, if not properly managed, could disrupt LCH SA's clearing services and its ability to safeguard funds. For example, corruption of LCH SA's data or other technological disruption could interpret LCH's clearing services and its safeguarding of funds. Thus, the risks addressed by the Risk Policies, if not managed or mitigated, could prevent LCH SA from promptly and accurately clearing and settling transactions and safeguarding funds. The Risk Policies, in turn, help LCH SA to manage and mitigate these risks, are therefore consistent with the prompt and accurate clearance and settlement of securities transactions and the safeguarding of securities and funds which are in the custody or control of LCH SA or for which it is responsible.

Accordingly, the Commission finds that the proposed rule change is consistent with the requirements of Section 17A(b)(3)(F) of the Act.⁵⁵

⁵⁴ 15 U.S.C. 78q-1(b)(3)(F).

⁵⁵ *Id.*

B. Rule 17ad-22(e)(2)(i) and (v)

Rules 17ad-22(e)(2)(i) and (v)⁵⁶ require that each covered clearing agency must establish, implement, maintain, and enforce written policies and procedures reasonably designed to provide for governance arrangements that are clear and transparent and specify clear and direct lines of responsibility. As discussed in Section II, each of the Risk Policies describe in detail the roles and responsibilities of the various personnel at LCH SA for implementing and ensuring compliance with the policy. For example, the CRO is the owner of the CCRP, and the CCRP assigns responsibilities to the LCH SA Credit Risk Team, such as determining and maintaining an ICS for each counterparty. As another example, the ORMP, TPRMP, and RGF each use the three lines of defence model, describe the LCH SA personnel that are part of each line of defence, and assign responsibilities to each line of defence. The Risk Policies are clear and transparent in specifying direct lines and degrees of responsibility regarding the Risk Policies.

Accordingly, the Commission finds that the proposed rule change is consistent with the requirements of Rule 17ad-22(e)(2)(i) and (v).⁵⁷

C. Rule 17ad-22(e)(3)(i)

Rule 17ad-22(e)(3)(i) requires a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to maintain a sound risk management framework for comprehensively managing legal, credit, liquidity, operational, general business, investment, custody, and other risks that arise in or are borne by the covered clearing agency, which includes risk management policies, procedures, and systems designed to identify, measure, monitor, and manage the range of risks that arise in or are borne by the

⁵⁷ 17 CF 240.17ad-22(e)(2)(i) and (v).

covered clearing agency, that are subject to review on a specified periodic basis and approved by the LCH SA Board annually.⁵⁸

LCH SA's RGF adequately sets forth necessary written policies and procedures establishing a risk management framework responsive to the various risks that a covered clearing agency must anticipate. As stated above, the RGF, which the LCH SA Board reviews and re-approves annually, identifies and categorizes Key Risks faced by LCH SA, sets out the roles and responsibilities within LCH SA for managing each identified Key Risk, provides the standards to be met by LCH SA when managing its business activities within the determined risk appetite, and establishes the indicators and tolerance thresholds by which each Key Risk is meant to be measured and reported. The RGF is designed to comprehensively manage identified Key Risks.

Accordingly, the Commission finds that the proposed rule change is consistent with the requirements of Rule 17ad-22(e)(3)(i).⁵⁹

D. Rules 17ad-22(e)(4)(ii), (v), and (vi)(A)

Rule 17ad-22(e)(4)(ii) requires a covered clearing agency to 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 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 the covered clearing agency in extreme but plausible market conditions.⁶⁰ Rule 17ad-22(e)(4)(v) requires that such financial resources be maintained in

⁵⁸ 17 CFR 240.17ad-22(e)(3)(i).

⁵⁹ 17 CFR 240.17ad-22(e)(3)(i).

⁶⁰ 17 CFR 240.17ad-22(e)(4)(ii).

combined or separately maintained clearing or guarantee funds.⁶¹ Finally, rule 17ad-22(e)(4)(vi)(A)⁶² requires a covered clearing agency to 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, among other things, testing the sufficiency of its total financial resources available to meet its minimum financial resource requirements by conducting stress testing of its total financial resources once each day using standard predetermined parameters and assumptions.⁶³

LCH SA addresses maintaining financial resources in the FRAP, which describes the standards governing the assessment of financial resources (*e.g.*, initial margins, margin add-ons and default funds) against “Latent Market Risks” in LCH SA clearing portfolios. As discussed above, the FRAP generally sets forth: (i) the requirements for LCH SA to impose, call and collect daily margins; (ii) the methodology for stress testing; and (iii) the allocation of financial resources per clearing member.

The FRAP’s stress testing protocols adequately address both LCH SA’s capacity to mitigate credit exposure risks and its ability to meet its minimum financial resource requirements. Specifically, the FRAP requires LCH SA to run liquidity stress tests, collateral stress tests, and exposure stress testing (*i.e.*, to ensure LCH SA is meeting the cover 2 standard). LCH SA must run these stress tests daily. In addition, LCH SA also conducts reverse stress testing to ascertain the adequacy of financial resources held against its members’ positions; these tests are run at least quarterly.

⁶¹ 17 CFR 240.17ad-22(e)(4)(v).

⁶² 17 CFR 240.17ad-22(e)(4)(vi)(A).

⁶³ *Id.*

The FRAP also establishes standards maintaining LCH SA's default fund, including requiring that LCH SA meet the "cover-2" standard.

Accordingly, the Commission finds that the proposed rule change is consistent with the requirements of Rules 17ad-22(e)(4)(ii),⁶⁴ 17ad-22(e)(4)(v),⁶⁵ and 17ad-22(e)(4)(vi)(A).⁶⁶

E. Rule 17ad-22(e)(5)

Rule 17ad-22(e)(5)⁶⁷ requires a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to limit the assets it accepts as collateral to those with low credit, liquidity, and market risks, and set and enforce appropriately conservative haircuts and concentration limits if the covered clearing agency requires collateral to manage its or its participants' credit exposures.

LCH SA's CRP sets forth acceptance criteria (*e.g.*, limits on accepted currency for cash or use of a defined haircut methodology for non-cash collateral) for all collateral posted by its members. The CRP identifies the process by which CaLM and ErCo can consider collateral eligibility. For example, new collateral that poses new or novel features or requires a change to LCH SA's risk controls must be submitted by CaLM to ERCo and the Risk Committee. Likewise, LCH SA retains discretion to further consider necessary base haircuts, haircut add-ons, limits and/or price adjustments. These features of the CRP help ensure that LCH SA limits the assets it accepts as collateral to those with low credit, liquidity, and market risks, and that LCH SA establishes and maintains appropriately conservative haircuts for that collateral.

⁶⁴ 17 CFR 240.17ad-22(e)(4)(ii).

⁶⁵ 17 CFR 240.17ad-22(e)(4)(v).

⁶⁶ 17 CFR 240.17ad-22(4)(vi)(A).

⁶⁷ 17 CFR 240.17ad-22(e)(5).

Accordingly, the Commission finds that the proposed rule change is consistent with the requirements of Rule 17ad-22(e)(5).⁶⁸

F. Rule 17ad-22(e)(6)(i) and (ii)

Rules 17ad-22(e)(6)(i) and (ii)⁶⁹ require a covered clearing agency to, among other things, establish, implement, maintain and enforce written policies and procedures reasonably designed to cover, if the covered clearing agency provides central counterparty services, its credit exposures to its participants by establishing a risk-based margin system that, at a minimum: (i) considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market and (ii) marks participant positions to market and collects margin, including variation margin or equivalent charges if relevant, at least daily and includes the authority and operational capacity to make intraday margin calls in defined circumstances.

The FRAP requires LCH SA to impose, call and collect daily margin. Stated otherwise, the FRAP details LCH SA's standards by which financial resources should be assessed against member exposure – this includes variation margins, initial margins, margin add-ons for liquidity risk, among other resources. To that end, the FRAP permits for Clearing Services to call for intraday margin, where necessary, consistent with Rule 17ad-22(e)(6)(ii).⁷⁰ The FRAP further details the methods and procedures under which LCH SA's clearing services: (i) monitor margin levels intraday and clarifies that each service must delineate exposure thresholds that trigger an

⁶⁸ *Id.*

⁶⁹ 17 CFR 240.17ad-22(e)(6)(i) and (ii).

⁷⁰ 17 CFR 240.17ad-22(e)(6)(ii).

intraday margin call, if necessary; (ii) calculate variation margin; and (iii) determine offsets or reductions in required margin, consistent with Rule 17Ad-22(e)(6)(i).⁷¹

Accordingly, the Commission finds that the proposed rule change is consistent with the requirements of 17ad-22(e)(6)(i) and (ii).⁷²

G. Rule 17ad-22(e)(18)(ii) and (iii)

Rules 17ad-22(e)(18)(ii) and (iii)⁷³ require a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to establish objective, risk-based, and publicly disclosed criteria for participation, which, *inter alia*: (i) require participants to have sufficient financial resources and robust operational capacity to meet obligations arising from participation in the clearing agency⁷⁴ and (ii) monitor compliance with such participation requirements on an ongoing basis.⁷⁵

LCH SA addresses these requirements in its CCRP, which describe how it manages and assesses counterparty credit risk via an ICS and limit frameworks. To that end, LCH SA assigns every clearing member an ICS and goes on to describe in detail the exposure monitoring threshold and the limits and tolerance applied to each clearing member. By providing for the assignment, maintenance and monitoring of an ICS applied to each counterparty that LCH SA interacts with, as well as the monitoring of related counterparty credit risk thresholds, including clearing members, the CCRP is consistent with Rules 17ad-22(e)(18)(ii) and (iii).⁷⁶

⁷¹ 17 CFR 240.17ad-22(e)(6)(i).

⁷² 17 CFR 240.17ad-22(e)(6)(i) and (ii).

⁷³ 17 CFR 240.17ad-22(e)(18)(ii) and (iii).

⁷⁴ 17 CFR 240.17ad-22(e)(18)(ii).

⁷⁵ 17 CFR 240.17ad-22(e)(18)(iii).

⁷⁶ 17 CFR 240.17ad-22(e)(18)(ii) and (iii).

Accordingly, the Commission finds that the proposed rule change is consistent with the requirements of 17ad-22(e)(18)(ii) and (iii).⁷⁷

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,⁷⁸ and Rules 17ad-22(e)(2)(i), 17ad-22(e)(2)(v), 17ad-22(e)(3)(i), 17ad-22(e)(4)(ii), 17ad-22(e)(4)(v), 17ad-22(e)(4)(vi)(A), 17ad-22(e)(5), 17ad-22(e)(6)(i), 17ad-22(e)(6)(ii), 17ad-22(e)(18)(ii), and 17ad-22(e)(18)(iii).⁷⁹

IT IS THEREFORE ORDERED pursuant to Section 19(b)(2) of the Act⁸⁰ that the proposed rule change (SR-LCH SA-2025-007) be, and hereby is, approved.⁸¹

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁸²

Sherry R. Haywood,

Assistant Secretary.

⁷⁷ 17 CFR 240.17ad-22(e)(18)(ii) and (iii).

⁷⁸ 15 U.S.C. 78q-1(b)(3)(F).

⁷⁹ 17 CFR 240.17ad-22(e)(2)(i), (e)(2)(v), (e)(3)(i), (e)(4)(ii), (e)(4)(v), (e)(4)(vi)(A), (e)(5), (e)(6)(i), (e)(6)(ii), (e)(18)(ii), and (e)(18)(iii).

⁸⁰ 15 U.S.C. 78s(b)(2).

⁸¹ 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).

⁸² 17 CFR 200.30-3(a)(12).