

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 107 SECURITIES AND EXCHANGE COMMISSION File No.* SR - 2020 - * 002
 WASHINGTON, D.C. 20549
 Form 19b-4 Amendment No. (req. for Amendments *) 1

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 type="checkbox"/>	<input checked="" 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

Description

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

LCH SA is proposing to amend its Reference Guide: CDS Margin Framework to allow the clearing of iTraxx MSCI ESG Screened Europe Index contracts and add a number of clarifications to the CDSClear risk framework.

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 07/08/2020 Chief Compliance Officer

By Francois FAURE

(Name *)

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.

Francois Faure, francois.faure@lch.com

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information**Item 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 Reference Guide: CDS Margin Framework to permit the clearing of iTraxx MSCI ESG Screened Europe index contracts. As further detailed below, LCH SA is also making a number of other minor changes unrelated to the clearing of iTraxx MSCI ESG Screened Europe index CDS transactions.

Item 2. Procedure of the Clearing Agency

LCH SA has completed all the required actions to be taken to approve and authorize the Proposed Rule Change.¹ No further approvals are necessary.

Questions should be addressed to François Faure, Chief Compliance Officer, at francois.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.

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

(a) Purpose

LCH SA is proposing the Amendment 1 to the filing LCH SA-2020-002 in order to (i) explain the few minor clarifications made below with respect to both sections 3.2 and 3.8 and also remove (ii) the non-relevant change made to the Legal Entity Identifier Margin in section 6.2 of its Reference Guide: CDS Margin Framework.

¹ The various elements of the Proposed Change to the Reference Guide: CDS Margin Framework were approved by LCH SA’s Executive Risk Committee on 16 June 2020.

LCH SA is proposing to amend its Reference Guide: CDS Margin Framework in order to introduce clearing of the iTraxx MSCI ESG Screened Europe index CDS transactions.

Markit launched the iTraxx MSCI ESG Screened Europe Index (“**iTraxx ESG Index**”) on March 20th, 2020. This index is a subset of the iTraxx Europe Main index. The constituents of the iTraxx MSCI ESG Screened Europe index must meet various Corporate Responsibility Criteria. The first series that launched on March 20th, 2020 (Series 33) has 81 constituents, all are constituents of the iTraxx Europe Main index Series 33.

To permit participants to submit for clearing **iTraxx ESG Index** contracts, LCH SA needs to modify its Reference Guide: CDS Margin Framework.

In this regard, LCH SA has made the following changes to the Reference Guide: CDS Margin Framework:

- (i) removing references to specific indices in the document and replacing them with a generic reference to an index in sections 2.3.3, and 3.8.1.3,
- (ii) removing the fixed 24% value and changing the spread shock formula for it to be applicable more generically to both iTraxx Main index and any of its sub index including financial Single Names.

Clearing of the new **iTraxx ESG Index** contracts will not require any other changes to LCH SA CDSClearing Rule Book or risk management framework or other policies and procedures constituting rules within the meaning of the Securities Exchange Act of 1934 (“Act”).

LCH SA is also taking this opportunity to make the following changes which are unrelated to the clearing of iTraxx MSCI ESG Screened Europe index CDS transactions;

- (i) removing the list of Dealers in section 2.3.3 as LCH SA may contact a broader list of Dealers than that currently listed in this section;

- (ii) correction in section 3.2 of a typing error to confirm the relevant application of the Wrong Way Risk Margin to Options;
- (iii) correction of the worst 5 day P&L value per date and the worst P&L value aggregated per date formulae in section 3.5.6. to reflect the fact that the same date is selected to calculate the portfolio P&L for all contracts in the portfolio;
- (iv) the 9M curve has been removed from the Interest Rate Risk Margin calculation in section 3.6, reflecting the change of interest rate curve imposed by ISDA within the framework of the risk-free rate benchmark review;
- (v) clarification in section 3.8 that the short charge is covering the risk that at least one entity defaults;
- (vi) the Wrong Way Risk formulae in section 3.8.1 were incomplete, the second value “0” to be used to derive the maximum resulting from these formulae has been added.

At the request of LCH SA Risk Model Validation team so that the CDSClear risk framework can be better assessed, LCH SA is making the relevant clarifications specified under the below subsections (vii) to (xii) :

- (vii) adding a note in section 3.8.1.2 that clarifies that the recovery rate for a Senior Unsecured Debt (Corporate/Financial) / Foreign Currency Sovereign Debt (Government) (SNRFOR) and Senior Loss Absorbing Capacity (SNRLAC) seniorities are considered as if they were two different instruments;
- (viii) adding a note in section 3.8.2 to explicit the calibration of the shocks displayed in the table;
- (ix) adding a note in section 4.1.3.1 to describe the parameters used in the formula;

- (x) the Average Liquidity Score formula has been amended and a note inserted in order to clarify which days are used to compute the Average Liquidity Score;
- (xi) the net notional for the index basis product p, tenor t used in the formula for the sum of the 5Y equivalent notional has been amended to an absolute value;
- (xii) in view of the upcoming supervisory/regulatory transition from the Euro Overnight Index Average (EONIA) to the new Euro Short-Term Rate (ESTER or €STR) and the Fed Funds to the Secured Overnight Financing Rate (SOFR), references to the interest rate applied to the Price Alignment Interest in section 5.2 have been removed.

(b) Statutory Basis

LCH SA has determined that Proposed Rule Change is consistent with the requirements of Section 17A of the Securities Exchange Act (“Act”)² 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 . . . and, in general, to protect investors and the public interest.”³

LCH SA believes that acceptance of the new **iTraxx ESG Index** contracts, on the terms and conditions set out in the Rules, is consistent with the prompt and accurate clearance and settlement of securities transactions and derivative agreements, contracts and transactions cleared by LCH SA, the safeguarding of securities and funds in the custody or control of LCH SA or for which it is responsible, and the protection of investors and the public interest,

² 15 U.S.C. 78q-1

³ 15 U.S.C. 78q-1(b)(3)(F).

within the meaning of Section 17A(b)(3)(F) of the Act. Indeed, the new **iTraxx ESG index** contracts proposed for clearing are similar to the other European Indices contracts currently cleared by LCH SA CDSClear and will be cleared pursuant to LCH SA's existing clearing arrangements and related financial safeguards, protections and risk management procedures.

Clearing of the **iTraxx ESG Index** contracts will also satisfy the relevant requirements of Rule 17Ad-22⁴, as set forth in the following discussion.

Margin Requirements. Rule 17Ad-22 (e)(4)⁵ requires LCH SA to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes. In terms of financial resources, LCH SA will apply its existing margin methodology – including its Wrong Way Risk margin framework -- to the new **iTraxx ESG Index**, which are similar to the European indices currently cleared by LCH SA. LCH SA believes that this model will provide sufficient margin requirements to cover its credit exposure to its clearing members from clearing such contracts, consistent with the requirements of Rule 17Ad-22(e).

Financial Resources. Rule 17Ad-22(e)(4)(i)⁶ requires LCH SA to maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence and to the extent not already maintained pursuant to paragraph (e)(4)(i), Rule 17Ad-22(e)(4)(ii)⁷ requires LCH SA to maintain additional financial resources at the minimum to enable it to cover a wide range of foreseeable stress scenarios that include, but are not limited to, the default of the two participant families that would potentially cause the

⁴ 17 CFR 240.17Ad-22.

⁵ 17 CFR 240.17Ad-22(e)(4).

⁶ 17 CFR 240.17Ad-22(e)(4)(i).

⁷ 17 CFR 240.17Ad-22(e)(4)(ii).

largest aggregate credit exposure for the covered clearing agency in extreme but plausible market conditions. LCH SA believes its Default Fund, under its existing methodology, will, together with the required margin, provide sufficient financial resources to support the clearing of the **iTraxx ESG Index** contracts, consistent with the requirements of Rule 17Ad22(e)(4).

Operational Resources. Rule 17Ad-22(e)(3)⁸ requires LCH SA 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. LCH SA believes that its existing operational and managerial resources will be sufficient for clearing of the iTraxx ESG Index contracts, consistent with the requirements of Rule 17Ad-22(e)(3), as this new index contract is substantially the same from an operational perspective as the existing index contracts.

LCH SA will also apply its existing default management policies and procedures for the **iTraxx ESG Index** contracts. LCH SA believes that these procedures allow for it to take timely action to contain losses and liquidity pressures and to continue meeting its obligations in the event of clearing member insolvencies or defaults in respect of the additional single names, in accordance with Rule 17Ad-22(e).

The proposed change regarding the transition from EONIA which does not comply with the recently introduced EU Benchmarks Regulation to ESTER is intended to comply with this European Central Bank (ECB) initiative supported by regulators. Rule 17Ad-22(e)(1)⁹ requires a covered clearing agency to provide for a well-founded, clear, transparent

⁸ 17 CFR 240.17Ad-22(e).

⁹ 17 CFR 240.17Ad-22 (e)(1).

and enforceable legal basis for each aspect of its activities in all relevant jurisdictions. Rule 17Ad-22(e)(2)(iii)¹⁰ also requires to support the objectives of participants.

For all these reasons, LCH SA believes that the Proposed Rule Change is consistent with the requirements of Section 17A of the Act and the regulations thereunder, including the standards under Rule 17Ad-22.

Item 4. Self-Regulatory Organization’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.¹¹ The iTraxx ESG Index contracts will be available to all LCH SA’s CDSClear participants for clearing. The clearing of these new **iTraxx ESG Index** contracts by LCH SA does not preclude the offering of the **iTraxx ESG Index** contracts for clearing by other market participants. Accordingly, LCH SA does not believe that clearance of the new iTraxx ESG Index contracts will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

Item 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.

Item 6. Extension of Time Period for Commission Action

LCH SA does not consent to the extension of the time period listed in Section 19(b)(2) of the Securities Exchange Act of 1934 for Commission action.

¹⁰ 17 CFR 240.17Ad-22(e)(iii).

¹¹ 15 U.S.C. 78q-1(b)(3)(I).

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 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 change.

- Reference Guide: CDS Margin Framework : **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 blue ink, appearing to read 'Faure', is written over a horizontal line.

By: _____

**Francois Faure
Chief Compliance Officer**

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION

(Release No. - ; File No. SR-LCH SA-2020-002)

[DATE]

Self-Regulatory Organizations; LCH SA; Proposed Rule Change Relating to Introduction of clearing of the new Markit iTraxx MSCI ESG Screened Europe index contracts.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder² notice is hereby given that on _____, 2020, 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 described in Items I, II and III below, which Items have been prepared primarily 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

Banque Centrale de Compensation, which conducts business under the name LCH SA (“LCH SA”), is proposing the Amendment 1 to the filing LCH SA-2020-002 in order to (i) explain the few minor clarifications made below with respect to both sections 3.2 and 3.8 and also remove (ii) the non-relevant change made to the Legal Entity Identifier Margin in section 6.2 of its Reference Guide: CDS Margin Framework.

LCH SA is proposing amend its Reference Guide: CDS Margin Framework to permit the clearing of iTraxx MSCI ESG Screened Europe index contracts. As further

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

detailed below, LCH SA is also making a number of other minor changes unrelated to the clearing of iTraxx MSCI ESG Screened Europe index CDS transactions.

The text of the proposed rule change has been annexed as Exhibit 5.³

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 these statements.

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

1. Purpose

LCH SA is proposing to amend its Reference Guide: CDS Margin Framework in order to introduce clearing of the iTraxx MSCI ESG Screened Europe index CDS transactions.

Markit launched the iTraxx MSCI ESG Screened Europe Index (“**iTraxx ESG Index**”) on March 20th, 2020. This index is a subset of the iTraxx Europe Main index. The constituents of the iTraxx MSCI ESG Screened Europe index must meet various Corporate Responsibility Criteria. The first series that launched on March 20th, 2020 (Series 33) has 81 constituents, all are constituents of the iTraxx Europe Main index Series 33.

³ All capitalized terms not defined herein have the same definition as the Rule Book, Supplement or Procedures, as applicable.

To permit participants to submit for clearing **iTraxx ESG Index** contracts, LCH SA needs to modify its Reference Guide: CDS Margin Framework.

In this regard, LCH SA has made the following changes to the Reference Guide: CDS Margin Framework:

- (i) removing references to specific indices in the document and replacing them with a generic reference to an index in sections 2.3.3, and 3.8.1.3,
- (ii) removing the fixed 24% value and changing the spread shock formula for it to be applicable more generically to both iTraxx Main index and any of its sub index including financial Single Names.

Clearing of the new **iTraxx ESG Index** contracts will not require any other changes to LCH SA CDS Clearing Rule Book or risk management framework or other policies and procedures constituting rules within the meaning of the Securities Exchange Act of 1934 (“Act”).

LCH SA is also taking this opportunity to make the following changes which are unrelated to the clearing of iTraxx MSCI ESG Screened Europe index CDS transactions;

- (i) removing the list of Dealers in section 2.3.3 as LCH SA may contact a broader list of Dealers than that currently listed in this section;
- (ii) correction in section 3.2 of a typing error to confirm the relevant application of the Wrong Way Risk Margin to Options;
- (iii) correction of the worst 5 day P&L value per date and the worst P&L value aggregated per date formulae in section 3.5.6. to reflect the fact that the same date is selected to calculate the portfolio P&L for all contracts in the portfolio;

- (iv) the 9M curve has been removed from the Interest Rate Risk Margin calculation in section 3.6, reflecting the change of interest rate curve imposed by ISDA within the framework of the risk-free rate benchmark review;
- (v) clarification under section 3.8 that the short charge is covering the risk that at least one entity defaults;
- (vi) the Wrong Way Risk formulae in section 3.8.1 were incomplete, the second value “0” to be used to derive the maximum resulting from these formulae has been added.

At the request of LCH SA Risk Model Validation team so that the CDSClear risk framework can be better assessed, LCH SA is making the relevant clarifications specified under the below subsections (vii) to (xii) :

- (vii) adding a note in section 3.8.1.2 that clarifies that the recovery rate for a Senior Unsecured Debt (Corporate/Financial) / Foreign Currency Sovereign Debt (Government) (SNRFOR) and Senior Loss Absorbing Capacity (SNRLAC) seniorities are considered as if they were two different instruments;
- (viii) adding a note in section 3.8.2 to explicit the calibration of the shocks displayed in the table;
- (ix) adding a note in section 4.1.3.1 to describe the parameters used in the formula;
- (x) the Average Liquidity Score formula has been amended and a note inserted in order to clarify which days are used to compute the Average

Liquidity Score;

- (xi) the net notional for the index basis product p, tenor t used in the formula for the sum of the 5Y equivalent notional has been amended to an absolute value;
- (xii) in view of the upcoming supervisory/regulatory transition from the Euro Overnight Index Average (EONIA) to the new Euro Short-Term Rate (ESTER or €STR) and the Fed Funds to the Secured Overnight Financing Rate (SOFR), references to the interest rate applied to the Price Alignment Interest in section 5.2 have been removed.

2. Statutory Basis.

LCH SA has determined that Proposed Rule Change is consistent with the requirements of Section 17A of the Securities Exchange Act (“Act”)⁴ 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 . . . and, in general, to protect investors and the public interest.”⁵

LCH SA believes that acceptance of the new **iTraxx ESG Index** contracts, on the terms and conditions set out in the Rules, is consistent with the prompt and accurate clearance and settlement of securities transactions and derivative agreements, contracts and transactions cleared by LCH SA, the safeguarding of securities and funds in the custody or control of LCH SA or for which it is responsible, and the protection of

⁴ 15 U.S.C. 78q-1

⁵ 15 U.S.C. 78q-1(b)(3)(F).

investors and the public interest, within the meaning of Section 17A(b)(3)(F) of the Act. Indeed, the new **iTraxx ESG Index** contracts proposed for clearing are similar to the other European Indices contracts currently cleared by LCH SA CDSClear, and will be cleared pursuant to LCH SA's existing clearing arrangements and related financial safeguards, protections and risk management procedures.

Clearing of the **iTraxx ESG Index** contracts will also satisfy the relevant requirements of Rule 17Ad-22⁶, as set forth in the following discussion.

Margin Requirements. Rule 17Ad-22(e)(4)⁷ requires LCH SA to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes. In terms of financial resources, LCH SA will apply its existing margin methodology – including its Wrong Way Risk margin framework -- to the new **iTraxx ESG Index**, which are similar to the European indices currently cleared by LCH SA. LCH SA believes that this model will provide sufficient margin requirements to cover its credit exposure to its clearing members from clearing such contracts, consistent with the requirements of Rule 17Ad-22(e)(4).

Financial Resources. Rule 17Ad-22(e) (4)(i)⁸ requires LCH SA to maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence and to the extent not already maintained pursuant to paragraph (e)(4)(i), Rule 17Ad-22(e)(4)(ii)⁹ requires LCH SA to maintain additional financial resources at the minimum to enable it to cover a wide range of foreseeable stress

⁶ 17 CFR 240.17Ad-22.

⁷ 17 CFR 240.17Ad-22(e)(4).

⁸ 17 CFR 240.17Ad-22(e)(4)(i).

⁹ 17 CFR 240.17Ad-22(e)(4)(ii).

scenarios that include, but are not limited to, the default of the two participant families that would potentially cause the largest aggregate credit exposure for the covered clearing agency in extreme but plausible market conditions. LCH SA believes its Default Fund, under its existing methodology, will, together with the required margin, provide sufficient financial resources to support the clearing of the **iTraxx ESG Index** contracts, consistent with the requirements of Rule 17Ad22(e)(4).

Operational Resources. Rule 17Ad-22(e)(3)¹⁰ requires LCH SA 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. LCH SA believes that its existing operational and managerial resources will be sufficient for clearing of the iTraxx ESG Index contracts, consistent with the requirements of Rule 17Ad-22(e)(3), as this new index contract is substantially the same from an operational perspective as the existing index contracts.

LCH SA will also apply its existing default management policies and procedures for the **iTraxx ESG Index** contracts. LCH SA believes that these procedures allow for it to take timely action to contain losses and liquidity pressures and to continue meeting its obligations in the event of clearing member insolvencies or defaults in respect of the additional single names, in accordance with Rule 17Ad-22(e)(13).

The proposed change regarding the transition from EONIA which does not comply with the recently introduced EU Benchmarks Regulation to ESTER is intended to comply with this European Central Bank (ECB) initiative supported by regulators. Rule

¹⁰ 17 CFR 240.17Ad-22(e).

17Ad-22(e)(1)¹¹ requires a covered clearing agency to provide for a well-founded, clear, transparent and enforceable legal basis for each aspect of its activities in all relevant jurisdictions. Rule 17Ad-22(e)(2)(iii)¹² also requires to support the objectives of participants.

For all these reasons, LCH SA believes that the Proposed Rule Change is consistent with the requirements of Section 17A of the Act and the regulations thereunder, including the standards under Rule 17Ad-22.

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.¹³ The iTraxx ESG Index contracts will be available to all LCH SA's CDSClear participants for clearing. The clearing of these new **iTraxx ESG Index** contracts by LCH SA does not preclude the offering of the **iTraxx ESG Index** contracts for clearing by other market participants. Accordingly, LCH SA does not believe that clearance of the new iTraxx ESG Index contracts will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

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.

¹¹ 17 CFR 240.17Ad-22 (e)(1).

¹² 17 CFR 240.17Ad-22(e)(iii).

¹³ 15 U.S.C. 78q-1(b)(3)(I).

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. Please include File Number SR-LCH SA-2020-002 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-2020-002. 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 am and 3:00 pm. Copies of the filing also will be available for inspection and copying at the principal office of LCH SA and on LCH SA's website at:

<https://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-2020-002 and should be submitted on or before [Commission to insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁴

Secretary

¹⁴ 17 CFR 200.30-3(a)(12).

EXHIBIT 5

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