



SECURITIES AND EXCHANGE COMMISSION
[Release No. 34-86858; File No. SR-LCH SA-2019-006]

Self-Regulatory Organizations; LCH SA; Notice of Filing of Proposed Rule Change Relating to Extension of Weekly Backloading Cycle to Index Swaptions

September 3, 2019

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 August 20, 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 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 to amend its (i) CDS Clearing Rule Book (“Rule Book”) and (ii) CDS Clearing Procedures (“Procedures”) (collectively the “CDS Clearing Rules”) to make conforming, clarifying, and clean-up changes intended to: (1) extend the weekly backloading process to Index Swaptions; and (2) amend the structure of the documentation in respect of the backloading process. Capitalized terms not defined or modified in this rule proposal will have the same meaning as in LCH SA’s existing Rule Book or Procedures.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

The implementation of the updated Rule Book and Procedures will be contingent on LCH SA's receipt of all necessary regulatory approvals.

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 CDS Clearing Rules to allow clearing process of Index Swaptions through the CDSClear Weekly Backloading Cycle, in addition to the CDS that are already in the scope of this process today.

Further, this proposed rule change will also amend the CDS Clearing Rules in order to review the structure of the rule book documentation in respect of the Weekly Backloading Cycle and the Daily Backloading Cycle and make consistency changes.

a) Amendments to extend the Weekly Backloading Cycle to Index Swaptions

The updated CDS Clearing Rules will permit Clearing Members to submit Index Swaptions to LCH SA for clearing through the Weekly Backloading Cycle. For the

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

purpose of this extension, existing defined terms and provisions in the Rule Book and Sections 4 and 5 of the Procedures have been amended as described below.

i. Rule Book

With respect to the Rule Book, LCH SA proposes to make amendments to the existing defined term "Weekly Backloading Transaction" contained within Title I, Chapter 1, Section 1.1.1. by adding a reference to "Index Swaption".

ii. Procedures

(A) Section 4

Section 4 of the Procedures will be updated to make the relevant eligibility requirements applicable to Index Swaptions to be submitted to LCH SA for clearing through the Weekly Backloading Cycle where necessary.

Thus, the reference to an "Index Swaption Intraday Transaction" in Section 4.1 (c) (i) (V) will be replaced by a reference to an "Index Swaption". In addition, the reference to an "Index Swaption Intraday Transaction" in Section 4.1 (c) (iii) (C) will be replaced by a reference to an "Index Swaption that is an Index Swaption Intraday Transaction or a Weekly Backloading Transaction".

(B) Section 5

LCH SA proposes to update Section 5 of the Procedures by adding a reference to "Index Swaptions" in Section 5.2 (b) so that Index Swaptions are eligible for the Weekly Backloading Cycle.

b) Technical Amendments

The amendments to the Rule Book and Procedures also contain typographical corrections and changes made for consistency purpose. Specifically, information on the

Daily Backloading Cycle and the Weekly Backloading Cycle will be moved from the Rule Book and Section 5 of the Procedures to new Clearing Notices (*i.e.* a Clearing Notice named “Daily Backloading Cycle” and a Clearing Notice named “Weekly Backloading Cycle”) for consistency purpose as this is operational information that does not need to be part of the CDS Clearing Rules. No amendment will be made to the content of the provisions moved to these new Clearing Notices.

Therefore, Section 5.2 (b) and (c) of the Procedures will refer to a Clearing Notice and the timetable applicable to each of the Daily Backloading Cycle and Weekly Backloading Cycle is proposed to be removed from these paragraphs. In the Rule Book, defined terms of “Eligible Weekly Backloading Transaction” and “Irrevocable Weekly Backloading Transaction” will therefore refer to a Clearing Notice instead of Section 5 of the Procedures, as well as Sections 3.1.1 and 3.1.2 of the Rule Book.

In addition, the definitions of “Weekly Backloading Start Day” and “Weekly Backloading Novation Day” in the Rule Book are proposed to be amended in order to make a general reference to a day as determined by LCH SA in accordance with Article 3.1.1.10 of the Rule Book as these days will be provided for in the new Clearing Notice named “Weekly Backloading Cycle”. Article 3.1.1.10 will be amended to remove the publication date of this Clearing Notice as the provisional calendar, which specifies the Weekly Backloading Cycle will not change each year.

Finally, typographical corrections will be made to the definition of “Converting Clearing Member” in the Rule Book and Section 4.1 (c) (vii) (B) of the Procedures. The reference to Section 3 in Article 3.1.1.1 of the Rule Book is also proposed to be deleted as it is redundant with the provisions of the previous sentence of this Article.

2. Statutory Basis.

As more discussed below, LCH SA believes that the Proposed Rule Change is consistent with the requirements of Section 17A of the Securities Exchange Act of 1934⁴ (the "Exchange Act") and the regulations thereunder, including the standards under Exchange Act Rule 17Ad-22.⁵

Section 17A(b)(3)(F) of the Exchange Act⁶ requires, among other things, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions and, to the extent applicable, derivative agreements, contracts, and transactions.

By offering Clearing Members the possibility to submit Index Swaptions to LCH SA for clearing through the CDSClear Weekly Backloading Cycle, the Proposed Rule Change will extend the backloading to Index Swaptions and therefore permit cross instruments netting that can yield more cost effective margins and would promote the clearance process of credit derivatives transactions so that LCH SA believes that the proposed amendments are consistent with the requirements of Section 17A of the Exchange Act.⁷

These proposed rule changes will also provide additional security to members who will choose to perform intraday clearing as it will enable the capture of trades that would normally be sent as part of intraday clearing but that are sent for clearing beyond

⁴ 15 U.S.C. 78q-1.

⁵ 17 CFR 240.17Ad-22.

⁶ 15 U.S.C. 78q-1(b)(3)(F).

⁷ 15 U.S.C. 78q-1.

the current one day deadline. This, therefore, will be consistent and align with the requirements of Exchange Act Rule 17Ad-22(e)(8) which requires each covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to "define the point at which settlement is final to be no later than the end of the day on which the payment or obligation is due and, where necessary or appropriate, intraday or in real time."⁸

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.⁹ LCH SA does not believe that the proposed rule change would impose burdens on competition that are not necessary or appropriate in furtherance of the purposes of the Act.

LCH SA is only extending the CDSClear weekly Backloading cycle to Index Swaptions.

Specifically, the proposed rule changes would apply equally to all Clearing Members and would generally improve the ability of such market participants to engage in cleared transactions and clearing services.

Therefore, LCH SA does not believe that the proposed rule change would impose a burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

⁸ 17 CFR 240.17Ad-22(e)(8).

⁹ 15 U.S.C. 78q-1(b)(3)(I).

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:

(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-2019-006 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, N.E., Washington, D.C. 20549-1090.

All submissions should refer to File Number SR-LCH SA-2019-006. 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, N.E., Washington, D.C. 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. 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-2019-006 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁰

Jill M. Peterson,
Assistant Secretary.

¹⁰ 17 CFR 200.30-3(a)(12).

