

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 89		SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4		File No.* SR -2018 - * 003 Amendment No. (req. for Amendments *)	
Filing by Banque Centrale de Compensation Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934					
Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
Pilot <input type="checkbox"/>			Rule		
Extension of Time Period for Commission Action * Date Expires * <input type="text"/>			<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<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) * <input type="checkbox"/>		Section 806(e)(2) * <input type="checkbox"/>		Section 3C(b)(2) * <input type="checkbox"/>	
Exhibit 2 Sent As Paper Document <input type="checkbox"/>		Exhibit 3 Sent As Paper Document <input type="checkbox"/>			
<b>Description</b> Provide a brief description of the action (limit 250 characters, required when Initial is checked *).  LCH SA is proposing to amend its Risk Management Procedures to adopt a Liquidity Risk Modelling Framework which describes the Liquidity Stress Testing framework by which the Collateral and Liquidity Risk Management department assures that LCH SA has enough cash available to meet any financial obligations					
<b>Contact Information</b> 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 <input type="text"/>					
<b>Signature</b> 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 06/04/2018 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.					

Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 For complete Form 19b-4 instructions please refer to the EFFF website.	
<b>Form 19b-4 Information *</b> Add Remove View	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.
<b>Exhibit 1 - Notice of Proposed Rule Change *</b> Add Remove View	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)
<b>Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies *</b> Add Remove View	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)
<b>Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications</b> Add Remove View Exhibit Sent As Paper Document <input type="checkbox"/>	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.
<b>Exhibit 3 - Form, Report, or Questionnaire</b> Add Remove View Exhibit Sent As Paper Document <input type="checkbox"/>	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.
<b>Exhibit 4 - Marked Copies</b> Add Remove View	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.
<b>Exhibit 5 - Proposed Rule Text</b> Add Remove View	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.
<b>Partial Amendment</b> Add Remove View	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**

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Form 19b-4

Proposed Rule Change  
by

**BANQUE CENTRALE DE COMPENSATION**

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

**1. Text of the Proposed Rule Change**

(a) Banque Centrale de Compensation, which conducts business under the name LCH SA (“LCH SA”), is proposing to amend its Risk Management Procedures (the “**Procedures**”) to adopt a 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.<sup>1</sup>

(b) Not applicable.

(c) Not applicable.

**2. Procedures of the Self-Regulatory Organization**

(a) LCH SA has completed all of the required action to be taken to approve the Proposed Rule Change. The Proposed Rule Change on Liquidity Coverage Ratio and Operational Target model was approved by the LCH SA ERCo on 5 September 2017, RiskCo on 26 September 2017 and Board on 27 September 2017. The Proposed Rule Change on Reverse stress test was approved by the LCH SA ERCo on 17 October 2017 and RiskCo on 21 November 2017. No further approval is necessary.

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<sup>1</sup> LCH SA, a wholly owned 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).

(b) Questions should be addressed to François Faure, Chief Compliance Officer, at rançois.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.

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

a. Purpose

LCH SA maintains a number of well-developed policies and procedures designed 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 proposed 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”);<sup>2</sup> (iii) describes the metrics and limits that LCH SA monitors; and (iv) describes the scenarios under which these metrics are computed.

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<sup>2</sup> 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.

The proposed Framework first identifies the main sources of liquidity available to LCH SA, cash and non-cash collateral, and assigns non-cash collateral to one of three tiers.<sup>3</sup> Tier 1 assets are limited to those securities that are deemed to be of sufficient quality and demand to generate liquidity at little or no loss in the event of a default of a clearing member or a major market stress. LCH SA is able to pledge Tier 1 securities to the Banque de France to generate cash on the same day. Only Tier 1 assets are included as liquidity resources in liquidity stress testing.<sup>4</sup>

The proposed Framework then highlights the three principal events under which LCH SA would require liquidity: (i) the default of one or more clearing members; (ii) the default of CC&G; and (iii) operational liquidity needs (each defined below).

The proposed Framework also examines liquidity needs arising from members' defaults, liquidity needs arising from an interoperating central counterparty's default (currently CC&G), and the manner in which operational liquidity requirements are determined. Liquidity needs arising from members' defaults are those needs arising from fulfilment of the settlement of the securities of the defaulted clearing member; posting of variation margin to non-defaulting members on the positions held by the defaulted clearing member(s); the value of bonds pledged at the Banque de France; haircuts by the European Central Bank on securities posted by the

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<sup>3</sup> Securities comprising non-cash collateral are comprised of the following components: (i) margin collateral, *i.e.*, non-cash collateral pledged by clearing members for margin cover; (ii) Collateral and Liquidity Management ("**CaLM**") collateral, *i.e.*, direct securities holdings that are part of the CaLM's investment activities; and (iii) clearing settlement collateral, *i.e.*, collateral resulting from the physical settlement of contracts on behalf of a defaulting clearing member.

<sup>4</sup> Tier 2 assets are those securities that have a market and may be financed but are of lesser quality than Tier 1 assets. Tier 3 assets are deemed to have little or no liquidity value in the event of a default or major market stress or are deemed to be too illiquid to be converted in the timeframe that a CCP would require.

defaulting Clearing Member; and investment losses. Liquidity needs arising from interoperating CCPs' defaults are those needs arising from the service closure of the Italian Clearing activity (e.g. reimbursement of the margins and default funds related to the Italian clearing activity, cash settlement of the Italian repo positions). Operational liquidity is defined as the amount of liquidity that LCH SA is required to hold to satisfy liquidity needs related to the operational management of LCH SA in a stressed environment that does not lead to a member's default. Such liquidity requirements arise from a number of factors, including the need to repay excess cash posted by members, need to repay margin when margin requirements are reduced, and the substitution of cash collateral and European Central Bank eligible securities.

The proposed Framework next describes the metrics used to determine LCH SA's liquidity needs that are calculated each day over a five-day period. Such metrics include: (i) the liquidity coverage ratio; (ii) a monthly rolling average liquidity buffer; (iii) a daily minimum liquidity buffer; and (iii) required cash collateral.

With respect to the liquidity coverage ratio, the proposed Framework explains how the liquidity coverage ratio is determined for each of the clearing services that LCH SA offers in a Cover 2 scenario, *i.e.*, the liquidity risk arising from the default of at least two clearing group members to which LCH SA has the largest exposures during the 5 days following default. The Cover 2 amount is computed by aggregating the liquidity risks related to clearing members within the same group across all of LCH SA's services. The two largest group members are chosen according to the liquidity needs related to these members. The liquidity requirements are generated by three risk drivers: the settlement risk, market risk and the ECB haircut. For the CDSClear service, LCH SA determines the liquidity risk by considering variation margin modelled at member level by applying the most punitive CDS spread widening stress scenario

for both ITraxx Main and CrossOver (currently the historical scenario considering the 2007 crisis). The Framework focuses on the principal risks for which LCH SA must assure that it has sufficient liquidity.

Finally, the Framework describes the reverse stress test that LCH SA runs at least quarterly. The reverse stress test is designed to help determine the limits of the models and of the liquidity risk management framework by modelling extreme market conditions that go beyond what are considered plausible market conditions over a 5-day time horizon. LCH SA stresses seven risk factors independently, and also considers these risk factors together in two combined reverse stress test scenarios, the Behavioural and Macro-economic.

b. Statutory Basis

LCH SA has determined that Proposed Rule Change is consistent with the requirements of Section 17A of the Act<sup>5</sup> and regulations thereunder applicable to it. The Framework implements the provisions of Section 17A(b)(3)(F) of the Act,<sup>6</sup> which require, *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.” Further, Regulation 17dA-22(e) requires a clearing agency to maintain and enforce written policies and procedures reasonably designed to “measure, monitor, and manage the liquidity risk that arises in or is borne by the covered clearing agency.”<sup>7</sup> Consistent with these provisions, the Framework assures that the clearing

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<sup>5</sup> 15 U.S.C. 78q-1

<sup>6</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>7</sup> 17 C.F.R. § 240.17Ad-22(e)(7).

agency maintains sufficient liquid resources to effect the settlement of payment obligations with a high degree of confidence under a wide range of foreseeable stress scenarios.<sup>8</sup>

**4. Self-Regulatory Organization’s Statement on Burden on Competition**

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.

**5. Self-Regulatory Organization’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.

**6. Extension of Time Period for Commission Action**

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

**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.

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

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<sup>8</sup> The proposed Framework is also consistent with LCH SA’s obligations under the European Markets Infrastructure Regulation (“**EMIR**”); Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade reporting.

In particular, EMIR Article 44 provides, in part:

“A CCP shall at all times have access to adequate liquidity to perform its services and activities. . . . A CCP shall measure, on a daily basis, its potential liquidity needs [taking] into account the liquidity risk generated by the default of at least the two clearing members to which it has the largest exposures.”



Not applicable.

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

Not applicable.

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

Not applicable.

**11. Exhibits**

Exhibit 1A. Completed Notice of Proposed Rule Change for publication in the Federal Register.

Exhibit 5. Text of the proposed rule change: Liquidity Risk Modelling Framework  
**Omitted and filed separately with the Commission. Confidential treatment of Exhibit 5 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**



By: \_\_\_\_\_

**Francois Faure  
Chief Compliance Officer**

**EXHIBIT 1A**

SECURITIES AND EXCHANGE COMMISSION

(Release No. \_\_\_\_\_; File No. SR-LCH SA-2018-003)

June \_\_, 2018

Self-Regulatory Organizations; LCH SA; Notice of Filing of Proposed Rule Change Relating to Liquidity Risk Management

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“**Act**”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on June \_\_, 2018, 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. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

LCH SA is proposing to amend its Risk Management Procedures (the “**Procedures**”) to adopt a 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

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

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.<sup>3</sup>

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

1. Purpose

LCH SA maintains a number of well-developed policies and procedures designed 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

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<sup>3</sup> LCH SA, a wholly owned 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).

proposed 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");<sup>4</sup> (iii) describes the metrics and limits that LCH SA monitors; and (iv) describes the scenarios under which these metrics are computed.

The proposed Framework first identifies the main sources of liquidity available to LCH SA, cash and non-cash collateral, and assigns non-cash collateral to one of three tiers.<sup>5</sup> Tier 1 assets are limited to those securities that are deemed to be of sufficient quality and demand to generate liquidity at little or no loss in the event of a default of a clearing member or a major market stress. LCH SA is able to pledge these securities to the Banque de France to generate cash on the same day. Only Tier 1 assets are included as liquidity resources in liquidity stress testing.<sup>6</sup>

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<sup>4</sup> 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.

<sup>5</sup> Securities comprising non-cash collateral are comprised of the following components: (i) margin collateral, *i.e.*, non-cash collateral pledged by clearing members for margin cover; (ii) Collateral and Liquidity Management ("CaLM") collateral, *i.e.*, direct securities holdings that are part of the CaLM's investment activities; and (iii) clearing settlement collateral, *i.e.*, collateral resulting from the physical settlement of contracts on behalf of a defaulting clearing member.

<sup>6</sup> Tier 2 assets are those securities that have a market and may be financed but are of lesser quality than Tier 1 assets. Tier 3 assets are deemed to have little or no liquidity value in the event of a default or major market stress or are deemed to be too illiquid to be converted in the timeframe that a CCP would require.

The proposed Framework then highlights the three principal events under which LCH SA would require liquidity: (i) the default of one or more clearing members; (ii) the default of CC&G; and (iii) operational liquidity needs (each defined below).

The proposed Framework also examines liquidity needs arising from members' defaults, liquidity needs arising from an interoperating central counterparty's default (currently CC&G), and the manner in which operational liquidity requirements are determined. Liquidity needs arising from members' defaults are those needs arising from fulfilment of the settlement of the securities of the defaulted clearing member; posting of variation margin to non-defaulting members on the positions held by the defaulted clearing member(s); the value of bonds pledged at the Banque de France; haircuts by the European Central Bank on securities posted by the defaulting Clearing Member; and investment losses. Liquidity needs arising from interoperating CCPs' defaults are those needs arising from the service closure of the Italian Clearing activity (e.g. reimbursement of the margins and default funds related to the Italian clearing activity, cash settlement of the Italian repo positions). Operational liquidity is defined as the amount of liquidity that LCH SA is required to hold to satisfy liquidity needs related to the operational management of LCH SA in a stressed environment that does not lead to a member's default. Such liquidity requirements arise from a number of factors, including the need to repay excess cash posted by members, need to repay margin when margin requirements are reduced, and the substitution of cash collateral and European Central Bank eligible securities.

The proposed Framework next describes the metrics used to determine LCH SA's liquidity needs that are calculated each day over a five-day period. Such metrics include: (i) the liquidity coverage ratio; (ii) a monthly rolling average liquidity buffer; (iii) a daily minimum liquidity buffer; and (iii) required cash collateral.

With respect to the liquidity coverage ratio, the proposed Framework explains how the liquidity coverage ratio is determined for each of the clearing services that LCH SA offers in a Cover 2 scenario, *i.e.*, the liquidity risk arising from the default of at least two clearing group members to which LCH SA has the largest exposures during the 5 days following default. The Cover 2 amount is computed by aggregating the liquidity risks related to clearing members within the same group across all of LCH SA's services. The two largest group members are chosen according to the liquidity needs related to these members. The liquidity requirements are generated by three risk drivers: the settlement risk, market risk and the ECB haircut. For the CDS Clear service, LCH SA determines the liquidity risk by considering variation margin modelled at member level by applying the most punitive CDS spread widening stress scenario for both ITraxx Main and CrossOver (currently the historical scenario considering the 2007 crisis). The Framework focuses on the principal risks for which LCH SA must assure that it has sufficient liquidity.

Finally, the Framework describes the reverse stress test that LCH SA runs at least quarterly. The reverse stress test is designed to help determine the limits of the models and of the liquidity risk management framework by modelling extreme market conditions that go beyond what are considered plausible market conditions over a 5-day time horizon. LCH SA stresses seven risk factors independently, and also considers these risk factors together in two combined reverse stress test scenarios, the Behavioural and Macro-economic.

2. Statutory Basis

LCH SA has determined that Proposed Rule Change is consistent with the requirements of Section 17A of the Act<sup>7</sup> and regulations thereunder applicable to it. The Framework implements the provisions of Section 17A(b)(3)(F) of the Act,<sup>8</sup> which require, *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.” Further, Regulation 17dA-22(e) requires a clearing agency to maintain and enforce written policies and procedures reasonably designed to “measure, monitor, and manage the liquidity risk that arises in or is borne by the covered clearing agency.”<sup>9</sup> Consistent with these provisions, the Framework assures that the clearing agency maintains sufficient liquid resources to effect the settlement of payment obligations with a high degree of confidence under a wide range of foreseeable stress scenarios.<sup>10</sup>

B. Self-Regulatory Organization’s Statement on Burden on Competition

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

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<sup>7</sup> 15 U.S.C. 78q-1

<sup>8</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>9</sup> 17 C.F.R. § 240.17Ad-22(e)(7).

<sup>10</sup> The proposed Framework is also consistent with LCH SA’s obligations under the European Markets Infrastructure Regulation (“**EMIR**”); Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade reporting.

In particular, EMIR Article 44 provides, in part:

“A CCP shall at all times have access to adequate liquidity to perform its services and activities. . . . A CCP shall measure, on a daily basis, its potential liquidity needs [taking] into account the liquidity risk generated by the default of at least the two clearing members to which it has the largest exposures.”

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. Self-Regulatory Organization'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:

(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:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>) or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-LCH SA-2018-003 on the subject line.



Paper Comments:

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-LCH SA-2018-003. 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/asset-classes/cdsclear>. 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-2018-003 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.<sup>11</sup>

Secretary

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<sup>11</sup> 17 CFR 200.30-3(a)(12).

**EXHIBIT 5**

**PAGE REDACTED IN ITS ENTIRETY**

**CONFIDENTIAL TREATMENT REQUESTED PURSUANT TO THE FREEDOM OF  
INFORMATION ACT**

**PAGE REDACTED IN ITS ENTIRETY**

**CONFIDENTIAL TREATMENT REQUESTED PURSUANT TO THE FREEDOM OF  
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