

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-104529; File No. SR-LCH SA-2025-010]

**Self-Regulatory Organizations; LCH SA; Notice of Filing of Proposed Rule Change
Relating to LCH SA’s Default Management Policy, Investment Risk Policy,
Liquidity Risk Policy, Settlement, Payment and Custody Risk Policy, Model
Governance, Validation and Review Policy and Contract and Market Acceptability
Policy.**

December 30, 2025.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“**Act**”),¹ and Rule 19b-4,² notice is hereby given that on December 29, 2025, 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, as described in Items I, II and III below, which Items have been prepared by the clearing agency. 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

LCH SA is submitting several risk policies (“**Risk Policies**”) which LCH SA has adopted, including: (i) the Default Management Policy; (ii) the Investment Risk Policy; (iii) the Liquidity Risk Policy; (iv) the Settlement, Payment and Custody Risk Policy; (v) the Model Governance, Validation and Review Policy; and (vi) the Contract and Market

¹ 15 USC 78s(b)(1).

² 17 CFR § 240.19b-4.

Acceptability Policy. The Risk Policies have been issued by LCH Group Holdings Limited (“**LCH Group**”)³ and adopted by the LCH SA Risk Committee and LCH SA Board.⁴

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 Risk Policies and discussed any comments it received on the Risk Policies. 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 such statements.

A. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Risk Policies have been adopted by LCH SA in order to set out the specific risk management requirements that govern its operations as a clearing agency. Moreover, the Risk Policies clarify the roles and responsibilities within LCH SA for compliance with the Risk Policies. Finally, the Risk Policies have been designed to ensure consistency with all relevant laws and regulations, including the European Markets

³ LCH Group Holdings Limited is an indirect wholly owned subsidiary of the London Stock Exchange Group plc. In addition to LCH SA, LCH Group also owns LCH Limited, a recognized central counterparty supervised in the United Kingdom by the Bank of England and a derivatives clearing organization (“DCO”) registered with the Commodity Futures Trading Commission.

⁴ The Risk Policies have been elaborated in common with LCH Ltd. in order to ensure risk management consistency within LCH Group. Identical risk policies have been approved by LCH Ltd.’s governance.

Infrastructure Regulation (“**EMIR**”)⁵ and Section 17A of the Act⁶ and the regulations thereunder.⁷

a. Default Management Policy

The Default Management Policy (“**DMP**”) sets out the minimum standards that LCH SA must meet in managing the default of a clearing member. The DMP sits atop a multi-tiered default management framework, which also includes the Default Management Guidelines⁸ and the Default Management Procedures⁹ adopted thereunder.

The Default Management Procedures specify the processes and procedures at the Clearing Service¹⁰ level for managing a default. These procedures must meet the

⁵ Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories.

⁶ 15 USC 78q-1.

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

⁸ The Default Management Guidelines, which are specific to LCH SA, provide a guide to be used by each of LCH SA’s Clearing Services on defining and implementing the Service-specific default management process in compliance with the Default Management Policy. The guidelines describe the high-level strategy, principles, standards, ownership and governance at LCH SA and each Clearing Service.

⁹ The head of each Clearing Service is responsible for maintaining Default Management Procedures for such Service, and such Procedures are reviewed quarterly. The Default Management Procedures specify the processes and procedures at the Clearing Service level for managing a default. These procedures must meet the standards laid out in the DMP and follow the principles outlined in the specific Default Management Guidelines. The relevant procedures are set out in Appendix 1 to the CDS Clear Rulebook for the CDSClear Service and in Chapter 5 of Title IV to the LCH SA Clearing Rule Book for LCH SA’s other clearing services. LCH SA maintains a Default Management Procedure in place to allow for the appropriate coordination across the CCP, including with respect to each Service and transversal services, including CaLM.

¹⁰ LCH SA currently maintains 3 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 thirteen (13) markets (France, Italy, Spain, Germany, Belgium, Austria, Finland, Ireland, The Netherlands, Portugal, Slovakia, Slovenia and Supranational), as well as a basket collateral service through its €GCPlus triparty basket repo offering; (iii) DigitalAssetClear, which provides a fully-regulated and segregated clearing service for cash-settled Bitcoin index futures and options contracts traded on GFO-X, the UK’s first FCA-regulated, centrally-cleared multilateral trading facility (MTF) dedicated to digital asset futures and options. LCH SA formally operated its EquityClear and CommodityClear services, each of which has since been closed.

standards laid out in the DMP and follow the principles outlined in the specific Default Management Guidelines. The head of each Clearing Service (for example, CDSClear which provides clearing services for credit default swaps) is responsible for maintaining Default Management Procedures for such Service, and such Procedures are reviewed quarterly. The relevant procedures are set out in Appendix 1 to the CDSClear Rulebook for the CDSClear Service and in Chapter 5 of Title IV to the LCH SA Clearing Rule Book for LCH SA's other clearing services.

The DMP clarifies the roles and responsibilities within LCH SA for compliance with the DMP. For example, LCH SA's First and Second Line Risk teams are responsible for: (i) maintaining LCH SA's Default Management Guidelines, which the Executive Risk Committee ("**ERCo**") must approve;¹¹ (ii) designing and organizing company-wide default management fire drill tests on at least an annual basis; and (iii) the ongoing monitoring of compliance with the DMP.

The DMP also provides that LCH SA's Legal team is responsible, in conjunction with each Clearing Service, the Rule Change Committee and LCH SA Compliance, for ensuring that key aspects of default procedures are publicly disclosed in the Rulebook or other disclosures; and, in conjunction with LCH SA's External Communications, for drafting the default notice in case of default. LCH SA's Compliance team is responsible for notifying the relevant regulators in the event of a default. LCH SA Finance is

¹¹ Any changes to the Default Management Guidelines must be approved by LCH SA's ERCo and shared with the Default Crisis Management Team ("**DCMT**"). The ERCo, which is chaired by LCH SA's Chief Risk Officer ("**CRO**"), is comprised of the heads of each Clearing Service, the CROs of each Clearing Service, and risk management and compliance executives. The DCMT is comprised of senior LCH SA executives and is empowered to make all relevant decisions during the management of a default at LCH SA.

responsible for producing the financial statement at the end of the default management process.

The DMP also sets out applicable default governance standards. In particular, the DMP establishes that it is the responsibility of LCH SA's Chief Executive Officer ("CEO"), or the CEO's authorized delegate, acting on the recommendation of the CRO, or the CRO's authorized delegate, to place a clearing member in default¹² and initiate a DCMT.¹³ In addition, the DMP confirms that regulators and relevant exchanges should be notified as soon as the decision is taken to place a member in default, and a default notice should be delivered more generally according to the Rulebook. Further, a market communication strategy should be executed.

The head of the affected Clearing Service will convene its Default Management Group ("DMG") to manage the default, under the supervision and oversight of the DCMT. The standards that a DMG must meet are also described, in particular that the DMG must be accessible at short notice and emergency contact details must be maintained for such purpose. For example, if the DMG includes clearing member traders, the DMG should enter into contractual agreements with such traders that ensure their independence and outline their duty to provide impartial advice to LCH SA. Further, if the DMG relies on brokers/intermediaries to perform the liquidation strategy (*i.e.*, no other exit options are available), a minimum of two contractually-regulated

¹² The grounds for calling a default must be clear and agreed with LCH SA Legal.

¹³ In addition, an LCH Group Default Crisis Management Team will meet to consider coordination across both LCH SA and LCH Limited, if necessary.

relationships should be in place.¹⁴ Moreover, a secretary must be appointed, and the DMG will be responsible for documenting critical actions and decisions and maintain records of all relevant documents and e-mails.

The DMP requires the Default Management Procedures of each Clearing Service to have a defined exit methodology for a defaulted clearing member's portfolio.¹⁵ In addition, the procedures must describe: (i) the hedging and execution methodology for neutralizing material directional risks of the defaulting portfolio, where applicable; (ii) the intended auction process, where an auction is relied upon; (iii) the portability arrangements necessary to facilitate the porting and liquidation of a clearing member's clients' positions and collateral; (iv) the default management reporting capability, distinguishing segregated assets and liabilities for each member and client account at both intra-day and end of day intervals; (v) the operational control framework, which should at least ensure all risk positions are adequately reconciled and accounted for prior to engaging the exit strategy; and (vi) the communications strategy to internal and external stakeholders.¹⁶

The DMP further requires each Clearing Service to maintain sufficient resources to support the default management process. Although resources may be drawn from the support and operations departments, staff made available for default management process

¹⁴ The brokers/intermediaries must meet the requirements set out for this purpose in the LCH SA Settlement, Payment and Custody Risk Policy, be approved by ERCo at the request of the relevant Clearing Service, and should also engage in any fire drills.

¹⁵ LCH SA's CEO (or the CEO's authorized delegate) has the authority to make final decisions, but can delegate authority to each DMG to develop and execute the liquidation strategy and hedging and porting solutions, which must be approved by LCH SA's CRO (or the CRO's authorized delegate). Explicit approval of LCH SA's CEO and CRO must be obtained before the DMG executes any actions that would require the use of LCH SA's skin in the game (SITG).

¹⁶ The default management procedures may not contradict the Rulebook.

cannot jeopardize the resources required for on-going “business as usual” functions. In addition, the DMG must be familiar with each Clearing Service’s Business Continuity Plan in place and the back-up arrangements for performing their tasks in all circumstances (including extreme but plausible scenarios such as the unavailability of the office site and/or external DMG members).

The DMP requires each Clearing Service, in coordination with its DMG, to conduct regular fire drill tests including testing extreme but plausible scenarios and to participate in the annual joint fire drill exercises across both CCPs.¹⁷ The procedures that LCH SA must follow if it requests a temporary exception to any of the policies set out in the DMP are also described. Finally, the DMP confirms that LCH SA’s CEO and CRO (or their respective authorized delegates if either or both are unavailable) may jointly determine to override the DMP if the application leads to results which are not in line with the intent of the policy (*e.g.*, by delaying action or increasing risk). In these circumstances, the DMP provides that the LCH SA Board must be notified of such actions as soon as practicable.

b. Investment Risk Policy

The Investment Risk Policy (“**IRP**”) sets out the LCH Group standards for the management of investment risk at LCH SA. The key principles of these standards are capital preservation and liquidity management. The IRP applies to the investment of cash funds derived from: (i) margins; (ii) default fund contributions; (iii) CCP capital and retained earnings; and (iv) settlement failures.

¹⁷ Each Clearing Service must notify LCH SA Risk of the planning and scope of each Clearing Service’s fire drill testing (*e.g.*, actions, products, portfolio, included in the fire drill testing).

The IRP clarifies the roles and responsibilities within LCH Group and LCH SA for compliance with the IRP. The policy owner is the LCH SA CRO. In addition:

- LCH SA Credit Risk is responsible for assigning and maintaining (i) counterparty Internal Credit Scores (“**ICS**”) according to the Counterparty Credit Risk Policy, and (ii) counterparty limits within the framework outlined in the IRP;
- LCH SA’s Collateral and Liquidity Management (“**CaLM**”) team is responsible for (i) investment and monitoring activities in accordance with the IRP and other relevant Group Risk policies and all relevant regulations, (ii) for static data and collateral pricing,¹⁸ and (iii) annually reviewing the appropriateness of controls that are managed by Triparty agents in accordance with this policy, where possible;
- LCH SA’s Risk Collateral and Liquidity Risk Management (“**CaLM Risk**”) team is responsible for independently assessing and monitoring investment exposures, including country and supranational concentration risk;
- LCH SA Compliance is responsible for monitoring that a suitable framework is in place to maintain compliance with all relevant regulations regarding CaLM activities, and for monitoring relevant regulatory rules and circulating relevant requirements to the appropriate internal stakeholders; and
- LCH SA Legal is responsible for preparation of the necessary legal documents, and where relevant, provide a review on segregation arrangements.

¹⁸ Collateral pricing is subject to the standards set out in the Contract and Market Acceptability Policy, discussed below.

The IRP restricts counterparty and eligible issuers to sovereign governments, central banks, institutions guaranteed by one or more governments of approved sovereigns with an ICS of three (3) or above and where no legislation is planned to remove the guarantee,¹⁹ certain supranational entities, and credit and financial institutions, each of which must meet the internal credit scores or other standards set out in the IRP. The IRP also establishes investment criteria with regard to cash, securities, derivatives,²⁰ foreign exchange (“FX”) products²¹ and repurchase and reverse repurchase transactions.²²

In addition, the IRP sets out requirements with regard to the approval of new investment products. All new investment products must be reviewed and approved by the ERCo and must go through the New Product Approval process. Further, if a new investment product introduces new and novel risks to LCH SA, the IRP provides that the investment product must also be reviewed by the Risk Committee and approved by the Board.

¹⁹ Certain non-guaranteed entities are permitted issuers in limited circumstances where, despite the lack of a formal guarantee, the entity receives capital support from an eligible government and is determined to be systemically important by fulfilling a public policy mission, and no legislation is planned to remove either the capital support or change the public policy mission.

²⁰ Derivatives may be executed only with eligible credit and financial institutions and are only permitted to: (i) hedge the portfolio of a defaulted clearing member as part of LCH SA’s Default Management Procedure; or (ii) hedge currency risk arising from LCH SA’s liquidity management framework.

²¹ In normal market conditions, FX products are used only for the purpose of testing liquidity arrangements, reducing exposures in non-reporting currencies, or, subject to approval of the LCH SA CRO (or authorized delegate), meeting operational liquidity shortfalls. When managing a default, FX products may be used to eliminate the risk associated with collateral liquidations or product flows as well as the variation margin to be paid by LCH SA to non-defaulters in a currency other than the currency in which such margin has been deposited.

²² For example, such repurchase and reverse repurchase transactions must only be executed with Central Banks, Credit/Financial Institutions and should be conducted in accordance with the applicable legal agreements. In addition, specific counterparty limits, issuer limits and concentration limits are set out in an annex to the IRP.

The IRP also sets investment risk limits, *i.e.*, weighted average maturity, secured versus unsecured and counterparty concentration, clarifies the responsibility for approving a new investment counterparty or issuer and clarifies the process by which counterparties, issuers and concentration limits are approved and modified including any applicable haircuts.

The IRP sets out the counterparty, issuer and limit approval change process to provide that the ERCo must approve any new counterparty or issuer. The ERCo will also assign a counterparty limit within the framework outlined by the IRP. Any limit changes must be within the framework outlined in the IRP annexes and notified to CaLM and CaLM Risk.²³

The IRP also provides that CaLM Risk is responsible for monitoring country and supranational concentration. The IRP provides that unsecured deposits may be held in the Banque de France without monitoring, but deposits in all other central banks are subject to (and counted towards) country concentration monitoring thresholds, unless otherwise approved by the ERCo.

c. Liquidity Risk Policy

The Liquidity Risk Policy (“**LRP**”) sets out the LCH Group standards for the management of liquidity risk at LCH SA. The basic goal of the LRP is to ensure that LCH SA has enough cash on hand to meet all the expected and unexpected financial obligations that arise during the course of the day. The LRP describes how LCH SA will measure whether it has enough available cash, both daily and intraday.

²³ Applicable counterparty limits, instrument limits and concentration limits are set out in an annex to the IRP.

The LRP sets out the roles and responsibilities within LCH SA for compliance with the LRP. In this regard, the LRP clarifies that: (i) LCH SA CaLM is responsible for maintaining a liquidity plan, conducting liquidity tests and managing the day-to-day liquidity of LCH SA according to the standards set out in the LRP, and for notifying the ERCo immediately of any exceptions; (ii) LCH SA CaLM Risk monitors and measures the adequacy of the cash levels held to meet the outflows, and reports issues for potential corrective action to CaLM; and (iii) LCH SA Operations is responsible for the operational and control processes related to intraday liquidity flows and interoperability arrangements.²⁴ Any exceptions to the established policies will require a formal request to ERCo, a notification to the LCH SA Risk Committee, and approval from the Board and LCH SA Risk Committee.

The LRP also identifies the different sources and availability of liquidity,²⁵ including: (i) cash from deposits and maturing investments; (ii) LCH SA proprietary unencumbered (non-cash) assets managed by CaLM; and (iii) unencumbered assets from repurchase transactions undertaken by CaLM (including defaulted clearing members). In addition, LCH SA may also use available Central Bank arrangements to generate same-day liquidity by pledging non-cash collateral deposited by its members on a title transfer basis. LCH SA can also access a defaulted clearing member's non-cash margin

²⁴ LCH SA Operations also support operations associated with liquidity/credit arrangements at Central Banks and Central Securities Depositories.

²⁵ LCH SA holds all cash assets at either Central Banks or at highly creditworthy commercial banks as prescribed in the Settlement, Payment and Custody Risk Policy. The remaining liquidity resources described below constitute assets that are readily available and convertible into cash through prearranged funding arrangements such as repurchase agreements and Central Bank arrangements. LCH SA also permits other prearranged funding arrangements that are determined by the Board to be highly reliable even in extreme but plausible market conditions.

collateral. In addition, LCH SA may access any RepoClear assets “received versus payment” from non-defaulting RepoClear counterparties in respect of transactions with a defaulted RepoClear clearing member.²⁶

The LRP clarifies that LCH SA’s two main sources of liquidity needs are: (i) operational liquidity, *e.g.*, repayment of excess cash collateral to clearing members, substitution of cash collateral upon clearing member request, provision of liquidity to facilitate settlement including fails, overall reduction in Liabilities (Initial and Additional Margin) and thus cash posted for margin coverage, and FX Options warehouse cash replenishment; and (ii) default liquidity, *e.g.*, fulfilment of the settlement obligations of a defaulted clearing member, posting of variation margins to non-defaulting members on the positions held by a defaulted clearing member, and hedging costs and potential losses due to the liquidation of the cleared positions and collateral posted by a defaulted clearing member.²⁷

The LRP also describes the steps that LCH SA takes to assess its liquidity position. In particular, the LRP notes that the assessment must be run: (i) daily at an aggregated level and on all material currencies;²⁸ (ii) over a forward liquidity period of 30 days;²⁹ and intraday at various times when the CCP has scheduled obligations to

²⁶ Separately, the LRP explains that, in circumstances in which LCH SA is authorized to deposit clearing member cash with a Central Bank and the Central Bank requires LCH SA to set a target daily operating balance, CaLM is responsible for setting the target operating balance, with the approval of the CRO and the ERCo.

²⁷ Other potential draws on liquidity include an increase of cash or collateral that is encumbered for credit lines at international central securities depositories (“**ICSDs**”) and settlement agents.

²⁸ LCH SA’s material currency is the Euro, as specified in the Model Governance, Validation and Review Policy. For the avoidance of doubt, the LRP requires that exposures to all non-material currencies (*i.e.*, other than Euro, including GBP and USD) be monitored on a daily basis as well.

²⁹ With the ERCo approval, LCH SA may use a shorter period of 5 days.

pay.³⁰ In addition, the assessment must factor in regulatory restrictions on the use and liquidation of client assets maintained in segregated accounts and consider stress scenarios that include restricted market access and behavioral assumptions on how members may withdraw cash during times of stress. Importantly, the LRP provides that the liquidity assessment must: (i) model the gross liquidity impact of the default of the two member groups with the largest liquidity requirement³¹; (ii) include “extreme but plausible” stress scenarios;³² and (iii) include reverse stress testing that models extreme but plausible market scenarios in order to help determine the limits of the current model, including the plausibility thresholds which would trigger more in-depth analysis.³³ The model used to conduct liquidity stress testing must be reviewed through reverse stress testing on at least a monthly basis, with any findings reported to the CRO, the ERCo and the Risk Committee, and validated annually by an independent Model Validation Team, with any findings reported to ERCo and the Risk Committee.³⁴ Finally, CaLM is responsible for evaluating the reliability of LCH SA’s liquidity arrangements by

³⁰ Annex I, Intraday Liquidity Monitoring, to the LRP provides additional detail on the factors that LCH SA should take into account in assessing intraday liquidity.

³¹ In addition, LCH SA also models the gross liquidity impact of the default of the family participant with the largest liquidity requirement for a specific SEC compliant liquidity metric.

³² The LRP explains that an event is deemed to be implausible if it is considered to have a likelihood of occurrence of less than once in 30 years. If an event is not deemed to be implausible, it is considered plausible.

³³ The LRP further clarifies in Appendix II that LCH SA will review the models used to conduct liquidity stress testing more frequently than monthly, as required by Exchange Act rule 17ad-22(e)(7)(vi), when the products cleared or markets served display high volatility or become less liquid, when the size or concentration of positions held by the clearing agency's participants increases significantly, or in other appropriate circumstances described in dedicated procedures.

³⁴ The results of the reverse stress tests are used to evaluate the adequacy of LCH SA’s liquidity risk management framework and, if needed, to make the necessary adjustments to that framework. In addition, the LRP provides that the findings are evaluated to ensure that the testing scenarios are appropriate to determine LCH SA’s liquidity needs and resources considering current and evolving market conditions.

assessing the availability of the liquidity resources through due diligence and/or testing processes.³⁵

The LRP provides that LCH CaLM Risk is responsible for maintaining a liquidity tiering scale reflecting the liquidity risk of the collateral posted by clearing members. It also identifies the extreme but plausible stress scenarios that LCH SA must run as part of its liquidity stress tests.

The LRP also establishes a framework for monitoring concentration risks in LCH SA's liquidity resources.³⁶ For each Clearing Service, cash margin posted by members must remain within the 25% Member Cash Limit, and LCH SA therefore requires advance notice for replacing cash with non-cash margin and may limit returns of cash margin to ensure such limits are not breached. In addition, no member can provide more than 25% of LCH SA's committed credit lines.³⁷ There are no concentration limits in relation to credit lines with international central securities depositories (ICSDs).³⁸

³⁵ The liquidity assessment is subject to certain limits and restrictions specified in the LRP. Specifically, the liquidity coverage ratio for LCH (defined as the total available liquid assets at the start of the business day divided by the total liquidity requirements for that day) must be at least 105% on each day during the assessment period, and no one member within a given Clearing Service may use more than 25% of available liquidity following the default of the member that is the largest liquidity user assuming that the repo market is fully closed ("25% Member Cash Limit").

³⁶ The concentration limits applicable to LCH SA's protected payment system ("PPS") banks and concentration banks is governed by the Settlement, Payment, and Custody Risk Policy.

³⁷ The establishment of such credit lines requires Board approval. The credit provider must be approved by the ERCo and maintain a minimum ICS. A member's line of credit with LCH SA does not count towards the available liquidity resources in the event of that member's default.

³⁸ LCH SA is required under the EMIR framework to deposit margin, default fund contributions and other financial resources with the operator of the ICSD in a manner that ensures the full protection of those assets. The LRP also clarifies that ICSD credit lines, which are used to facilitate settlement of LCH SA's clearing and investment activities, are generally not counted as liquidity assets, provided that such lines are not committed and not associated with Central Bank arrangements. Assets pledged against ICSD credit lines are deducted from LCH SA's available liquidity resources to reflect their encumbrance.

Finally, Appendix II sets out two additional liquidity stress testing and reporting requirements.³⁹ First, the Board will be presented, not less than annually, with an analysis of the prearranged non-committed funding arrangements that are included as part of LCH SA's available liquidity resources for purposes of its liquidity assessments, in order to determine whether such resources are highly reliable even in extreme but plausible market conditions. In addition, Appendix II to the LRP specifies that the scenarios in which such reverse stress testing reviews will be undertaken more frequently than monthly are where the products cleared or markets served display high volatility or become less liquid, when the size or concentration of members' positions increases significantly, or in other appropriate circumstances described in dedicated procedures.

d. Settlement, Payment and Custody Risk Policy

The Settlement, Payment and Custody Risk Policy ("CRP") sets out the LCH Group standards for the management of risks to LCH SA that arise from the intermediaries used for settlement, payment and custody activities.⁴⁰ The purpose of the CRP is to mitigate the risks arising from the default or operational failure of one or more intermediaries, including: (i) the credit risk from direct unsecured exposure; (ii) the increase in clearing member exposures from failed or delayed margin payments; and (iii) liquidity risk from delayed access to securities held as collateral or investments. It

³⁹ Appendix II also establishes the monthly reverse stress testing arrangements.

⁴⁰ Intermediaries covered by the CRP include: (i) central banks; (ii) settlement platforms; (iii) international or domestic central securities depositories (ICSDs and CSDs); (iv) settlement agents; (v) custodians and sub-custodians; (vi) concentration banks; (vii) protected payment system (PPS) banks; and (viii) other intermediaries which give rise to settlement, payment or custody risks.

provides that the LCH SA Board's risk appetite for settlement, payment and custodian risk is very low.⁴¹

The CRP also establishes the roles and responsibilities within LCH SA for compliance with the CRP. In this regard:

- LCH SA CaLM Risk is responsible for the ongoing monitoring of compliance with the requirements of this policy, and LCH SA Credit Risk is responsible for assigning and maintaining the intermediaries' internal credit scores (ICS) in accordance with the Counterparty Credit Risk Policy;⁴²
- LCH SA Operations is responsible for: (i) overseeing the on-boarding process including requesting from LCH SA Credit Risk an ICS prior to opening accounts and obtaining relevant internal governance approvals, including compliance and legal where applicable; (ii) undertaking the required due diligence to establish and maintain an intermediary relationship, including execution of necessary legal agreements; (iii) regularly updating LCH SA CaLM and LCH SA CaLM Risk with a list of all liquidity facilities associated with settlement and payment activities; (iv) monitoring of payment and settlement activities and timely escalation of fails; (v) facilitating settlements in accordance with the policy; (vi) reconciliations and delivery of end of day intermediary position reports; and (vii)

⁴¹ See Exchange Act Release No. 34-104051 (September 25, 2025), File No. SR-LCH SA-2025-007, which approved the LCH SA Risk Governance Framework (RGF) defining the term "very low" as: "*LCH is not willing to accept risks in most circumstances. The Board should decide if the benefits outweigh the costs and the risk is worth taking.*"

⁴² See Exchange Act Release No. 34-104051 (September 25, 2025), File No. SR-LCH SA-2025-007, which approved the LCH SA Counterparty Credit Risk Policy.

ensuring that relevant infrastructure and back up arrangements are adequate to perform settlement and payment activities as required by LCH SA;⁴³

- LCH SA CaLM is responsible for: (i) the organization and establishment of investment-related liquidity facilities, including execution of necessary legal agreements; (ii) sponsoring any new or existing investment-related intermediary within the LCH SA governance framework; and (iii) funding settlement activities of the clearing services;
- LCH SA Clearing Services is responsible for: (i) determination and application of the related intraday and overnight liquidity facilities required to reliably conduct clearing services; (ii) maintaining a list of all facilities associated with clearing activities, including liquidity facilities, which is available on demand with any changes notified to LCH SA CaLM and LCH SA CaLM Risk; (iii) sponsoring any new or existing clearing-related intermediary within the LCH Group governance framework; and (iv) ensuring that the relevant clearing infrastructure and back-up intermediary arrangements are adequate to perform clearing activities as required by LCH SA; and
- LCH SA Legal is responsible for ensuring that all legal documents are consistent with regulatory requirements and signed by an authorized signatory.

The CRP provides that all intermediaries must meet the internal credit score assigned by LCH SA Credit Risk and confirms that, in selecting an intermediary, central banks are

⁴³ Such activities include: (i) maintaining at all times a current list of intermediary accounts; (ii) ownership of back-up intermediary procedures; (iii) determining back-up intermediary arrangements for collateral and investment related activities; (iv) facilitating contingency payment arrangements for clearing members in the absence or failure of PPS banks; and (v) conducting annual contingency testing.

preferred over any other intermediary and ICSD/CSD are preferred over credit institutions. The steps that should be taken if an intermediary no longer meets the established criteria in order to mitigate the risk to LCH SA are also described. In this regard, in the event that an existing intermediary is downgraded such that it no longer meets the entry criteria, the CRP provides that LCH SA ERCo must be notified. Further, a risk mitigation plan should be put in place and approved by LCH SA ERCo, which may include, but is not limited to: (i) the intermediary not being able to offer the service to any additional clearing members; (ii) the intermediary being subject to more frequent operational due diligence, including responding to LCH SA's request for additional information to assess its capability to perform its contractual services; and (iii) termination of the intermediary's status.⁴⁴

The CRP provides that the due diligence that LCH SA conducts with regard to intermediaries must allow LCH to meet its regulatory obligations in respect of segregation of assets. In this regard, the CRP states that the due diligence on operational framework/performance and segregation must be set up to be refreshed at least once every two years (or sooner if there are significant changes) by LCH SA Operations and results posted and any escalations or issues reported to LCH SA ERCo. In addition, where an intermediary used by LCH SA in the securities settlement or custody processes with a Clearing Member belongs to the same group as the Member itself, the CRP provides that LCH SA is permitted to hold at the intermediary only passive balances described in the Appendix. Moreover, the due diligence process must confirm that assets

⁴⁴ In this case, the CRP notes that a suitable transition period should be provided to minimize impacts to financial system stability.

held in custody by such an intermediary will remain segregated in the event of the insolvency of the intermediary or an intermediate affiliate company, and as such be released promptly.

The CRP details other business requirements, including relating to PPS and concentration banks, which should offer finality of payment. Any deviation from the CRP including, but not limited to, any reduction in market standards in terms of finality of payment, should result in the LCH Clearing Member having alternative settlement risk mitigation in place. The CRP also requires that either a backup intermediary or contingency plans must be in place. To that end, LCH SA is required to have at least two formalized and regularly tested arrangements for each of the following services: a) security settlement platform/system, and b) commercial concentration bank. Where there is no back-up intermediary in the market or where none can be established using reasonable commercial efforts, contingency plans which address the non-availability of a back-up must be maintained.

In addition, the CRP specifies the controls that must be in place to validate all payment amounts and recipients and requires that such controls must be independently tested at least annually. Reconciliation controls also must be in place for cash and securities with custodian, settlement and payment banks.

The CRP describes the procedures by which LCH SA monitors the risks to which LCH SA and its clearing members may be exposed, including the Appendix to the policy, which sets the exposure limits for LCH SA with regard to: (i) overnight direct credit exposure of LCH SA to the intermediaries resulting from settlement, payment and custody activities; and (ii) intraday unsecured exposure to commercial concentration

banks as a result of concentration and investment activities. In particular, the CRP provides that intraday limit usage is monitored by LCH SA Collateral Operations team and any breaches must be reported to LCH SA Credit Risk, LCH SA CaLM and LCH SA CaLM Risk staff immediately. The report should contain details regarding usage, breaches, explanation and remediation.

e. Model Governance, Validation and Review Policy

The Model Governance, Validation and Review Policy (“**MGVRP**”) sets out the relevant steps relating to (i) a new or changed model from initiation to validation and (ii) regular independent model validation and backtesting of all models. The policy provides a consistent framework across LCH Group to ensure that all models meet the relevant quality criteria and that a validation process meeting all regulatory requirements is followed.

The MGVRP applies to a new, change or review of: (i) a margin model that estimates market risk under certain conditions or assumptions; (ii) a stress testing framework used for default fund sizing; (iii) a model providing a valuation for a financial product subject to a CCP guarantee or received as collateral; (iv) a credit scoring model providing an assessment of the creditworthiness of a CCP’s counterparties; (v) a liquidity risk framework managing the risk that LCH Group and its entities do not have sufficient liquidity to meet their payment obligations as they fall due under certain market conditions; (vi) a collateral risk framework defining the haircut methodology applicable to eligible collateral posted by members; and (vii) a model performance framework inclusive of statistical back-testing. These features include: (i) reliance on underlying (historical) data, *i.e.*, the model uses relevant (historical) data; (ii) assumptions, *i.e.*,

relevant assumptions on distribution and model volatility; (iii) parameters, *i.e.*, inputs into the model (could be equal to (i) in some models) which are relevant for the evaluation of an event, price or credit score; (iv) methodology/algorithm, *i.e.*, a processing component that transforms the historical model inputs into the estimates; and (v) separate outcome, *i.e.*, the estimated risk, price or credit score using the methodology and relevant inputs.⁴⁵

The MGVRP also clarifies and expands upon the roles and responsibilities within LCH SA for compliance with the MGVRP. The policy explains that: (i) the relevant model owners are responsible for the initiation, development, implementation, documentation and maintenance of their models (and the relating model risk); and (ii) LCH SA Risk is responsible for the identification, review and assessment of margin methodologies, margin parameter review and approval, model performance review, evaluation of model changes and review of pricing and valuation methods.⁴⁶ Further, the LCH SA Model Validation team or an external party will be responsible for independently validating each model yearly at least once every 12 months to confirm that the model is still performing adequately.⁴⁷

⁴⁵ The MGVRP notes that there are circumstances in which clearing members are required to contribute further resources over and above the amounts derived from margin models and margin model add-ons. Where these are determined from existing financial risk limits such as the CCP Cover 2 Limit, the CCP Concentration Limit, or any other such limit or threshold described in the credit and financial risk policies, such limits are outside the scope of the MGVRP.

⁴⁶ LCH SA's Head of Market Risk / Credit Risk can delegate to the LCH Group Model Working Group ("MWG") tasks relating to the monitoring and oversight of model development and change process.

⁴⁷ The independent party must have the relevant knowledge and experience to perform this task and will not be involved in any way in the model building and testing process.

The MGVRP reaffirms that all models within the scope of the policy must meet the at regulatory requirements in each jurisdiction applicable to the model.⁴⁸ In addition, model risk should remain within the LCH Board risk appetite as described in the LCH Risk Governance Framework. Moreover, model performance, allowable offsets and required counter cyclical features should meet the requirements described in the LCH Financial Resource Adequacy Policy and LCH Procyclicality Policy.

The MGVRP provides, in addition, that LCH will document all models in a model inventory, to record key attributes and allow for the tracking of model validation actions and classify the importance of each model as either high importance or low importance based on the potential financial impact in the event the model is incorrect. A model is of high importance if, in the event it is incorrect, it could lead to a shortfall in (i) LCH SA capital greater than 10 percent, (ii) prefunded financial resources (in the waterfall) greater than five (5) percent, or (iii) total margin requirements for a class of financial instruments greater than 10 percent. A model is of low importance if, in the event it is incorrect, it will not lead to a shortfall greater than any of the above. An assessment of the importance of a model will be performed by the LCH SA's Head of Market Risk/Credit Risk, the LCH SA CRO, and/or the Deputy CRO.

The model governance process depends on the importance of the model and actions taken for any model.⁴⁹ New models and material changes in models with high importance require full risk governance review, including: (i) member consultation and

⁴⁸ Reference to relevant regulatory provisions, including EMIR/ESMA technical standards and CFTC rules are provided, as well as a broad statement requiring compliance with all applicable regulatory requirements.

⁴⁹ To the extent practicable, LCH will apply the same standards and rules to models supplied by third parties as are applied to models developed in-house.

review as required by local supervisors; (ii) peer review by quantitative experts through the MWG; (iii) review by Financial Risk Working Group (“**FRWG**”); (iv) independent validation of the model; (v) approval by ERCo; (vi) review by the Risk Committee; (vii) approval by the relevant Board; and (viii) review and/or approval by regulators, if applicable. New models and material changes in models with low importance, on the other hand require review by FRWG and approval by ERCo.⁵⁰

A revision to a model is considered a material change if it meets one of the following criteria:

- The model revision leads to substantial change in outcomes, especially where it leads to a reduction of coverage. The following changes in outcomes after model revision are considered material: (i) CCP capital changes more than +/-10 percent; (ii) prefunded financial resources (in the waterfall) change more than +/- five (5) percent; (iii) total margin requirements for a class of financial instruments change more than +/-10 percent; (iv) a decrease or increase of the estimated liquidity needs in any major currency (for LCH SA, EUR) greater than 20% or the total liquidity needs greater than 10% (based on end of day positions); or (v) a decrease or increase of the total value of non-cash collateral at a CCP level greater than 10%;
- A change is made to a key parameter of the model which in the future may result in a substantial change in outcomes;

⁵⁰ Non-material changes in high importance models and low importance models require review by FRWG followed by approval by ERCo, in the case of high importance models, and notification to ERCo, in the case of low importance models.

- The model revision leads to a change in theoretical and empirical underpinnings of the model; or
- The model revision also leads to a change in risk policy.

The MGVRP describes the manner in which LCH SA will conduct daily backtesting of portfolios and margin models to verify the performance of all employed margin models. LCH SA performs the following types of backtesting:

- Portfolio backtesting to assure the appropriate overall functioning of the model and to test if the required confidence interval was met; and
- Additional backtesting to verify the underlying reasons/causes of breaches on portfolio level or to identify underlying weakness of the model relating to certain products, risk types or market conditions.

A summary of backtesting exceptions (*i.e.*, P&L changes in excess of margin coverage) is reported daily. If the headline frequency and materiality of backtesting breaches indicate that the required confidence interval cannot be met or exceptions are verified alongside stress testing results, further investigation on the validity of the margin model may be warranted. In addition, investigation on the validity of the margin model is also performed by LCH SA Risk Management when: (i) backtesting shows that any individual market has numerous breaches and/or falls below the target confidence level and/or fails the adjusted significance tests; or (ii) margin shortfalls are identified for specific products or specific market conditions.⁵¹

⁵¹ Portfolio backtesting results are notified at least quarterly to the Risk Committee where any breaches of target confidence level and mitigating actions are presented. A daily monitor is also distributed to CROs and Business Heads.

The outcomes of this investigation are reported to the LCH SA Head of Market Risk. Possible actions in response include: (i) taking member specific action such as the calling of additional margin; (ii) reviewing the margin rates for individual contracts/securities responsible for breaches; and (iii) conducting an intermediate review of the underlying methodologies and inputs to verify their suitability.

Further, the MGVRP sets out the process by which models are independently validated. The model validation process evaluates the conceptual and practical soundness of models. The MGVRP sets out a detailed list of the steps that must be taken into account when conducting a comprehensive validation of each margin model, including a model that uses stress testing, the liquidity risk framework, collateral risk framework and credit scoring framework.⁵²

A comprehensive validation of margin models will include the following:

- A review of all documentation/information provided by the model developer;
- An analysis of margin models, both core initial margin and margin additions including Default Fund Additional Margin;
- An evaluation of the conceptual soundness of the model and framework structure;
- A review of the on-going monitoring procedures such as daily margin coverage and back-testing;

⁵² The results of the model validation process are reported to ERCo with one of three grades: (i) satisfactory; (ii) needs improvement; or (iii) unsatisfactory.

- A review of the parameters and assumptions made in the development of the models, their methodologies and the framework including an assessment of the theoretical and empirical properties of the model;
- A review of the adequacy and appropriateness of the models, their methodologies and framework adopted in respect of the type of contracts they apply to;
- An analysis of the outcomes of testing results against LCH performance criteria;
- A review of the diversification benefits of the model where applicable;
- A review of the margin period of risk where applicable;
- An assessment of pro-cyclical effects and how such affects are mitigated where applicable;
- A review of price data, pricing models, market data and the use of proxies;
- An assessment of margin model sensitivity to the material risk factors and correlations (if applicable) through sensitivity analysis;
- Assurance that the model complies with applicable LCH SA policies; and
- Assurance that the model continues to meet regulatory requirements.

In addition, a comprehensive validation of a model that uses stress testing will include the following:

- A review of all documentation/information provided by the model developer;
- An analysis of the risks which are not covered by margin models, but included in stress testing;

- An assessment of the stress testing framework and ensure LCH SA has defined extreme but plausible conditions;
- An analysis of stress testing outcomes;
- An assessment of the comprehensiveness of the stress testing framework, taking account of all relevant risk factors and products LCH SA clears;
- An evaluation of the degree of consideration that the stress tests incorporate correlation, concentration risk and emerging risk captured by hypothetical/theoretical scenarios;
- Assurance that the model complies with applicable LCH SA policies; and
- Assurance that the model continues to meet regulatory requirements.

Finally, the MGVRP provides that LCH will disclose the general principles of its underlying models, methodologies, nature of tests performed and a high-level summary of test results unless such disclosure may put at risk business secrecy and soundness of LCH.

g. Contract and Market Acceptability Policy

The Contract and Market Acceptability Policy (“**CMA**P”) describes the principles and factors that will be applied whenever any new Market,⁵³ Product⁵⁴ or Contract⁵⁵ is proposed to be accepted by LCH SA.⁵⁶ In particular, the CMA**P** sets out a standard

⁵³ A Market is defined as a market undertaking, which is either a legal or operational entity providing a trade feed to a CCP or an OTC market where trading is arranged on a bilateral basis.

⁵⁴ A Product is defined as a series of Contracts that have similar characteristics or specifications.

⁵⁵ A Contract is defined to mean either a derivatives contract with a unique product specification or any individual security accepted on the cash or fixed income markets.

⁵⁶ References to potential CPSS-IOSCO and ESMA standards set out in the current policy have been removed as unnecessary.

approach to assessing the acceptability of new contracts and markets in order to assure that LCH SA: (i) understands all factors that may influence its decision whether to accept, and risk manage, a new Contract or Market (or maturity); (ii) identifies, manages and monitors any new risks that may be posed by the introduction of the new Contract or Market; (iii) highlights the need for any additional risk measures, such as amendments to the existing initial margin calculations; (iv) ensures an ongoing consistent approach to the assessment of new Contracts; and (v) informs the market place and maintains and demonstrates a level playing field.

The CMAP sets out the process by which different Markets, Products and Contracts are approved and accepted for clearing. Specifically:

- Any new class of OTC derivatives must be reviewed and approved if any by the relevant regulators subject to the appropriate internal governance process.
- Any new Market is subject to review by LCH SA's Risk Committee and approval by the Board.⁵⁷
- Any new Product or Contract that exhibits novel risk features or requires significant changes to existing risk controls must be approved by LCH SA's Risk Committee and the Board.
- The LCH SA ERCo has the delegated authority of LCH SA's Risk Committee/Board to approve any new Contracts, Products or trade sources which present no novel risks and require minimal changes to existing risk controls.

⁵⁷ As an exception to this requirement, a new trade source or venue for an existing Clearing Service or Product may be approved by the LCH SA ERCo, provided that it has assured that there is no change to the risk profile of LCH SA and that a satisfactory operational risk assessment has been completed.

Where the ERCo has approved such Contracts, Products or trade source, the Risk Committee will be notified at their next meeting.

- LCH SA's Operations Department has been delegated authority from ERCo to approve more conventional Products and Contracts that arise from the normal day to day course of business and that meet the criteria set out in the Appendix to the CMAP, and may also approve new Contracts that LCH SA has contractually agreed to clear within a pre-determined framework and contractually related procedures.⁵⁸ The Appendix sets out in detail the acceptance criteria for various characteristics of new Products and Contracts. The characteristics are determined by the type of Product or Contract⁵⁹ and include, for instance, the markets such products are traded on, the country of domicile, the ICSD, and the issuer rating. In such cases, the ERCo will be notified each quarter with the volume and type of the Contracts and Products approved by the delegate.

The CMAP also clarifies the roles and responsibilities within LCH SA for compliance with the CMAP. In this regard: (i) LCH SA ERCo is responsible for reviewing and making decisions on the suitability of new Contract and Market requests for clearing; (ii) the relevant clearing service is responsible for preparing and evaluating requests with respect to the minimum requirements and principles described in the CMAP prior to presentation to LCH SA ERCo and for reviewing price validation

⁵⁸ The LCH SA ERCo must approve the procedures.

⁵⁹ The types of Products and Contracts covered by the Appendix are: New Cash Equity (DVP/RVP) Products; New Cash Bond (DVP/RVP) Products (excluding Repo/FI Services); New Cash European Structured (DVP/RVP) Products (Warrants); New CDS Contracts; New Exchange Traded Futures and Options Contracts; Fixed Income Repurchase/Buy Sell Bank Securities; and New Digital Assets Traded Futures and Options Contracts.

controls on a regular basis with LCH SA Risk responsible for approving any changes; and (iii) LCH SA's Operations Department, when acting in the capacity of approval delegate, is responsible to ensure new requests meet the minimum requirements described in the CMAP. LCH SA's Operations Department is also responsible for notifying LCH SA ERCo quarterly of the new contracts approved each quarter.

The CMAP reaffirms the principles underlying the policy, emphasizing that all Products accepted for clearing must be eligible to be cleared according to the regulations applicable in each jurisdiction in which LCH SA operates. Further, in determining the acceptability of a new Contract, Product or Market, LCH SA must ensure that (i) in the event of a default, if the defaulted member had positions in that Contract, Product or Market, that LCH SA could manage the close-out of those positions within the scope of the LCH Default Management Policy; and (ii) there is sufficient price discovery to determine a reliable market value of the Product or Contract. The CMAP further provides that another important principle to be followed when accepting a new Contract, Product or Market is to ensure that the risk measures and principles in the applicable margining methodology are in line with its specific risks. LCH SA's standard margining policies or methodology may therefore be amended, subject to the relevant internal governance process⁶⁰ and regulatory approval, to appropriately risk manage a new Contract or Market.

⁶⁰ As also referred to in the MGVRP.

The CMAP sets out the factors that LCH SA will consider in assessing any new Market, Product or Contract, including: (i) membership or counterparty risk;⁶¹ (ii) standardization of Products; (iii) pricing;⁶² (iv) product liquidity;⁶³ (v) default management; (vi) market risk; (vii) operational risk and associated Internal Capital Adequacy Assessment Process (ICAAP) risks;⁶⁴ (viii) legal, compliance, insurance and reputational risk; (ix) settlement risk; (x) liquidity risk; (xi) issuer risk; and (xii) foreign currency risk.

Finally, the CMAP (i) provides that all Markets and Products will be reviewed on an ongoing basis to assure that they continue to comply with the criteria set out in the policy including that after such a review, an annual summary and statement must be presented to the Risk Committee and (ii) describes the procedures by which changes to the policy and its annexes may be approved.

2. Statutory Basis

⁶¹ A minimum of three creditworthy clearing members are required for any new Market, although a greater number is preferred.

⁶² In order to establish a reliable mark-to-market price, any new Product or Contract must have prices that are updated daily from a reliable source(s). In this regard, LCH SA may rely on a recognized exchange as the sole source of prices for exchange-traded products, but OTC traded Products or Contracts must have at least three reliable sources of bids. Further, price validation controls such as price variance and staleness tolerances must be in place to ensure on-going quality assurance of all price data.

⁶³ Expected volume, open interest, issuance and bid/offer costs should be evaluated for each new Product or Contract to ensure there is sufficient liquidity to close positions in the event of a member default. Where a new Contract is added to a group of similar Contracts that fall into an existing liquidity margin class, the liquidity assessment will be that of the existing liquidity margin class.

⁶⁴ Each service is required to have in place a contingency arrangement for receiving trades and must test at least annually the daily trading volume capacity (for primary and contingency arrangements) and total outstanding trades, or where relevant outstanding positions, capacity. The results of the capacity testing and minimum system capacity requirements are to be reported by each service to LCH SA ERCo at least annually. LCH SA ERCo reserves the right to set a higher multiplier for a given service to reflect the potential exposure to a stress event or allowance for a growing service with limited history.

LCH SA has determined that Risk Policies are consistent with the requirements of Section 17A of the Act⁶⁵ and regulations thereunder applicable to it, including Commission Rule 17ad-22(e).⁶⁶ In particular, Section 17A(b)(3)(F) of the Act requires, *inter alia*, that the rules of a clearing agency “promote the prompt and accurate clearance and settlement of . . . derivatives agreements, contracts, and transactions” and “assure the safeguarding of securities and funds that are in its custody or control or for which it is responsible.”⁶⁷ These elements of Section 17A(b)(3)(F) of the Act are addressed by: (i) the CRP, which establishes standards for the selection and monitoring of intermediaries that LCH SA uses for settlement, payment and custody services; and (ii) the IRP, which sets out the principles, standards, and monitoring practices governing LCH SA’s management of investment risk.

The CRP sets out more clearly LCH SA’s standards for the management of risks that may arise from the intermediaries used for settlement, payment and custody activities in order to mitigate better the risks arising from the default or operational failure of one or more intermediaries. Among other standards, the policy sets a preference for central banks over other intermediaries and ICSD/CSD over credit institutions, thereby prioritizing entities with the highest levels of safety and reliability for LCH SA’s custody and control of securities and funds. By requiring the use of operationally robust intermediaries, the CRP reduces the risk of settlement or payment failures and, therefore, promotes the prompt and accurate clearance and settlement of derivatives agreements,

⁶⁵ 15 USC 78q-1.

⁶⁶ 17 CFR 240.17ad-22.

⁶⁷ 15 USC 78q-1(b)(3)(F).

contracts, and transactions, consistent with Section 17A(b)(3)(F). The policy requires intermediaries to meet internal credit scores and describes the steps that will be taken if an intermediary no longer meets such thresholds, including risk-mitigation plans and potential termination of the intermediary relationship, to ensure continued safeguarding of securities and funds. The CRP also mandates due diligence to confirm that assets belonging to LCH SA or its clearing members are fully segregated, identifiable, and promptly accessible in the event of a default, ensuring that client securities and funds are safeguarded and can be recovered without delay. To limit settlement risk, the policy requires “delivery versus payment” settlement where applicable and controls for any “free of payment settlements”, as well as payment finality from concentration banks. The CRP therefore also meets the requirements of 17A(b)(3)(F) of the Act by assuring the safeguarding of securities and funds that are in LCH SA’s custody or control or for which it is responsible.

In addition, the policy establishes robust controls to validate all payment amounts and recipients, requires independent annual testing of such controls, and sets out procedures for regular monitoring and escalation of any breaches or settlement failures. Manual payments require dual validation and oversight by senior management, reducing the risk of misappropriation or operational error and therefore promoting the prompt and accurate clearance and settlement of derivatives agreements, contracts, and transactions. The policy also sets out the procedures by which LCH SA monitors the risks to which it and its clearing members may be exposed from such intermediaries.

Separately, the IRP enhances the standards for managing the risk arising from the investment of cash funds derived from: (i) margins; (ii) default fund contributions; (iii)

CCP capital and retained earnings; and (iv) cash arising from settlement failures. The policy restricts counterparty and eligible issuers to sovereign governments, central banks, government guaranteed institutions, certain supranational entities, and credit and financial institutions, each of which must meet the internal credit scores or other standards set out in the policy. Permissible investments under the IRP are restricted to cash, securities, derivatives, foreign exchange products and repurchase and reverse repurchase transactions. The policy also establishes a formal approval process of new investment products with executive and board oversight. These measures minimize credit, market and liquidity risk, and help ensure the prompt and reliable access to assets, thereby promoting the prompt and accurate clearance and settlement of derivatives agreements, contracts and transactions as required under Section 17A(b)(3)(F) of the Act.

The policy also sets robust investment risk limits, including a weighted average portfolio maturity cap of two years; daily interest-rate-risk stress testing with potential losses capped at 10% of capital resources; and secured versus unsecured and counterparty concentration. In setting such limits, LCH SA assures the safeguarding of securities and funds that are in LCH SA's custody or control or for which it is responsible, in line with Section 17A(b)(3)(F) of the Act.

Collectively, the foregoing policies and procedures set out in the CRP and the IRP are designed to ensure the "prompt and accurate clearance and settlement of . . . derivatives agreements, contracts, and transactions" and the "safeguarding of securities and funds which are in the custody or control of the clearing agency". As such, these policies are consistent with those parts of Section 17A(b)(3)(F) of the Act.

Commission Rule 17ad-22(e)(2)(i) provides 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.⁶⁸ As discussed above, each of the Risk Policies expands on and clarifies the standards by which LCH SA manages the various risks to which it is exposed as a CCP. Importantly, each Risk Policy clearly describes the roles and responsibilities of the various units within LCH SA or LCH Group, as applicable, responsible for compliance with each policy. For example, the DMP specifies that LCH SA Risk is responsible for: (i) maintaining LCH SA's Default Management Guidelines; (ii) designing and organizing company-wide default management fire drill tests on at least an annual basis; and (iii) the ongoing monitoring of compliance with the DMP. In addition, LCH SA Legal is responsible: (i) in conjunction with each Clearing Service and the Rule Change Committee and LCH SA Compliance, for ensuring that key aspects of default procedures are publicly disclosed in the Rulebook or other disclosures; (ii) in conjunction with Compliance, for notifying the relevant regulators in the event of a default; and (iii) in conjunction with LCH SA's External Communications, for drafting and delivering the default notice. Governance standards have also been strengthened, more fully describing the responsibility of the CEO to place a clearing member in default and initiate a Default Crisis Management Team and Default Management Group to manage the default.

Similarly, the LRP clearly explains that: (i) LCH SA CaLM is responsible for maintaining a liquidity plan, conducting liquidity tests and managing the day-to-day

⁶⁸ 17 CFR 240.17ad-22(e)(2)(i).

liquidity of LCH SA according to the standards set out in the LRP, and for notifying LCH SA ERCo immediately of any exceptions; (ii) LCH SA CaLM Risk monitors and measures the adequacy of the cash levels held to meet the outflows, and reports issues for potential corrective action to LCH SA CaLM; and (iii) LCH SA Operations is responsible for the operational and control processes related to intraday liquidity flows and interoperability arrangements.

By expanding on and clarifying the standards by which LCH SA manages the various risks to which it is exposed as a CCP and more clearly describing the roles and responsibilities of the various units within LCH SA or LCH Group, as applicable, responsible for compliance with each Risk Policy, the Risk Policies provide for governance arrangements that are clear and transparent. As such, the Risk Policies are consistent with Commission Rule 17ad-22(e)(2)(i).⁶⁹

Commission Rule 17ad-22(e)(2)(v)⁷⁰ provides that each covered clearing agency must establish, implement, maintain, and enforce written policies and procedures reasonably designed to specify clear and direct lines of responsibility. As discussed in detail immediately above, each Risk Policy clearly describes the roles and responsibilities of the various units within LCH SA or LCH Group, as applicable, responsible for compliance with each policy. By more clearly describing the roles and responsibilities of the various units within LCH SA or LCH Group, as applicable, responsible for compliance with each Risk Policy, the Risk Policies specify clear and direct lines of

⁶⁹ *Id.*

⁷⁰ 17 CFR 240.17ad-22(e)(2)(v).

responsibility. As such, the Risk Policies are consistent with Commission Rule 17ad-22(e)(2)(v).⁷¹

Commission Rule 17ad-22(e)(7)⁷² requires each covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively measure, monitor, and manage the liquidity risk that arises in or is borne by the covered clearing agency, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity by, *inter alia*, (i) maintaining sufficient liquid resources at the minimum in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of foreseeable stress scenarios that includes, but is not limited to, the default of the participant family that would generate the largest aggregate payment obligation for the covered clearing agency in extreme but plausible market conditions⁷³; (ii) holding qualifying liquid resources sufficient to meet the minimum liquidity resource requirement under Commission Rule 17ad-22(e)(7)(i)⁷⁴ in each relevant currency for which the covered clearing agency has payment obligations owed to clearing members⁷⁵; (iii) using the access to accounts and services at a relevant central bank, when available and where determined to be practical by the board of directors of the covered clearing agency, to

⁷¹ *Id.*

⁷² 17 CFR 240.17ad-22(e)(7).

⁷³ 17 CFR 240.17ad-22(e)(7)(i).

⁷⁴ *Id.*

⁷⁵ 17 CFR 240.17ad-22(e)(7)(ii).

enhance its management of liquidity risk⁷⁶; and (iv) determining the amount and regularly testing the sufficiency of the liquid resources held for the purpose of meeting minimum liquidity resources under Commission Rule 17ad-22(e)(7)(i), by meeting, at a minimum, the items listed in Commission Rule 17ad-22(e)(7)(vi)(A) to (D)⁷⁷.

As noted, the LRP sets out the standards pursuant to which LCH SA ensures that it has enough cash on hand to meet all expected and unexpected financial obligations throughout the day. The LRP identifies both the primary liquidity resources available to LCH SA and the primary sources of liquidity requirements. The policy requires LCH SA to assess its liquidity position: (i) daily at an aggregated level and on all material currencies; (ii) over a forward liquidity period of 30 days; and (iii) intraday at various times when the CCP has scheduled obligations to pay.⁷⁸

The assessment must also factor in regulatory restrictions on the use and liquidation of client assets maintained in segregated accounts and consider stress scenarios that include restricted market access and behavioral assumptions on how members may withdraw cash during times of stress. Importantly, the LRP provides that the liquidity assessment must: (i) model the gross liquidity impact of the default of the two member groups with the largest liquidity requirement; (ii) include “extreme but plausible” stress scenarios; and (iii) include reverse stress testing that models extreme but plausible market scenarios in order to help determine the limits of the current model, including the plausibility thresholds which would trigger more in-depth analysis. Finally,

⁷⁶ 17 CFR 240.17ad-22(e)(7)(iii).

⁷⁷ 17 CFR 240.17ad-22(e)(7)(vi).

⁷⁸ As noted above, an annex to the LRP provides additional detail on the factors LCH SA should take into account in assessing intraday liquidity.

the policy requires that the model used to conduct liquidity stress testing must be reviewed through reverse stress testing on at least a monthly basis, with any findings reported to LCH SA's CRO, ERCo and the Risk Committee, and validated annually by an independent Model Validation Team, with any findings reported to ERCo and the Risk Committee.⁷⁹

By requiring LCH SA to assess its liquidity position at least daily to assure, *inter alia*, that it has sufficient liquid resources in all relevant currencies to meet its financial requirements in extreme but plausible stress scenarios, the LRP is consistent with the requirements of Commission Rule 17ad-22(e)(7).⁸⁰

Commission Rule 17ad-22(e)(13) requires a covered clearing agency to ensure that it 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 the covered clearing agency'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.⁸¹ In addition to strengthening the default governance and clarifying the roles and responsibilities of the units within LCH SA for managing a default of a clearing member, the DMP sets out the standards that each Default Management Group must meet, requires each Clearing Service to have a defined exit methodology for a defaulted clearing member's portfolio, including procedures that describe: (i) the hedging and execution methodology for

⁷⁹ As noted above, another annex to the LRP provides guidance for the review and validation of the liquidity risk management framework and liquidity stress testing model.

⁸⁰ 17 CFR 240.17ad-22(e)(7).

⁸¹ 17 CFR 240.17ad-22(e)(13).

neutralizing material directional risks of the defaulting portfolio, where applicable; (ii) where an auction (transferring the risk of a defaulted clearing member to other members) is relied upon as part of its closeout procedure, the intended auction process to be followed (including the auction type, participation requirements, acceptance of bid(s), portfolio allocation, transfer and collateralization); and (iii) the portability arrangements necessary to facilitate the porting and liquidation of a clearing member's clients' positions and collateral. The DMP also requires that the default management reports maintained by each Clearing Service must distinguish the segregated assets and liabilities for each member and client account at both intra-day and end of day intervals. Finally, each Clearing Service must conduct regular fire drill tests including testing extreme but plausible scenarios and participate in the annual joint fire drill exercises across both CCPs.

By requiring LCH SA to have a defined exit methodology for a defaulted clearing member's portfolio, to maintain default management reports that distinguish the segregated assets and liabilities for each member and client account at both intra-day and end of day intervals, and to conduct regular fire drill tests including testing extreme but plausible scenarios and to participate in the annual joint fire drill exercises, the DMP is consistent with Commission Rule 17ad-22(e)(13).⁸²

Commission Rule 17ad-22(e)(16) requires a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to safeguard the clearing agency's own and its participants' assets, minimize the risk of loss

⁸² *Id.*

and delay in access to these assets, and invest such assets in instruments with minimal credit, market, and liquidity risks.⁸³ The IRP sets out the standards for the management of LCH SA's investment risk. In addition to clarifying the roles and responsibilities within LCH SA for compliance with the policy, noted above, the IRP: (i) restricts counterparties and eligible issuers to sovereign governments, central banks, government guaranteed institutions, certain supranational entities, and credit and financial institutions, each of which must meet the internal credit scores or other standards set out in the IRP; (ii) sets investment criteria with regard to cash, securities, derivatives, foreign exchange products and repurchase and reverse repurchase transactions⁸⁴ as well as requirements with regard to the approval of new investment products; and (iii) sets investment risk limits. The policy also clarifies responsibility for approving a new investment counterparty or issuer, as well as the process by which counterparties, issuers and concentration limits are approved and modified.

By setting out: (i) a policy restricting counterparties and eligible issuers; (ii) investment criteria with regard to cash, securities, derivatives, foreign exchange products and repurchase and reverse repurchase transactions as well as the requirements with regard to the approval of new investment products; and (iii) a policy setting investment risk limits, the Investment Risk Policy is consistent with Commission Rule 17ad-22(e)(16).⁸⁵

⁸³ 17 CFR 240.17ad-22(e)(16).

⁸⁴ As noted above, specific counterparty limits, issuer limits and concentration limits are set out in an annex to the IRP.

⁸⁵ 17 CFR 240.17ad-22(e)(16).

Commission Rule 17ad-22(e)(4)(vii) 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 by, *inter alia*, performing a model validation for its credit risk models not less than annually or more frequently as may be contemplated by the covered clearing agency's risk management framework⁸⁶ established pursuant to Commission Rule 17ad-22(e)(3).⁸⁷ In addition, Commission Rule 17ad-22(e)(6)(vii) requires a covered clearing agency to 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 requires a model validation for the covered clearing agency's margin system and related models to be performed not less than annually, or more frequently as may be contemplated by the covered clearing agency's risk management framework⁸⁸ established pursuant to Commission Rule 17ad-22(e)(3).⁸⁹ Further, Commission Rule 17ad-22(e)(7)(vii) requires a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively measure, monitor, and manage the liquidity risk that arises in or is borne by the covered clearing agency, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity by, *inter alia*, performing

⁸⁶ 17 CFR 240.17ad-22(e)(4)(vii).

⁸⁷ 17 CFR 240.17ad-22(e)(3).

⁸⁸ 17 CFR 240.17ad-22(e)(6)(vii).

⁸⁹ 17 CFR 240.17ad-22(e)(3).

a model validation of its liquidity risk models not less than annually or more frequently as may be contemplated by the covered clearing agency's risk management framework⁹⁰ established pursuant to Commission Rule 17ad-22(e)(3).⁹¹

The MGVRP applies to: (i) a margin model that estimates market risk under certain conditions or assumptions; (ii) a stress testing framework used for default fund sizing; (iii) a model providing a valuation for a financial product subject to a CCP guarantee or received as collateral; (iv) a credit scoring model providing an assessment of the creditworthiness of a CCP's counterparties, provided the model has the features identified in the policy; (v) the liquidity risk framework managing the risk that LCH Group and its entities do not have sufficient liquidity to meet their payment obligations as they fall due under certain market conditions; (vi) the collateral risk framework defining the haircut methodology applicable to eligible collateral posted by members; and (vii) the model performance framework inclusive of statistical back-testing. The MGVRP describes standards by which LCH SA will monitor the performance of models, identifying, in particular, the standards pursuant to which each CCP will conduct daily backtesting of portfolios and margin models.

The MGVRP requires that each model must be independently validated at least once every 12 months by the LCH SA Model Validation team or an external party to confirm that the model is still performing adequately and sets out the process by which models are independently validated. The MGVRP provides that model validation process

⁹⁰ 17 CFR 240.17ad-22(e)(7)(vii).

⁹¹ 17 CFR 240.17ad-22(e)(3).

must evaluate the conceptual and practical soundness of models and sets out a detailed list of the steps that will be taken in conducting a comprehensive validation of each of the margin models, *i.e.*, a model that uses stress testing, the liquidity risk framework, collateral risk framework and credit scoring framework.

By setting standards by which LCH SA will monitor the performance of models, identifying in particular, the standards pursuant to which each CCP will conduct daily backtesting of portfolios and margin models and requiring that each model must be independently validated at least every 12 months by the LCH SA Model Validation team or an external party to confirm that the model is still performing adequately and setting out the process by which models are independently validated, the Model Governance, Validation and Review Policy is consistent with Commission Rule 17ad-22(e)(4)(vii),⁹² Commission Rule 17ad-22(e)(6)(vii)⁹³ and Commission Rule 17ad-22(e)(7)(vii).⁹⁴

Commission Rule 17ad-22(e)(5) 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.⁹⁵

By setting (i) the principles and criteria applied when determining whether an asset may be accepted by LCH SA as collateral for margin cover, and (ii) conservative

⁹² 17 CFR 240.17ad-22(e)(4)(vii).

⁹³ 17 CFR 240.17ad-22(e)(6)(vii).

⁹⁴ 17 CFR 240.17ad-22(e)(7)(vii).

⁹⁵ 17 CFR 240.17ad-22(e)(5).

counterparty concentration limits, haircut matrices and add-ons, and other applicable limits, the IRP is consistent with Commission Rule 17ad-22(e)(5).

In addition, Commission Rule 17ad-22(e)(6)(iii) requires covered clearing agency to 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, calculates margin sufficient to cover its potential future exposure to participants in the interval between the last margin collection and the close out of positions following a participant default.⁹⁶

The MGVRP sets out the relevant steps relating to (i) a new or changed model from initiation to validation and (ii) regular independent model validation and backtesting of all models. As noted above, the MGVRP applies to a change or review of, or a new: (i) margin model that estimates market risk under certain conditions or assumptions; (ii) stress testing framework used for default fund sizing; (iii) model providing a valuation for a financial product subject to a CCP guarantee or received as collateral; (iv) credit scoring model providing an assessment of the creditworthiness of a CCP's counterparties; (v) liquidity risk framework managing the risk that LCH Group and its entities do not have sufficient liquidity to meet their payment obligations as they fall due under certain market conditions; (vi) collateral risk framework defining the haircut methodology applicable to eligible collateral posted by clearing members; and (vii) model performance framework inclusive of statistical back-testing.

⁹⁶ 17 CFR 240.17ad-22(e)(6)(iii).

By requiring LCH SA to ensure that all margin models meet the relevant quality criteria, are subject to an independent validation process, and are backtested to ensure coverage of potential future exposure, the MGVRP allows LCH SA to evaluate the riskiness of an intermediary and make appropriate risk-based financial assumptions on margin adequacy which is consistent with Commission Rule 17ad-22(e)(5) and 17ad-22(e)(6)(iii).

Finally, in order to remove any potential surprise element in the market in the event LCH SA is required to make one or more clearing member assessments, each default fund must publish the potential member assessments that would be called if a set number of the top clearing members were to default.

Commission 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 covered clearing agency, that are subject to review on a specified periodic basis and approved by the board of directors annually.⁹⁷ As discussed above, the CMAP describes the principles and factors that will be applied whenever any new Market, Product or Contract is proposed to be accepted by LCH SA. In particular, potential new Contracts and Markets will be

⁹⁷ 17 CFR 240.17ad-22(e)(3)(i).

assessed in order to assure that LCH SA: (i) understands all factors that may influence its decision whether to accept, and risk manage, a new Contract or Market (or maturity); (ii) identifies, manages and monitors any new risks that may be posed by the introduction of the new Contract or Market; (iii) highlights the need for any additional risk measures, such as amendments to the existing initial margin calculations; (iv) ensures an ongoing consistent approach to the assessment of new Contracts; and (v) informs the market place and maintains and demonstrates a level playing field. The factors that LCH SA will consider in assessing any new Market, Product or Contract, include: (i) membership or counterparty risk; (ii) standardization of Products; (iii) pricing; (iv) product liquidity; (v) default management; (vi) market risk; (vii) operational risk and associated ICAAP risks; (viii) legal , compliance, insurance and reputational risk; (ix) settlement risk; (x) liquidity risk; (xi) issuer risk; and (xii) foreign currency risk.

By setting out the principles and factors that will be applied whenever any new Market, Product or Contract is proposed to be accepted by LCH SA, the CMAP is consistent with Commission Rule 17ad-22(e)(3)(i).⁹⁸ This is because the CMAP comprehensively sets out a number of risk related factors that should be considered when LCH SA considers new Markets, Products or Contracts, allowing LCH SA to evaluate and ultimately manage any such related risks.

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

⁹⁸ *Id.*

purposes of the Act.⁹⁹ LCH SA does not believe the Risk Policies would have any impact, or impose any burden, on competition. The Risk Policies do not address any competitive issue or have any significant impact on the competition among central counterparties. LCH SA operates an open access clearing model, and the Risk Policies will have no direct effect on this open access model, subject to LCH SA's regulatory requirements and clearing rules, provisions and overall governance process, including the clearing membership eligibility criteria and appropriate credit risk assessment.

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

Written comments relating to the Risk Policies 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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will: (A) by order approve or disapprove such proposed rule change, or (B) institute proceedings to determine whether the proposed rule change should be disapproved.^P

IV. Solicitation of Comments

⁹⁹ 15 U.S.C. 78q-1(b)(3)(I).

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 (<https://www.sec.gov/rules-regulations/self-regulatory-organization-rulemaking>); or
- Send an e-mail to rule-comments@sec.gov. Please include file number SR-LCH SA-2025-010 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-2025-010. This file number should be included on the subject line if email 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 (<https://www.sec.gov/rules-regulations/self-regulatory-organization-rulemaking>). Copies of such filing will be available for inspection and copying at the principal office of LCH SA and on LCH SA's website at <http://www.lch.com/resources/rules-and-regulations/proposed-rule-changes-0>.

Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection.

All submissions should refer to file number SR-LCH SA-2025-010 and should be submitted on or before [INSERT DATE 21 DAYS AFTER PUBLICATION IN THE FEDERAL REGISTER].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁰⁰

Sherry R. Haywood,
Asistant Secretary.

¹⁰⁰ 17 CFR 200.30-3(a)(12).