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SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-82317; File No. SR-LCH SA-2017-013)

Self-Regulatory Organizations; LCH SA; Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice Relating to LCH SA's Wind Down Plan

December 13, 2017

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 December 7, 2017, 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

LCH SA is proposing to adopt an updated wind down plan (the "WDP") in accordance with Rule 17Ad-22(e)(3)(ii). The text of the proposed rule change has been annexed as Exhibit 5. LCH SA has requested confidential treatment of the material submitted as Exhibit 5.

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

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

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

On September 28, 2016, the Securities and Exchange Commission (the "Commission") adopted amendments to Rule 17Ad-22[3] pursuant to Section 17A of the Securities Exchange Act of 1934 (the "Act")[4] and the Payment, Clearing and Settlement Supervision Act of 2010 ("Clearing Supervision Act")[5] to establish enhanced standards for the operation and governance of those clearing agencies registered with the Commission that meet the definition of a "covered clearing agency," as defined by Rule 17Ad-22(a)(5)[6] (collectively, the new and amended rules are herein referred to as "CCA rules").

LCH SA is a covered clearing agency under the CCA rules and therefore is subject to the requirements of the CCA rules, including Rule 17Ad-22(e)(3). The CCA rules require that covered clearing agencies, among other things: "establish, implement, maintain and enforce written policies and procedures reasonably designed to … maintain a sound risk management framework for comprehensively managing legal, credit,

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[3] 17 CFR 240.17Ad-22

[4] 15 U.S.C. 78q-1

[5] 12 U.S.C. 5461 et. seq.

[6] 17 CFR 240.17Ad-22(a)(5).

liquidity, operational, general business, investment, custody, and other risks that arise in or are borne by the covered clearing agency, which … includes plans for the recovery and orderly wind-down of the covered clearing agency necessitated by credit losses, liquidity shortfalls, losses from general business risk, or any other losses."[7]

As a central counterparty recognized under the European Market Infrastructure Regulation ("EMIR"), LCH SA is also required to have in place relevant recovery and wind down mechanisms required under EMIR[8].

As a credit institution based in the European Union, LCH SA is also subject to Directive 2014/59/EU, as supplemented, requiring institutions to draw up and maintain recovery plans setting forth options for measures to be taken by the institution to restore its financial position following a significant deterioration of its financial position.

Accordingly, as described in more detailed below, the purpose of the WDP is to ensure an orderly wind down of the CCP under extreme circumstances and to limit market impact as much as possible, should the recovery plan (the "RP") [9] has failed.

The WDP sets out the steps that LCH SA would follow to close its clearing services and shut down the company. The plan demonstrates how LCH SA, as it exists today, can achieve this orderly wind down within six (6) months.

In addition, LCH SA holds capital, funded by equity, equal to the operating expenses for a six (6) month period. The WDP demonstrates that the wind down cost remains inferior to the necessary amount.

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[7] 17 CFR 240.17Ad-22(e)(3)(ii).

[8] Regulation (EU) No. 152/2013 of 19 December 2012, Article 2.

[9] See Filing N° SR-LCH SA-2017-012

The WDP would first determine the triggers for winding down and the relationship between Recovery, Resolution and Wind down. In these extreme circumstances, the CCP would first trigger the recovery plan. The WDP would be triggered by LCH SA if, the recovery tools having been exhausted and having failed, the only solutions left for LCH SA would be to wind down its clearing services and close the company.

The triggers are only briefly presented in the WDP since they are described in detail in the RP. They consider Clearing Member Defaults losses well above the CCPs financial resources; Clearing Member Defaults creating large liquidity shortfalls and Non Clearing Members Defaults impacting capital adequacy or creating liquidity shortfalls. This could be caused by large risks such as operational events, custody and investment risks or large business risks. The WDP would be triggered by LCH SA if, the recovery tools having been exhausted and having failed, the only solution for LCH SA would be to wind down its clearing services and close the company.

The WDP would not consider any other case such as a voluntary wind down not being triggered by one of the above extreme circumstances.

The WDP would then describe the governance for triggering the plan. The decision to wind down would be taken by the Board and ultimately the shareholders' meeting upon advice of the Executive Risk Committee ("ERCo") and Local Management Committee ("LMC"). The implementation of the WDP would be monitored by the LCH SA LMC or Default Crisis Management Team ("DCMT"), the executive committee in charge of the coordination of defaults.

The regulatory authorities would be consulted before such a decision is taken and the French *Autorité de Contrôle Prudentiel et de Resolution* (the "ACPR") would have to approve such a decision, unless all the clearing service have already been closed. They would be subsequently regularly informed of the implementation of the plan.

LCH SA being a credit institution, it could be subject to a resolution regime decided by the ACPR whilst conducting its recovery plan and before a wind down would be decided by the company. In that case, the decision to wind down as well the process to be followed would be decided by the resolution authority.

The plan would then define a certain number of assumptions. It would firstly assume that the CCP as it stands today would be wound down until its full closure, although it is likely that in the phases preceding the plan, some businesses would have been either closed or scaled down. It also makes other assumptions that allows continuation of business for some time and proper closing such as the fact that LCH SA would keep its banking license and continue to have full access to the central bank or that suppliers, which would continue to be paid, would continue to offer a service.

In line with the RP, the WDP would present a mapping of the functions and particularly distinguishes between the clearing functions, which are all considered as critical, the critical supporting functions and the other non-critical functions.

The plan would then describe the closure of the clearing services. The closure of CDSClear is covered in Article 2.4.3.1 of CDS Clearing Rule book and in the Clause 8 of Appendix 1. It specifies that LCH SA would publish a notice to clearing members notifying that a wind down event has occurred and to the extent possible the date on which transactions shall cease to be accepted on the CDS Clearing service. LCH SA

would publish the clearing notice as far in advance of the Early Termination Trigger Date as it is reasonably possible. The plan would indicated that, in a non-default situation and more generally in a situation where the corresponding business line is not suffering, LCH would give some time for a maximum of trades to settle naturally and for the clearing members to close their longer positions and switch to another CCP.

The closing of the business would be done through cash settlement and the repayments amounts would be paid by LCH SA and the clearing members on the business following notification.

The WDP would then describe how critical supporting functions would be closed. The treasury function would close once all clearing services have been terminated and all monies paid by LCH SA and/or the clearing members. Once wind down is decided, cash would not be invested anymore but deposited at the central bank or possibly invested in same day repos. Operations, IT production, and Risk teams would be kept until all positions are closed. At that moment, the majority of staff in these areas would not be required any more.

It has to be noted that the WDP would list all contracts with external providers, including venues and IT companies to which LCH SA has outsourced services. They contain wind down provisions, enabling LCH SA to exit these contracts under specific conditions.

Non critical support functions such as Finance, Compliance, Audit etc. would start being scaled down immediately after the decision is taken to wind down. The path at which each department is expected to reduce its workforce is specified in the plan. Consultation with the LCH SA's staff representatives (works council) would start

immediately in order to ensure a proper departure of permanent staff in line with French law and regulations and those of the countries in which LCH SA has branches/representative offices. Staff approach for winding down would be described in more detail in the WDP.

The WDP would contain an overall timeline of the full wind down process. This plan shows that LCH SA would be in a position to close the company within six (6) months as required by applicable regulations.

The WDP would also contain an appendix describing into more details the communication processes that would be followed both internal and external. It specifies that the wind down notice would be published on the LCH SA website and the teams within LCH SA and the LSEG group that would be responsible for each type of communications.

Separately from the WDP, but in line with the processes and timeline described in the WDP, LCH SA calculates the costs required for a wind down. It encompasses staff salaries, indemnities for staff departure, cost to be paid to suppliers during notice periods and more generally all foreseeable costs that would be due in case of a wind down event. The final figure is reported in the WDP and shows that overall costs is significantly below the liquid assets held by LCH SA for that purpose and corresponding to six (6) months of operational expenses.

The first version of the WDP was adopted in 2014 and is reviewed on an annual basis. It is approved by the LCH SA Risk Committee, LMC and the Board.

The WDP, which was approved by the Board on November 22nd 2017, has been annexed as Exhibit 5. LCH SA has requested confidential treatment of the plan as Exhibit

5, however the main characteristics are described above and a self comprehensive disclosure, as required by SEC Rule 17AD-22(e)(23), has been published on the LCH website in April 2017.

2. Statutory Basis.

LCH SA believes that the proposed rule change is consistent with the requirements of Section 17A of the Securities Exchange Act of 1934[10] (the "Act") and the regulations thereunder.

Specifically, in accordance with the requirement in Rule 17Ad–22(e)(3)(ii), LCH SA has established a WDP which describes the scenarios and events that may threaten its ability to continue to provide critical[11] clearing services and the processes that LCH SA would follow to manage an orderly wind down of the CCP.

LCH SA has an obligation to guarantee the continuous performance of critical service towards the market and, as such, will not request to enact a wind down without an important triggering event that would cause a failed recovery or a resolution situation. Scenarios have been categorised into the following for the purposes of assessing the effectiveness of the recovery tools and to identify the actions required for the WDP:

- Member default losses resulting in uncovered credit losses or liquidity shortfalls;

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[10] 15 U.S.C. 78q-1.

[11] The CPSS-IOSCO Report states that 'Critical' refers to the importance of the services to the Financial Market Infrastructures (FMIs) participants, other FMIs, and to the smooth functioning of the markets the FMI serves and in particular, the maintenance of financial stability.

- Non-default losses that threaten LCH SA's solvency, arising from general business risks, custody and investment risks, any other large operational risks caused by caused by a human or system failure and
- Uncovered liquidity shortfall associated to these risks.

LCH SA has adopted a Recovery Plan ("RP") with an updated version submitted separately to the SEC[12]. The WDP assumes that all recovery and resolution tools have been exhausted, have failed, and thus require LCH SA to wind down its clearing services. The reasons for these losses are described in more detail in the RP.

The plan describes the governance for triggering the wind down and the approval steps required. The triggering of the plan will have to be decided by LCH SA and LCH Group Boards as well as by a shareholders' meeting. It will have to be approved by ACPR unless LCH SA has already closed down all its clearing activities.

It is to be noted that the plan could be also triggered by the resolution authorities as part of the resolution toolkit if LCH SA has been put into resolution.

From a legal point of view, the WDP would be supported by the Article 2.4.3.1 of the CDS Clearing Rule Book, clause 8 and 8.7 of Appendix 1 of the CDS Clearing Rule Book. It is also supported by similar clauses in the Fixed Income and Cash and Derivatives RuleBook for these business lines. All agreements concluded by LCH SA, particularly with its suppliers and trading venue include wind down clauses.

From an operational point of view, the WDP is supported by detailed procedures where required. They have however not been attached to the plan as they are not specific

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[12] See Supra note 9.

to wind down. They are tested during default fire drills, to verify their applicability and ensure regular training of staff.

From a financial point of view, the WDP is supported by highly liquid assets equivalent to 6 months' worth of Operational expenses. The plan would show that the cost of closure is inferior to that amount.

The plan would take into account the fact that a closure of the CCP could be very disruptive for the market, therefore, in a non member default situation and more generally in a situation where the Business line is not suffering clearing losses, a notice will be given to clearing members in order to give them time to terminate their trades before reaching the early termination trigger.

Moreover, Rule 17Ad–22(e)(15)(i) requires a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to determine the amount of liquid net assets funded by equity based upon its general business risk profile and the length of time required to achieve a recovery or orderly wind-down, as appropriate, of its critical operations and services if such action is taken.

LCH SA believes that the proposed rule change is consistent with this requirement as the plan demonstrates how LCH can achieve an orderly wind down within six (6) months. LCH holds capital, funded by equity, equal to the operating expenses for the six month period required to wind down. The capital is invested in cash or highly liquid securities which could be easily mobilised, even in extreme circumstances. LCH bases its calculation on the latest audited expenses.

The cost to wind down is inferior to this amount. It would take into account the salaries to be paid to staff until they leave the company and include termination costs. Similarly, it takes into account the costs that would have to be paid to external service providers until the service is no longer required. Each contract contains wind down clauses which limit the exit costs that SA would have to pay. Where they exist, they are included in the overall wind down costs. Legal costs that LCH would face in such extreme circumstances cannot be evaluated and have not been included. However, the current overall cost of winding down is very significantly under the 6 months equivalent of Operational Expenses and therefore could accommodate unforeseen costs.

Rule 17Ad–22(e)(15)(ii) requires a clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to provide for holding liquid net assets funded by equity equal to the greater of either six months of its current operating expenses or the amount determined by the board of directors to be sufficient to ensure a recovery or orderly wind-down of critical operations and services of the covered clearing agency, as contemplated by the plans established under Rule 17Ad–22(e)(3)(ii).

LCH SA believes that its proposed WDP meet this requirement given the demonstration that LCH SA can achieve an orderly wind down within six (6) months and at a cost lower than the six (6) months of Operational expenses that it holds in cash or highly liquid securities.

Reviews of the WDP take place annually and where appropriate are aligned to existing annual market exercise regimes (e.g. annual firedrills) in order to simulate the implications of executing the Recovery and/or Wind Down Plans to ensure they remain

relevant. Additionally, where the underlying business model of LCH SA is amended, the change framework in place ensures the implication of the change to the business model is considered with reference to the WDP and the necessary updates made. The WDP is approved by LCH SA ERCo, Risk Committee and Board.

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] LCH SA does not believe that the proposed rule change would impose burdens on competition.

The proposed rule change would establish and maintain LCH SA's WDP in accordance with and for the purposes of the CCA rules. The Plan would not affect clearing member's access to services offered by LCH SA or impose any direct burden on clearing members.

In the extreme case in which LCH SA would have to wind down, and the business line is not suffering clearing losses, the same amount of time would be given to all the Clearing Members to close their positions at LCH SA. In addition, the plan determines that the clearing services would be closed globally, all members being treated identically.

Accordingly, the proposed rule change would not unfairly inhibit market participant's access to LCH SA's services or disadvantage or favor any particular user in relationship to another user.

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[13] 15 U.S.C. 78q-1(b)(3)(I).

Therefore, LCH SA does not believe that the proposed rule change imposes any burden on competition that is 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.

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-2017-013 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-2017-013. 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 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-2017-013 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.[14]

Eduardo A. Aleman
Assistant Secretary

[14] 17 CFR 200.30-3(a)(12).

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