

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 98 SECURITIES AND EXCHANGE COMMISSION File No.* SR - 2019 - * 007
 WASHINGTON, D.C. 20549
 Form 19b-4 Amendment No. (req. for Amendments *)

Filing by Banque Centrale de Compensation
 Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial *	Amendment *	Withdrawal	Section 19(b)(2) *	Section 19(b)(3)(A) *	Section 19(b)(3)(B) *
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
			Rule		
Pilot	Extension of Time Period for Commission Action *	Date Expires *	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="text"/>	<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) *	Section 806(e)(2) *
<input type="checkbox"/>	<input type="checkbox"/>
	Section 3C(b)(2) *
	<input type="checkbox"/>

Exhibit 2 Sent As Paper Document	Exhibit 3 Sent As Paper Document
<input type="checkbox"/>	<input type="checkbox"/>

Description

Provide a brief description of the action (limit 250 characters, required when Initial is checked *).

LCH SA is proposing to amend the Liquidity Risk Framework in order to address more accurately its liquidity requirements in the event of the assignment and exercise of physically-settled options involving a defaulting clearing member during the liquidation period of such clearing member.

Contact Information

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name * Mohamed Last Name * Meziane

Title * Senior Regulatory Advisor

E-mail * mohamed.meziane@lch.com

Telephone * (000) 000-0000 Fax

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title *)

Date 12/03/2019 Chief Compliance Officer

By Francois Faure

(Name *)

Francois Faure, francois.faure@lch.com

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

Form 19b-4 Information *

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change *

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies *

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

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Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit Sent As Paper Document

Exhibit 3 - Form, Report, or Questionnaire

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Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit Sent As Paper Document

Exhibit 4 - Marked Copies

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 19b-4

Proposed Rule Change
by

BANQUE CENTRALE DE COMPENSATION

Pursuant to Rule 19b-4 under the
Securities Exchange Act of 1934

Item 1. Clearing Agency's Statement of the Terms of Substance of the Proposed Rule Change

Banque Centrale de Compensation, which conducts business under the name LCH SA ("LCH SA"), is proposing to amend its Liquidity Risk Modelling Framework (the "Framework"), which describes the Liquidity Stress Testing framework by which the Collateral and Liquidity Risk Management department ("CaLRM") of LCH Group Holdings Limited ("LCH Group") assures that LCH SA has enough cash available to meet any financial obligations, both expected and unexpected, that may arise over the liquidation period for each of the clearing services that LCH SA offers.¹ The Framework is part of LCH SA's Risk Management Procedures (the "Procedures").

Item 2. Procedures of the Clearing Agency

LCH SA has completed all of the required action to be taken to approve the Proposed Rule Change. The Proposed Rule Change was approved by the LCH SA Executive Risk Committee on October 11, 2018. No further approval is necessary.

Questions should be addressed to François Faure, Chief Compliance Officer, at françois.faure@lch.com or +33 1 70 37 65 96; or Mohamed Meziane, Senior Regulatory Advisor, Compliance Department, at mohamed.meziane@lch.com or +33 1 70 37 65 52.

¹ LCH SA, a subsidiary of LCH Group, manages its liquidity risk pursuant to, among other policies and procedures, the Group Liquidity Risk Policy and the Group Liquidity Plan applicable to each entity within LCH Group.

In addition to its CDSClear service, LCH SA provides clearing services in connection with cash equities and derivatives listed for trading on Euronext (EquityClear), commodity derivatives listed for trading on Euronext (CommodityClear), and tri-party Repo transactions (RepoClear).

Item 3. Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Framework is one of several well-developed policies and procedures that LCH SA maintains to manage its liquidity risk, *i.e.*, the risk that LCH SA will not have enough cash available, in extreme but plausible circumstances, to settle margin payments or delivery obligations when they become due, in particular upon the default of a clearing member. Such policies and procedures include, among others: (i) the Group Liquidity Risk Policy; (ii) the Group Liquidity Plan; (iii) the Group Financial Resource Adequacy Plan; (iv) the Group Collateral Risk Policy; (v) the Group Investment Risk Policy; and (vi) the LCH SA Collateral Control Framework. The Framework complements these policies and procedures and develops further the Group Liquidity Risk Policy.

In brief, the Framework: (i) identifies LCH SA's sources of liquidity and corresponding liquidity risks; (ii) identifies LCH SA's liquidity requirements with respect to its members and its interoperable central counterparty ("CCP");² (iii) describes the metrics and limits that LCH SA monitors; and (iv) describes the scenarios under which these metrics are computed.³

(i) Physically-settled options.

LCH SA is proposing to amend the Framework in order to address more accurately its liquidity requirements in the event of the assignment and exercise of physically-settled options

² LCH SA has an interoperability agreement with Cassa di Compensazione e Garanzia ("CC&G"), an Italian CCP, pursuant to which LCH SA's clearing members and CC&G's clearing members are able to benefit from common clearing services without having to join the other CCP. Each CCP is a clearing member of the other one with a particular status when accessing the clearing system of the other counterparty.

³ The Release describes the operation of the Framework in greater detail.

involving a defaulting clearing member during the liquidation period of such clearing member.

Specifically, the amended Framework will address LCH SA's liquidity requirements in the event options that are in the money are exercised either on the day ("T"), or on the business day immediately following the day ("T+1"), on which the clearing member that is a seller of the options defaults.

If such defaulting clearing member is a seller of a Call option that is in the money, LCH SA would have to purchase the underlying securities in the market at a stressed price and await payment at the strike price from the non-defaulting purchaser of the Call option at settlement. If such defaulting clearing member is a seller of a Put option that is in the money, LCH SA would have to purchase the underlying securities at the strike price from the non-defaulting purchaser of the Put option. Although margins should cover any potential loss, liquidity outflows as a result of the sales' proceeds are included as liquidity requirements, in each case.

In the current Framework, there is no liquidity provision related to the risk of assignment and exercise of options at expiration. In order to address this concern, the amended Framework will anticipate, prior to the expiration dates, the amount of liquidity funding that may arise from options that may be exercised, in the event of the default of LCH SA's two largest members ("Cover2"). On a daily basis, LCH SA's Liquidity and Concentration Risk ("LCR") calculation will identify all of the potential positions that are in the money or at the money on that day and the next business day. Given the potential option exercise, the LCR will generate a liquidity need. The additional liquidity amount that LCH SA could potentially need will be equal to the sum of the equities to source following the option assignments at expiration and/or the difference between the underlying securities and the strike price or the strike price minus the asset in the event of a cash settlement.

In practice, the process will work as follows on a daily basis:

- The liquidity needs arising from the options that are in the money or at the money, having their expiries on T or T+1, will be computed by applying no market stress to the equities.
- The liquidity needs arising from the options that are in the money or at the money, having their expiries on T or T+1, will be computed by applying a stress scenario to the equities.
- LCH SA will select the positions consistent with the Cover2 for both modes described above and will retain the most punitive one.

This amount will be added to the current cash equity amount in the LCR.

(ii) Fixed Income Clearing System.

Further, LCH SA is proposing to amend the Framework to take into account the expansion of sovereign debt for which LCH SA provides clearing services through its Fixed Income Clearing System. LCH SA initially provided clearing services only with respect to French sovereign debt. The Fixed Income Clearing service subsequently added the sovereign debt of Italy, Spain, Germany, and Belgium. More recently, the Fixed Income Clearing System has been extended to eight additional Euro markets: Austria, Netherlands, Finland, Ireland, Portugal, Slovakia, Slovenia and Supranationals.⁴

In this regard, therefore, the Framework has been revised to provide that all securities resulting from the settlement of all repurchase contracts (“repos”) on behalf of a defaulting clearing member, not just repos on the sovereign debt of France, Italy and Spain, may be used to

⁴ The supranational debt eligible for clearing is currently limited to the Euro denominated debt of the European Investment Bank.

generate liquidity at the Banque de France. The amended Framework also clarifies that, in the event that a Central Bank Guarantee (“CBG”) is triggered by the default of a clearing member posting the CBG, the relevant Central Bank will pay the liabilities of the defaulting clearing member in cash.

Further, the Framework has been revised to (i) identify the relevant central securities depository (“CSD”) through which transactions in the sovereign debt of the different jurisdictions may settle,⁵ (ii) describe the manner by which LCH SA injects liquidity into each settlement platform, in particular, Euroclear Bank and Clearstream Luxembourg, and (iii) modify the limits by settlement platform on the main liquidity drivers (*i.e.*, cash injected into the platforms, auto-collateralization and gross fails).

(iii) Stress tests.

LCH SA is proposing clarifications with respect to certain aspects of its stress tests. With respect to the operational liquidity target,⁶ which is a metric allowing LCH SA to confirm that the business as usual liquidity sources are sufficient for a five day period in stressed situations, consistent with the LCR time horizon, the Framework notes that LCH SA uses a three-day window, in particular with regard to margin reduction. The Framework further clarifies that, in calculating liquidity resources, LCH SA deducts funds required to facilitate settlements, cover

⁵ French sovereign debt may settle through Euroclear Bank, Italian sovereign debt through Monte Titoli, Spanish sovereign debt through Iberclear, German sovereign debt through Clearstream Frankfurt, and Belgian sovereign debt through the National Bank of Belgium. The sovereign debt of the remaining jurisdictions may settle through either Euroclear Bank or Clearstream Luxembourg. All transactions are settled through Target 2 Securities, a Eurosystem technical platform to which CSDs assign the management of securities settlement in central bank money.

⁶ Operational liquidity is defined to mean the amount of liquidity related to the operational management of LCH SA that is required to be held in a stressed environment that does not lead to a clearing member’s default.

end of day fails at Euroclear Bank and Clearstream Luxembourg, and avoid Target 2 Securities fails. In addition, the Framework assumes that members allowed to post CBGs will switch from cash or ECB-eligible non-cash collateral to CBGs (although the Framework does not currently take such switches into account, since all eligible members, *i.e.*, Dutch and Belgian members, have already done so). Moreover, the amended Framework confirms that, in calculating required variation margin payments to CC&G, LCH SA assumes a theoretical 5-day holding period.

The amended Framework also clarifies how stressed liquidity requirements and impact are calculated for each clearing member, in particular with respect to the cash equity settlement requirement for options. These calculations are used to determine the two clearing members that would potentially cause the largest aggregate liquidity exposure for the CCP in extreme but plausible market conditions.

Finally, the Framework clarifies how LCH SA conducts reverse stress tests in order to determine if there is a combination of changes in LCH SA's liquidity that could lead to a liquidity shortfall. In particular, the amended Framework considers whether there is a combination of changes in LCH SA's liquidity resources that could lead to a liquidity shortfall, even in the absence of stress in the market.

2. Statutory Basis

LCH SA has determined that Proposed Rule Change is consistent with the requirements of Section 17A of the Act⁷ and regulations thereunder applicable to it. Section 17A(b)(3)(F) of the Act requires, *inter alia*, that the rules of a clearing agency "assure the safeguarding of securities and funds that are in its custody or control or for which it is responsible."⁸ Further,

⁷ 15 U.S.C. 78q-1

⁸ 15 U.S.C. 78q-1(b)(3)(F).

Regulation 17dA-22(e)(4)(ii) requires a CCP that is involved in activities with a more complex risk profile, *e.g.*, that provides CCP services for security-based swaps, to maintain and enforce written policies and procedures reasonably designed to effectively “measure, monitor, and manage its credit exposures from its payment, clearing and settlement processes” to assure that it maintains additional financial resources to enable it to cover a wide range of stress scenarios that include the default to two participant family clearing members that would potentially cause the largest aggregate liquidity exposure for the CCP in extreme but plausible market conditions.⁹

As discussed earlier, LCH SA is proposing to amend the Framework to address specifically LCH SA’s liquidity requirements in the event of the assignment and exercise of physically-settled options involving a defaulting clearing member during the liquidation of such clearing member. The proposed amendment will assist LCH SA in defining more accurately its liquidity requirements by assuring that LCH SA will maintain appropriate levels of liquidity in the event of the assignment and exercise of options involving a defaulting clearing member. Specifically, the amended Framework will anticipate, prior to their expiration dates, the amount of liquidity funding that may arise from options that may be exercised, in the event of the default of LCH SA’s two largest members.

The policies and procedures set out in the amended Framework, therefore, are designed to enhance LCH SA’s to measure, monitor, and manage the liquidity risk that may arise in connection with its activities as a covered clearing agency. As such the amendments to the Framework regarding LCH SA’s liquidity requirements in the event of the assignment and exercise of options involving a defaulting clearing member are consistent with the requirements of Regulation 17dA-22(e)(4)(ii).

⁹ 17 C.F.R. § 240.17Ad-22(e)(4)(ii).

As noted above, Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency “assure the safeguarding of securities and funds that are in its custody or control or for which it is responsible.” To better implement this statutory requirement, LCH SA is proposing to amend the Framework to take into account the expansion of sovereign debt for which LCH SA provides clearing services through its Fixed Income Clearing System. In addition to French sovereign debt, the Fixed Income Clearing service now provides clearing services with respect to the sovereign debt of eleven other European jurisdictions, as well as the European Investment Bank.¹⁰ The revised Framework: (i) identifies the relevant CSD through which transactions in the sovereign debt of the different jurisdictions may settle; (ii) describes the manner by which LCH SA injects liquidity into each settlement platform; and (iii) modifies the limits by settlement platform on the main liquidity drivers (*i.e.*, cash injected into the platforms, auto-collateralization and gross fails). The revised Framework also provides that all securities resulting from the settlement of repos on behalf of a defaulting clearing member may be used to generate liquidity at the Banque de France and clarifies that, in the event that a CBG is triggered by the default of a clearing member, the relevant Central Bank will pay the defaulting clearing member’s liabilities in cash.

The proposed amendments strengthen LCH SA’s policies and procedures intended to “assure the safeguarding of securities and funds that are in its custody or control or for which it is responsible” (i) by specifying the CSDs through which transactions in the identified foreign sovereign debt may settle and the means by which LCH SA interacts with such CSDs, (ii) by confirming that all securities of a defaulting clearing member resulting from repos are available

¹⁰ The eleven jurisdictions are: Austria; Belgium; Finland; Germany; Ireland; Italy; Netherlands; Portugal; Spain; Slovakia; and Slovenia.

to the Banque de France, and (iii) by providing that a Central Bank that has provided a CBG will pay a defaulting clearing member's liabilities in cash. As such, the amendments to the Framework regarding the Fixed Income Clearing Service are consistent with Section 17A(b)(3)(F) of the Act.

Regulation 17dA-22(e)(4)(i) and (vi)(A) requires a clearing agency to maintain and enforce written policies and procedures reasonably designed to conduct stress testing of its total financial resources once each day using standard predetermined parameters and assumptions to assure that it has sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence.¹¹ As discussed above, LCH SA is proposing amendments to the Framework to identify certain additional factors that LCH will take into account in conducting its stress tests and provide greater clarity regarding LCH SA's stress testing practices.

In particular, the Framework confirms that in calculating its operational liquidity target,¹² LCH SA uses a three-day rather than a five-day window, in particular with regard to margin reduction. The Framework further clarifies that, in calculating liquidity resources, LCH SA deducts funds required to facilitate settlements, cover end of day fails at Euroclear Bank and Clearstream Luxembourg, and avoid Target 2 Securities fails. The Framework also confirms that it assumes that members allowed to post CBGs will switch from cash or ECB-eligible non-cash collateral.

The amended Framework further clarifies how stressed liquidity requirements are calculated for each clearing member, in particular with respect to the cash equity settlement

¹¹ 17 C.F.R. § 240.17Ad-22(e)(4)(i) and (vi)(A).

¹² The term "operational liquidity" is defined at footnote 6, *supra*.

requirement for options, to determine the two clearing members that would potentially cause the largest aggregate liquidity exposure for the CCP in extreme but plausible market conditions.

Finally, the Framework clarifies the manner in which LCH SA conducts reverse stress tests in order to determine if there is a combination of changes in LCH SA's liquidity that could lead to a liquidity shortfall.

By clarifying the factors that it takes into account in conducting daily stress testing, the proposed amendments enhance LCH SA's written policies and procedures with regard to stress testing and thereby assures that LCH SA maintains sufficient additional financial resources to enable it to cover a wide range of stress scenarios that include the default to two participant family clearing members that would potentially cause the largest aggregate liquidity exposure for the CCP in extreme but plausible market conditions. As such, therefore, the proposed amendments, therefore, are consistent with the requirements of Regulation 17dA-22(e)(4)(i) and (vi)(A).

Item 4. Clearing Agency's Statement on Burden on Competition

Section 17A(b)(3)(I) of the Act requires that the rules of a clearing agency not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.¹³ LCH SA does not believe the Proposed Rule Change would have any impact, or impose any burden, on competition. The Proposed Rule Change does not address any competitive issue or have any impact on the competition among central counterparties. LCH SA operates an open access model, and the Proposed Rule Change will have no effect on this model.

¹³ 15 U.S.C. 78q-1(b)(3)(I).

Item 5. Clearing Agency's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

Written comments relating to the Proposed Rule Change have not been solicited or received. LCH SA will notify the Commission of any written comments received by LCH SA.

Item 6. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

LCH SA does not consent to an extension of the time period for Commission action.

Item 7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2) or Section 19(b)(7)(D)

Not applicable.

Item 8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

Not applicable.

Item 9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

Item 10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

Item 11. Exhibits

Exhibit 1 – Not Applicable

Exhibit 1A – Notice of Proposed Rule Change for publication in the Federal

Register.

Exhibit 2 – Not Applicable

Exhibit 3 – Not Applicable

Exhibit 4 – Not Applicable

Exhibit 5 – Text of the Proposed Rule Change.

➤ Amended LCH SA's Liquidity Risk Modelling Framework:

Omitted and filed separately with the Commission. Confidential treatment pursuant to 17 CFR 240.24b-2 being requested.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Banque Centrale de Compensation has caused this filing to be signed on its behalf by the undersigned hereunto duly authorized.

BANQUE CENTRALE DE COMPENSATION

A handwritten signature in black ink, appearing to read 'Faure', is written over a horizontal line. The signature is stylized and slanted.

By: _____
Francois Faure
Chief Compliance Officer

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION

(Release No. _____; File No. SR-LCH SA-2019-007)

[Date]

Self-Regulatory Organizations; LCH SA; Notice of Filing of Proposed Rule Change Relating to amendments to LCH SA's Liquidity Risk Modelling framework

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on _____ 2019, 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 ("Proposed Rule Change") described in Items I, II and III below, which Items have been primarily prepared by LCH SA. 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 proposing to amend its Liquidity Risk Modelling Framework (the "Framework"), which describes the Liquidity Stress Testing framework by which the Collateral and Liquidity Risk Management department ("CaLRM") of LCH Group Holdings Limited ("LCH Group") assures that LCH SA has enough cash available to meet any financial obligations, both expected and unexpected, that may arise over the liquidation period for each of

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

the clearing services that LCH SA offers.³ The Commission first approved the Framework by Order dated July 18, 2018.⁴

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 Proposed Rule Change and discussed any comments it received on the Proposed Rule Change. The text of these statements may be examined at the places specified in Item IV below. LCH SA has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Framework is one of several well-developed policies and procedures that LCH SA maintains to manage its liquidity risk, *i.e.*, the risk that LCH SA will not have enough cash available, in extreme but plausible circumstances, to settle margin payments or delivery obligations when they become due, in particular upon the default of a clearing member. Such policies and procedures include, among others: (i) the Group Liquidity Risk Policy; (ii) the Group Liquidity Plan; (iii) the Group Financial Resource Adequacy Plan; (iv) the Group

³ LCH SA, a subsidiary of LCH Group, manages its liquidity risk pursuant to, among other policies and procedures, the Group Liquidity Risk Policy and the Group Liquidity Plan applicable to each entity within LCH Group.

In addition to its CDSClear service, LCH SA provides clearing services in connection with cash equities and derivatives listed for trading on Euronext (EquityClear), commodity derivatives listed for trading on Euronext (CommodityClear), and tri-party Repo transactions (RepoClear).

⁴ Securities Exchange Act Release No. 34-83691 (July 24, 2018), 83 FR 36635 (July 30, 2018); File No. SR-LCH SA-2018-003) (the "Release").

Collateral Risk Policy; (v) the Group Investment Risk Policy; and (vi) the LCH SA Collateral Control Framework. The Framework complements these policies and procedures and develops further the Group Liquidity Risk Policy.

In brief, the Framework: (i) identifies LCH SA's sources of liquidity and corresponding liquidity risks; (ii) identifies LCH SA's liquidity requirements with respect to its members and its interoperable central counterparty ("CCP");⁵ (iii) describes the metrics and limits that LCH SA monitors; and (iv) describes the scenarios under which these metrics are computed.⁶

(i) Physically-settled options.

LCH SA is proposing to amend the Framework in order to address more accurately its liquidity requirements in the event of the assignment and exercise of physically-settled options involving a defaulting clearing member during the liquidation period of such clearing member. Specifically, the amended Framework will address LCH SA's liquidity requirements in the event options that are in the money are exercised either on the day ("T"), or on the business day immediately following the day ("T+1"), on which the clearing member that is a seller of the options defaults.

If such defaulting clearing member is a seller of a Call option that is in the money, LCH SA would have to purchase the underlying securities in the market at a stressed price and await payment at the strike price from the non-defaulting purchaser of the Call option at settlement. If such defaulting clearing member is a seller of a Put option that is in the money, LCH SA would

⁵ LCH SA has an interoperability agreement with Cassa di Compensazione e Garanzia ("CC&G"), an Italian CCP, pursuant to which LCH SA's clearing members and CC&G's clearing members are able to benefit from common clearing services without having to join the other CCP. Each CCP is a clearing member of the other one with a particular status when accessing the clearing system of the other counterparty.

⁶ The Release describes the operation of the Framework in greater detail.

have to purchase the underlying securities at the strike price from the non-defaulting purchaser of the Put option. Although margins should cover any potential loss, liquidity outflows as a result of the sales' proceeds are included as liquidity requirements, in each case.

In the current Framework, there is no liquidity provision related to the risk of assignment and exercise of options at expiration. In order to address this concern, the amended Framework will anticipate, prior to the expiration dates, the amount of liquidity funding that may arise from options that may be exercised, in the event of the default of LCH SA's two largest members ("Cover2"). On a daily basis, LCH's Liquidity and Concentration Risk ("LCR") calculation will identify all of the potential positions that are in the money or at the money on that day and the next business day. Given the potential option exercise, the LCR will generate a liquidity need. The additional liquidity amount that LCH SA could potentially need will be equal to the sum of the equities to source following the option assignments at expiration and/or the difference between the underlying securities and the strike price or the strike price minus the asset in the event of a cash settlement.

In practice, the process will work as follows on a daily basis:

- The liquidity needs arising from the options that are in the money or at the money, having their expiries on T or T+1, will be computed by applying no market stress to the equities.
- The liquidity needs arising from the options that are in the money or at the money, having their expiries on T or T+1, will be computed by applying a stress scenario to the equities.
- LCH SA will select the positions consistent with the Cover2 for both modes described above and will retain the most punitive one.

This amount will be added to the current cash equity amount in the LCR.

(ii) Fixed Income Clearing System.

Further, LCH SA is proposing to amend the Framework to take into account the expansion of sovereign debt for which LCH SA provides clearing services through its Fixed Income Clearing System. LCH SA initially provided clearing services only with respect to French sovereign debt. The Fixed Income Clearing service subsequently added the sovereign debt of Italy, Spain, Germany, and Belgium. More recently, the Fixed Income Clearing System has been extended to eight additional Euro markets: Austria, Netherlands, Finland, Ireland, Portugal, Slovakia, Slovenia and Supranationals.⁷

In this regard, therefore, the Framework has been revised to provide that all securities resulting from the settlement of all repurchase contracts (“repos”) on behalf of a defaulting clearing member, not just repos on the sovereign debt of France, Italy and Spain, may be used to generate liquidity at the Banque de France. The amended Framework also clarifies that, in the event that a Central Bank Guarantee (“CBG”) is triggered by the default of a clearing member posting the CBG, the relevant Central Bank will pay the liabilities of the defaulting clearing member in cash.

Further, the Framework has been revised to (i) identify the relevant central securities depository (“CSD”) through which transactions in the sovereign debt of the different jurisdictions may settle,⁸ (ii) describe the manner by which LCH SA injects liquidity into each

⁷ The supranational debt eligible for clearing is currently limited to the Euro denominated debt of the European Investment Bank.

⁸ French sovereign debt may settle through Euroclear Bank, Italian sovereign debt through Monte Titoli, Spanish sovereign debt through Iberclear, German sovereign debt through Clearstream Frankfurt, and Belgian sovereign debt through the National Bank of Belgium. The sovereign debt of the remaining jurisdictions may settle through either

settlement platform, in particular, Euroclear Bank and Clearstream Luxembourg, and (iii) modify the limits by settlement platform on the main liquidity drivers (*i.e.*, cash injected into the platforms, auto-collateralization and gross fails).

(iii) Stress tests.

LCH SA is proposing clarifications with respect to certain aspects of its stress tests. With respect to the operational liquidity target,⁹ which is a metric allowing LCH SA to confirm that the business as usual liquidity sources are sufficient for a five day period in stressed situations, consistent with the LCR time horizon, the Framework notes that LCH SA uses a three-day window, in particular with regard to margin reduction. The Framework further clarifies that, in calculating liquidity resources, LCH SA deducts funds required to facilitate settlements, cover end of day fails at Euroclear Bank and Clearstream Luxembourg, and avoid Target 2 Securities fails. In addition, the Framework assumes that members allowed to post CBGs will switch from cash or ECB-eligible non-cash collateral to CBGs (although the Framework does not currently take such switches into account, since all eligible members, *i.e.*, Dutch and Belgian members, have already done so). Moreover, the amended Framework confirms that, in calculating required variation margin payments to CC&G, LCH SA assumes a theoretical 5-day holding period.

The amended Framework also clarifies how stressed liquidity requirements and impact are calculated for each clearing member, in particular with respect to the cash equity settlement requirement for options. These calculations are used to determine the two clearing members that

Euroclear Bank or Clearstream Luxembourg. All transactions are settled through Target 2 Securities, a Eurosystem technical platform to which CSDs assign the management of securities settlement in central bank money.

⁹ Operational liquidity is defined to mean the amount of liquidity related to the operational management of LCH SA that is required to be held in a stressed environment that does not lead to a clearing member's default.

would potentially cause the largest aggregate liquidity exposure for the CCP in extreme but plausible market conditions.

Finally, the Framework clarifies how LCH SA conducts reverse stress tests in order to determine if there is a combination of changes in LCH SA's liquidity that could lead to a liquidity shortfall. In particular, the amended Framework considers whether there is a combination of changes in LCH SA's liquidity resources that could lead to a liquidity shortfall, even in the absence of stress in the market.

2. Statutory Basis

LCH SA has determined that Proposed Rule Change is consistent with the requirements of Section 17A of the Act¹⁰ and regulations thereunder applicable to it. Section 17A(b)(3)(F) of the Act requires, *inter alia*, that the rules of a clearing agency "assure the safeguarding of securities and funds that are in its custody or control or for which it is responsible."¹¹ Further, Regulation 17dA-22(e)(4)(ii) requires a CCP that is involved in activities with a more complex risk profile, *e.g.*, that provides CCP services for security-based swaps, to maintain and enforce written policies and procedures reasonably designed to effectively "measure, monitor, and manage its credit exposures from its payment, clearing and settlement processes" to assure that it maintains additional financial resources to enable it to cover a wide range of stress scenarios that include the default to two participant family clearing members that would potentially cause the largest aggregate liquidity exposure for the CCP in extreme but plausible market conditions.¹²

¹⁰ 15 U.S.C. 78q-1

¹¹ 15 U.S.C. 78q-1(b)(3)(F).

¹² 17 C.F.R. § 240.17Ad-22(e)(4)(ii).

As discussed earlier, LCH SA is proposing to amend the Framework to address specifically LCH SA's liquidity requirements in the event of the assignment and exercise of physically-settled options involving a defaulting clearing member during the liquidation of such clearing member. The proposed amendment will assist LCH SA in defining more accurately its liquidity requirements by assuring that LCH SA will maintain appropriate levels of liquidity in the event of the assignment and exercise of options involving a defaulting clearing member. Specifically, the amended Framework will anticipate, prior to their expiration dates, the amount of liquidity funding that may arise from options that may be exercised, in the event of the default of LCH SA's two largest members.

The policies and procedures set out in the amended Framework, therefore, are designed to enhance LCH SA's to measure, monitor, and manage the liquidity risk that may arise in connection with its activities as a covered clearing agency. As such the amendments to the Framework regarding LCH SA's liquidity requirements in the event of the assignment and exercise of options involving a defaulting clearing member are consistent with the requirements of Regulation 17dA-22(e)(4)(ii).

As noted above, Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency "assure the safeguarding of securities and funds that are in its custody or control or for which it is responsible." To better implement this statutory requirement, LCH SA is proposing to amend the Framework to take into account the expansion of sovereign debt for which LCH SA provides clearing services through its Fixed Income Clearing System. In addition to French sovereign debt, the Fixed Income Clearing service now provides clearing services with respect to the sovereign debt of eleven other European jurisdictions, as well as the European Investment

Bank.¹³ The revised Framework: (i) identifies the relevant CSD through which transactions in the sovereign debt of the different jurisdictions may settle; (ii) describes the manner by which LCH SA injects liquidity into each settlement platform; and (iii) modifies the limits by settlement platform on the main liquidity drivers (*i.e.*, cash injected into the platforms, auto-collateralization and gross fails). The revised Framework also provides that all securities resulting from the settlement of repos on behalf of a defaulting clearing member may be used to generate liquidity at the Banque de France and clarifies that, in the event that a CBG is triggered by the default of a clearing member, the relevant Central Bank will pay the defaulting clearing member's liabilities in cash.

The proposed amendments strengthen LCH SA's policies and procedures intended to "assure the safeguarding of securities and funds that are in its custody or control or for which it is responsible" (i) by specifying the CSDs through which transactions in the identified foreign sovereign debt may settle and the means by which LCH SA interacts with such CSDs, (ii) by confirming that all securities of a defaulting clearing member resulting from repos are available to the Banque de France, and (iii) by providing that a Central Bank that has provided a CBG will pay a defaulting clearing member's liabilities in cash. As such, the amendments to the Framework regarding the Fixed Income Clearing Service are consistent with Section 17A(b)(3)(F) of the Act.

Regulation 17dA-22(e)(4)(i) and (vi)(A) requires a clearing agency to maintain and enforce written policies and procedures reasonably designed to conduct stress testing of its total financial resources once each day using standard predetermined parameters and assumptions to

¹³ The eleven jurisdictions are: Austria; Belgium; Finland; Germany; Ireland; Italy; Netherlands; Portugal; Spain; Slovakia; and Slovenia.

assure that it has sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence.¹⁴ As discussed above, LCH SA is proposing amendments to the Framework to identify certain additional factors that that LCH will take into account in conducting its stress tests and provide greater clarity regarding LCH SA's stress testing practices.

In particular, the Framework confirms that in calculating its operational liquidity target,¹⁵ LCH SA uses a three-day rather than a five-day window, in particular with regard to margin reduction. The Framework further clarifies that, in calculating liquidity resources, LCH SA deducts funds required to facilitate settlements, cover end of day fails at Euroclear Bank and Clearstream Luxembourg, and avoid Target 2 Securities fails. The Framework also confirms that it assumes that members allowed to post CBGs will switch from cash or ECB-eligible non-cash collateral.

The amended Framework further clarifies how stressed liquidity requirements are calculated for each clearing member, in particular with respect to the cash equity settlement requirement for options, to determine the two clearing members that would potentially cause the largest aggregate liquidity exposure for the CCP in extreme but plausible market conditions. The Framework also clarifies the manner in which LCH SA conducts reverse stress tests in order to determine if there is a combination of changes in LCH SA's liquidity that could lead to a liquidity shortfall.

By clarifying the factors that it takes into account in conducting daily stress testing, the proposed amendments enhance LCH SA's written policies and procedures with regard to stress

¹⁴ 17 C.F.R. § 240.17Ad-22(e)(4)(i) and (vi).

¹⁵ The term "operational liquidity" is defined at footnote 21, *supra*.

testing and thereby assures that LCH SA maintains sufficient additional financial resources to enable it to cover a wide range of stress scenarios that include the default to two participant family clearing members that would potentially cause the largest aggregate liquidity exposure for the CCP in extreme but plausible market conditions. As such, therefore, the proposed amendments, therefore, are consistent with the requirements of Regulation 17dA-22(e)(4)(i) and (vi)(A).

B. Clearing Agency's Statement on Burden on Competition

Section 17A(b)(3)(I) of the Act requires that the rules of a clearing agency not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.¹⁶ LCH SA does not believe the Proposed Rule Change would have any impact, or impose any burden, on competition. The Proposed Rule Change does not address any competitive issue or have any impact on the competition among central counterparties. LCH SA operates an open access model, and the Proposed Rule Change will have no effect on this model.

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

Written comments relating to the Proposed Rule Change have not been solicited or received. LCH SA will notify the Commission of any written comments received by LCH SA.

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

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:

¹⁶ 15 U.S.C. 78q-1(b)(3)(I).

(A) by order approve or disapprove such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

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

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>) or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-LCH SA-2019-007 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Vanessa A. Countryman, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-LCH SA-2019-007. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F

Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filings will also 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>. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-LCH SA-2019-007 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁷

Secretary

¹⁷ 17 CFR 200.30-3(a)(12).

EXHIBIT 5

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