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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-103192; File No. SR-LCH SA-2025-003]

### **Self-Regulatory Organizations; LCH SA; Order Granting Approval of Proposed Rule Change Relating to Revisions to Its Liquidity Risk Modelling Framework**

June 4, 2025.

#### **I. Introduction**

On April 14, 2025, Banque Centrale de Compensation, which conducts business under the name LCH SA (“LCH SA”), filed with the Securities and Exchange Commission (“Commission” or “SEC”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act” or “Exchange Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change (the “Proposed Rule Change”) to amend its Liquidity Risk Modelling Framework (the “Framework”), which describes the Liquidity Stress Testing framework that the Collateral and Liquidity Risk Management department (“CaLM”) of LCH SA uses to ensure 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. The Proposed Rule Change was

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

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

published for comment in the *Federal Register* on April 22, 2025.<sup>3</sup> The Commission has not received any comments on the Proposed Rule Change. For the reasons discussed below, the Commission is approving the Proposed Rule Change.

## **II. Description of the Proposed Rule Change**

LCH SA is a clearing agency that clears, among other things, credit-default swaps (“CDS”).<sup>4</sup> LCH SA is registered with the Commission for clearing CDS that are security-based swaps and with the Commodity Futures Trading Commission for clearing CDS that are swaps. As part of its clearing business, LCH SA maintains cash and other liquid financial resources to meet its financial obligations. The Framework and other procedures describe how LCH SA maintains these resources and manages its liquidity risk, meaning the risk that LCH SA will not have enough liquid financial resources to meet its financial obligations.<sup>5</sup>

LCH SA is proposing to (i) enhance details about how LCH SA models for the liquidity needs arising from the daily settlement process in its RepoClear service related to the auto-collateralization feature in its Framework; (ii) amend how LCH SA accounts for non-defaulting members’ excess collateral in the calculation of the Standalone Operational Target and Liquidity Coverage Ratio (“LCR”) in the Framework; (iii) quantify LCH SA’s liquidity needs arising from clearing members replacing liquid

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<sup>3</sup> Securities Exchange Act Release No. 102875 (April 16, 2025), 90 FR 16903 (April 22, 2025) (File No. SR-LCH SA-2025-003) (“Notice”).

<sup>4</sup> Capitalized terms used but not defined herein have the meanings specified in the LCH SA Rule Book or Framework as applicable.

<sup>5</sup> LCH SA also manages its liquidity risk pursuant to, among other policies and procedures, the Group Liquidity Risk Policy and the Group Liquidity Plan. These policies apply to LCH SA as a subsidiary of LCH Group and an indirect subsidiary of the London Stock Exchange Group plc. *See* Securities Exchange Act Release No. 100470 (July 9, 2024), 89 FR 57467 (July 15, 2024) (File No. SR-LCH SA-2023-007).

resources with non-liquid resources for liquidity needs modelling; (iv) clarify how LCH SA accounts for clearing members switching their respective pledging arrangement for collateral included in LCH SA's Standalone Operational Target; (v) add descriptions of assumptions that LCH SA makes when conducting one of its reverse stress tests; (vi) clarify descriptions of LCH SA's sources of liquidity; and (vii) make other non-substantive changes to correct errors and outdated information for the purposes of conformity. These changes are discussed below according to the sections of the Framework where they are found.

*A. Section 1 Changes*

Section 1 describes the scope, purpose, and use of the Framework.

In subsections 1.6.1, 1.6.1.1, and 1.6.1.3, LCH SA is updating outdated information and references to make the Framework more accurate and better align the Framework with LCH SA's Liquidity Plan.<sup>6</sup> For example, in subsection 1.6.1, LCH SA is removing references to financial facilities that are no longer in place and historical references that are outdated and no longer applicable. Specifically, LCH SA is removing a reference to its use of cross-currency bilateral repo contracts because LCH SA no longer uses bilateral repos for such transactions (it uses triparty repos instead). Similarly, LCH SA is deleting reference to a multicurrency overdraft facility and an intraday credit line, because LCH SA no longer maintains those facilities. Instead, LCH SA maintains an uncommitted overdraft facility only. LCH SA is also replacing reference to "FX spot market transaction" with "FX operation" because the revised description more accurately reflects the process. Finally, in subsection 1.6.1.1, LCH SA is deleting reference to an

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<sup>6</sup> As noted, LCH SA also uses the Group Liquidity Plan to manage its liquidity risk.

operational process having been tested in 2016, because LCH SA tests the process every year.

Subsection 1.6.1.3 contains a table that summarizes LCH SA's potential sources for liquidity resources. These sources generally are cash, non-cash collateral from clearing members, and collateral that CaLM obtains through its investment activities. In this table, LCH SA is updating the description of some of these sources to clarify whether LCH SA includes these sources when quantifying its total liquid resources.<sup>7</sup> LCH SA is amending the table to align with the changes made overall, as well as to remove references to facilities that are no longer in place. For example, LCH SA is removing reference to the Norges bank secured committed facility, because that facility is no longer in place. Instead of the Norges bank secured committed facility, going forward LCH SA will have access to an uncommitted credit line with an international bank to cover overdrafts up to €10mm. Accordingly, in the part of the table describing this source of liquidity, LCH SA is clarifying that this resource is uncommitted.

For non-Euro, non-cash collateral, LCH SA can only obtain Euro cash if the collateral is posted in full title and LCH SA has an arrangement to obtain Euro cash for the collateral. LCH SA has in place a cross-currency tri-party repo arrangement, which it can use to obtain Euro cash for non-Euro, non-cash collateral. LCH SA is clarifying that with respect to this arrangement, CaLM must, as part of its yearly review of LCH SA's Liquidity Plan, demonstrate to LCH SA's board of directors that the arrangement is highly reliable even in case of extreme but plausible market conditions.

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<sup>7</sup> The Framework describes LCH SA's liquidity in terms of sources and needs. To model its overall liquidity, LCH SA quantifies its liquidity resources and its liquidity needs.

Another potential source of liquidity is collateral that CaLM obtains through its investment activities. This source may include collateral that CaLM obtains via repo or reverse repo arrangements. LCH SA is clarifying that where Clearstream is acting as the Central Securities Depository (“CSD”) for such arrangements, the collateral obtained by CaLM is not considered part of LCH SA’s liquidity resources. LCH SA is specifying that such securities are not considered Liquid Resources because LCH SA does not have the right to rehypothecate these securities for purposes of raising liquidity. This updated text will substitute the previous historical reference to the Clearstream triparty repo facility and its exclusion from liquid resources, as LCH SA has not completed the technical setup needed to rehypothecate such securities.

Section 1.6.2 summarizes LCH SA’s liquidity needs. This section identifies three broad categories of liquidity needs: (i) those arising from LCH SA’s business-as-usual operations, which are called operational liquidity requirements; (ii) those arising from Clearing Members’ defaults; and (iii) those arising from the default of LCH SA’s interoperable CCP. Subsection 1.6.2.3 identifies the liquidity needs arising from LCH SA’s operational liquidity requirements. LCH SA is revising the description of the operational liquidity requirements to expand an existing liquidity need and identify an additional liquidity need.

With respect to the existing liquidity need, LCH SA is revising the description from the substitution of cash and 3G-eligible collateral to the substitution of non-liquid resources for liquid resources. This revised description is more accurate and complete because substitution of cash and 3G-eligible collateral are not the only substitutions that

could create a liquidity need for LCH SA.<sup>8</sup> LCH SA is also removing references to the need arising from an increase in Central Bank Guarantee (“CBG”) payments because, operationally speaking, clearing members cannot substitute with CBG payments in the same manner as other collateral.

LCH SA is also adding to subsection 1.6.2.3 an additional, specific operational liquidity requirement, namely, to model the switch from collateral posted under the Full Title Transfer regime to the Pledge regime. When a clearing member switches non-cash collateral from a Full Title Transfer Account (“FTTA”)<sup>9</sup> to a Single Pledge Account (“SPA”), LCH SA can no longer obtain Euro cash for the collateral from the 3G pool.<sup>10</sup> This is because LCH SA cannot pledge to the 3G pool collateral that is held in a SPA. This switch therefore reduces LCH SA’s potential sources of liquidity, and thus represents an operational liquidity need. LCH SA is identifying this specific liquidity need in subsection 1.6.2.3 to better explain how it accounts for such switches when quantifying its liquidity resources and needs.

Subsection 1.6.2.4 describes a particular operational liquidity requirement at LCH SA related to its RepoClear service. Specifically, if a seller of securities delivers the

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<sup>8</sup> For example, replacement of Euro denominated, non-cash collateral with non-Euro denominated, non-cash collateral, could also affect LCH SA’s overall liquidity.

<sup>9</sup> LCH SA can obtain cash for Euro denominated, non-cash collateral that is eligible for pledging at the ECB, by pledging this collateral at Banque de France, in the 3G Pool. LCH SA can only do so with respect to 3G-eligible collateral that a clearing member has posted to LCH SA in FTTA.

<sup>10</sup> LCH SA permits Clearing Members to deposit non-cash collateral either through a FTTA or through a SPA. LCH SA maintains FTTAs at various central securities depositories and maintains SPAs at Euroclear Bank and Bank of New York Mellon (for U.S. Treasuries). As noted, LCH SA can pledge certain of non-cash collateral—mostly Euro-denominated securities—at Banque de France’s 3G pool to obtain Euro cash. LCH SA can only pledge collateral that is deposited through a FTTA. LCH SA cannot pledge securities that a clearing member deposits via a SPA, regardless of whether the securities are otherwise eligible to be pledge to the 3G pool. *See* Securities Exchange Act Release No. 100470 (July 9, 2024), 89 FR 57467, 57469 (July 15, 2024) (File No. SR-LCH SA-2023-007).

securities before the buyer has provided the cash to purchase the securities, LCH SA will need to provide cash to the seller to settle the transaction. Where the securities are eligible for pledging at the ECB, LCH SA will use the auto-collateralization option of ECB's Target 2 Security ("T2S") service to settle the transaction.<sup>11</sup> LCH SA already models this potential liquidity need in the Framework. LCH SA is revising the description of this need to provide additional detail on how the auto-collateralization feature works and how it leads to an operational liquidity requirement. Moreover, LCH SA is adding an explanation as to how certain aspects of the auto-collateralization feature affect the amount of the operational liquidity requirement.

First, LCH SA is proposing to add language to clarify that where LCH SA is unable to effectively demonstrate the effective transfer of securities to the 3G Pool to source central bank liquidity as part of its War Games exercises, the haircut applied to the impacted issuer will be set at 100% and the corresponding liquidity need modelled will be equal to the full amount to be injected to reimburse the auto-collateral credit at end of day.<sup>12</sup>

Second, LCH SA is proposing to add language to specify that any changes to limits to the number of securities that LCH SA can transfer to a CSD using the auto-

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<sup>11</sup> With auto-collateralization, LCH SA can pledge the securities received from the seller at the applicable CSD for those securities. In return, LCH SA obtains cash, which it uses to settle the transaction with the seller. To close out the transaction on its end, LCH SA then attempts to find a legitimate buyer for those securities. If LCH SA is not able to do so, it will transfer cash to the CSD, and in return, the CSD will release the securities from the pledge. LCH SA then pledges these securities at the Banque de France in the 3G pool, receiving in return Euro cash for the value of the securities, minus a haircut.

<sup>12</sup> As explained above, if LCH SA is not able to find a buyer for the securities, it will transfer cash to the CSD and then transfer the securities from the CSD to the 3G pool. If LCH SA is not able, from an operational perspective, to transfer the securities from the CSD to the 3G pool, then LCH SA is not able to pledge the securities at Banque de France and obtain cash. Thus, an operational failure to transfer the securities could effectively result in a 100% liquidity drain.

collateralization feature will be automatically reflected in its modelling of the operational liquidity requirement. These limits are set for each pool of securities that are part of the T2S settlement platform, per type of security. These limits reduce the amount of securities that LCH SA can transfer to a CSD using the auto-collateralization feature, and therefore affect the overall liquidity need generated by LCH SA having to provide cash to a seller of securities.

Finally, LCH SA is also proposing to add language to specify that any changes to the ECB haircuts considered by the model will be automatically reflected in its modelling of this liquidity need.<sup>13</sup> LCH SA is specifying that it models this operational liquidity requirement using the current most conservative ECB haircut in force at the moment of the monitoring.

Furthermore, LCH SA is also proposing to delete a table in this section that reflects the limits by settlement platform and activity as of March 30, 2022, and the associated footnotes. This table and related footnotes are primarily being removed because LCH SA will instead apply a more dynamic approach to determining the maximum liquidity drain that could occur from this operational liquidity requirement, as explained above.

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<sup>13</sup> As noted above, the amount of Euro cash that LCH SA obtains when pledging the securities is reduced by an applicable haircut. This haircut reduces the cash LCH SA receives which, as noted above, LCH SA uses to cover the outlay needed to release the securities from the CSD. Thus, the amount of this haircut reduces the amount of liquidity that LCH SA can ultimately obtain and represents a part of the liquidity need.

*B. Section 4 Changes*

Section 4 of the Framework, titled Model Specification, explains how LCH SA models its liquidity sources and needs.

*1. Operational Liquidity Requirements*

Subsection 4.1 describes in more detail LCH SA's operational liquidity requirements, including the sources of these requirements and the resources that LCH SA uses to meet these requirements. LCH SA is making changes to this subsection to conform to the proposed changes made to Section 1 above. Specifically, LCH SA is (i) revising the operational liquidity requirement resulting from the repayment of excess collateral; (ii) expanding the operational liquidity requirement resulting from the substitution of cash collateral to cover substitutions from liquid resources to non-liquid resources; and (iii) adding an additional, specific operational liquidity requirement to account for members switching collateral from a FTTA to a SPA. LCH SA is also making changes to the assumptions related to margin reduction, to conform to these changes.

*i. Excess Collateral*

With respect to the repayment of excess collateral, the Framework currently accounts for this operational liquidity need by assuming that all excess collateral is withdrawn following a stress event. Excess collateral is cash, or non-cash collateral eligible to be pledged at the 3G pool, that is not needed to meet a clearing member's current margin or default fund requirements. LCH SA currently assumes that clearing members will withdraw 100% of such excess collateral within three days. LCH SA is

modifying this assumption. Going forward, LCH SA will assume that clearing members withdraw excess collateral over seven days.

LCH SA is updating subsection 4.1.5 (“Model Assumptions”) to add new language in a new subpart d, titled “Partial repayment of Excess posted by members.” LCH SA proposes to model for a partial withdrawal of excess collateral based on an indicator calibrated with empirical clearing member data. LCH SA is removing previous references to the assumptions of excess collateral withdrawal over three days. LCH SA is basing the partial withdrawal on the second worst observed relative withdrawal of excess observed during a ten-year historical period, capped at the biggest observed reduction in excess collateral. For this purpose, LCH SA is utilizing up to ten years of historical data, with the data starting in 2018. LCH SA is applying the overall biggest reduction on the first day, and in each intermediary day, applying the compounded excess reduction that is above the 99.7% percentile confidence interval within the historical period. Finally, LCH SA is assuming no increase of any excess collateral from clearing members over the liquidity horizon.

LCH SA is proposing to monitor and update the calibration of this amount daily as new data becomes available, up to a ten-year period. LCH SA is also proposing to implement an enhancement of the daily back testing to ensure any changes in the partial withdrawal scenario are flagged to senior management. Any new extreme will automatically be integrated in the Framework the following day and will be shared with the Head of Market Risk and the Chief Risk Officer. In addition, a deep analysis will be performed to assess the level of excess reduction modelled each intermediary day of the liquidity horizon considering the drivers of the new peak. Results of this exercise may

lead to a review of the split of excess collateral reduction modelled in the intermediary days within the liquidity horizon and any change to the Framework would therefore require review and approval by LCH SA's Executive Risk Committee.

As part of the discussion of withdrawal of excess collateral, the Framework contains a footnote that explains certain collateral is not considered excess collateral when modelling this liquidity requirement. Specifically, securities denominated in Danish Krone, Norwegian Krone, Swedish Krona, Japanese Yen, Swiss Franc, Canadian Dollar, and Australian Dollar are not eligible for pledge at the 3G pool, and therefore are not considered liquidity resources. Because such securities are not liquidity resources, LCH SA does not include them when modelling the effect of the withdrawal of excess collateral. To clarify current practice, LCH SA is proposing to add to this footnote that non-Euro cash and CBGs are excluded as well. LCH SA does not consider non-Euro cash to be liquidity resources, and LCH SA cannot use a central bank guaranty for liquidity unless the clearing member that posted the guaranty is in default. For these reasons, LCH SA does not treat those items as liquidity resources and therefore does not include them when modelling the effect of the withdrawal of excess collateral.

Finally, to conform with the changes in this subsection, LCH is updating the appendices in Section 6, as discussed further below.

*ii. Substitutions from Liquid Resources to Non-Liquid*

*Resources*

As noted above, LCH SA currently considers the liquidity needs arising from the substitution of non-cash collateral for cash and non-3G-eligible collateral for 3G-eligible collateral. LCH SA is expanding this liquidity need by updating subsection 4.1.5 to add

new language in a new subpart e, titled “Substitution from liquid resources to non-liquid resources.” Like the withdrawal of excess collateral, LCH SA will assume clearing members switch to non-liquid resources over seven days.

To accurately account for the switch of liquid resources to non-liquid resources in the assumptions of the Framework, LCH SA will include details on the new proposed calculation and underlying assumptions. To align with these changes, LCH SA will clarify that the substitution refers to liquid resources (and not only cash or ECB-eligible collateral) to non-liquid resources. The result of the calculation represents the target estimated switch over a liquidity horizon of seven days and is based on historical data calibrated daily. LCH SA will build the time series of data utilized in the calculation until it reaches a maximum lookback period of 10 years, beginning with data from 2022. LCH SA will assume clearing members will not switch non-liquid collateral for liquid collateral over the liquidity horizon and will apply the largest absolute net substitution amount historically observed on a single day over the lookback period, on the first day of the liquidity horizon. For each subsequent day, LCH SA will set the compounded net substitution amount above the 99.7% percentile confidence interval within the historical window observed. Finally, LCH SA will monitor the assumptions underlying the calculation of the switch amount daily and will compare these assumptions against the

parameters set up in production according to the described methodology with new extrema automatically reflected in metric calculations.<sup>14</sup>

As part of this change, LCH SA also is proposing to add language clarifying that it assumes 3G-eligible securities can be pledged within the same day for cash. LCH SA must test and validate this assumption annually as part of the testing of its Liquidity Plan. That is, LCH SA will demonstrate its ability to perform the necessary activities for purposes of meeting its regulatory obligations related to ensuring access to liquidity. LCH SA will delete the current reference to testing this assumption during its War Games Q3 2022, as this reference is now outdated.

Finally, LCH SA is deleting the previously applied methodology for tracking asset switches from cash or 3G-eligible securities, equity lodging, and the use of CBGs, as they are no longer relevant in light of the revisions described above. Instead, a more comprehensive and holistic methodology has been introduced as described above to ensure a more accurate and dynamic approach to liquidity management.

*iii. Switching Collateral from a FTTA to a SPA*

Additionally, FCH SA is updating subsection 4.1.5 to add new language in new subparts j and k, to specify that in the calculation of the Operational Target there will be a provision to model the switch from collateral posted under FTTAs, which is included in

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<sup>14</sup> The net substitution amount is calculated for each date and collateral account and is based on a multi-step process that includes the calculation of two metrics: a negative substitution amount, or an amount that reflects a clearing member switching liquid resources with non-liquid resources, and a positive substitution amount, or an amount that reflects a clearing member switching from non-liquid to liquid resources. The net substitution amount represents the difference between the negative substitution amount and the positive substitution amount. LCH SA chooses the aggregate cumulative sum over each day of the liquidity horizon. Consequently, all the references to the former methodology and the related assumptions are proposed to be removed as the substitution is not performed anymore on the maximum historical substitution observed over the last 7 days.

liquid resources, to collateral posted under SPAs, which is considered as non-liquid resources if the member posting the collateral is not in default.<sup>15</sup>

LCH SA will model this switch by comparing the second biggest historical pledged amount observed over a 10-year lookback period with the actual observed pledge collateral amount starting in 2022. The difference between these two components will correspond to the amount LCH SA will include in its daily liquidity requirements and is above the 99.7% percentile. Like the switch from liquid to non-liquid resources, LCH SA will implement additional daily monitoring and recalibrate the calculation of this metric as necessary if a new maximum is observed.

Finally, to conform with the changes in this subsection, LCH SA is updating the appendices in Section 6, as discussed further below.

*iv. Margin Reduction*

As part of its operational liquidity requirements, LCH SA also considers the potential reduction in margin requirements of non-defaulting clearing members in a stressed environment. This aspect of the liquidity is discussed in subsection 4.1.5(g) of the Framework. LCH SA is amending subsection 4.1.5(g) to note that the assumptions used to estimate the margin reduction are monitored daily and in case of a new extreme, will be automatically reflected in the computation of the metric.

Moreover, as is currently explained in subsection 4.1.5(g), LCH SA uses ten years of data to assess the accuracy of its estimate and assumptions for the margin reduction.

Footnote 24 currently states that this ten-year lookback period ended in April 2022. LCH

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<sup>15</sup> This is the case because, as noted above, LCH SA can obtain liquidity for certain collateral using the Banque de France's 3G pool, but only if that collateral is posted under a FTFA. Thus, when a clearing member moves collateral to a SPA, LCH SA can no longer obtain liquidity for that collateral, unless the clearing member is in default.

SA is deleting the reference to April 2022. Rather than ending in April 2022, LCH SA uses a rolling ten-year lookback, and updates the data series daily.

LCH SA is making these changes to conform to how it monitors other aspects of its operational liquidity requirements, like excess collateral and switches discussed above.

## 2. *LCR*

Subsection 4.2 describes how LCH SA calculates its liquidity coverage ratio, or “LCR.” LCH SA uses LCR to determine if it has enough liquidity in case of the default of the two largest clearing member groups. In determining the LCR, LCH SA integrates its operational liquidity requirements, as described in subsection 4.1 of the Framework. In doing so, LCH SA modifies slightly some of the assumptions it uses in calculating its operational liquidity requirements. Specifically, in modelling switches from FTTAs to SPAs, for purposes of the LCR, LCH SA assumes clearing members that have SPAs will switch the maximum amount of collateral allowed, rather than modeling the switch over seven days. LCH SA is making edits to subsection 4.2.5.2.1 (“Operational target”) to note this difference in assumption and to revise the reference to repayment of excess cash. Consistent with the changes described above, LCH SA instead is referencing repayment of excess, given the modelling will no longer be limited to withdrawals of excess cash. Finally, LCH SA is revising the description of the LCR in subsection 4.2.5.2.1 from “LCR” to “LCR liabilities,” to better account for how it considers the requirements associated with the LCR.

## 3. *LCR Euronext Clearing*

Subsection 4.3 describes how LCH SA calculates its LCR with respect to its interoperable CCP, Euronext Clearing. LCH SA uses the Euronext LCR to determine if it

has enough liquidity in case of the default of Euronext. As with the LCR for the default of clearing members, in determining the Euronext LCR LCH SA integrates its operational liquidity requirements, as described in subsection 4.1 of the Framework. In doing so, LCH SA will modify the assumptions it uses in calculating its operational liquidity requirements. Specifically, in modelling switches from FTTAs to SPAs, for purposes of the Euronext LCR LCH SA assumes clearing members that have SPAs will switch the maximum amount of collateral allowed, rather than modeling the switch over seven days. LCH SA is making edits to subsection 4.3.5.4 to note this difference in assumption.

Moreover, in subsection 4.3.2, LCH SA is correcting a typo and revising the previous name of the interoperable CCP, “CC&G” to the current name, “Euronext Clearing.”

### *C. Model Performance Testing and Ongoing Monitoring*

Section 5 describes how LCH SA conducts ongoing monitoring and testing of its liquidity requirements. Subsection 5.3 describes LCH SA’s reverse stress tests. As part of its ongoing monitoring of the Framework, LCH SA performs independent reverse stress tests for certain risk factors that could result in LCH SA not having enough liquidity. One of these independent reverse stress tests considers the effects of downgrades to the ratings of countries that are core and peripheral to the Eurozone. LCH SA assumes that such a situation would lead to an increase in ECB haircuts. As noted above, an increase to these haircuts decreases the amount of liquidity LCH SA can obtain using the 3G pool. LCH SA is maintaining this scenario but revising some of the associated assumptions, which are described in subsection 5.3.1 (“Independent stress of various risk factors”). LCH SA

is noting that the magnitude of the downgrade is based on the maximum simultaneous downgrade over seven days, aggregated per type of debt. After computing the downgraded rating, LCH SA will use the rules defined by the central bank to assign each issuer a haircut category and a haircut step in order to apply the parameter aligned with the updated rating to step 3 (which is considered the most conservative haircut category applied by the ECB before collateral becomes ineligible for pledge). LCH SA notes that, because of the historical measures taken by ECB during stressed periods (*e.g.*, Eurozone crisis) and the high quality of non-cash collateral, the ineligibility of issuers to pledge to the ECB is not considered a plausible scenario. LCH SA is making updates to the description of the macro-economic scenario stress test in subsection 5.3.2.3 to align with the changes in subsection 5.3.1. Moreover, LCH SA is adding a note in 5.3.2.3 that a particular table is for illustrative purposes only.

#### *D. Appendix*

Section 6 contains appendices to the Framework that provide further detail on certain operational processes and analyses used in the Framework. They also summarize certain aspects of the Framework and present examples of reports that LCH SA uses to monitor its liquidity. To conform with the changes in the Framework, LCH SA is also making conforming changes to this section.

##### *1. Members behaviour analysis*

Appendix 2 (subsection 6.2) analyzes the expected behavior of LCH SA's clearing members during a period of stress, with a focus on how non-defaulting clearing members may act during the default of a clearing member. LCH SA proposes to make updates to Appendix 2 to conform to the changes and assumptions discussed above, such

as the assumptions related to withdrawal of excess collateral, switches from liquid resources to non-liquid resources, and switches from FTTAs to SPAs.

2. *Reminder of SA's sources of liquidity and related risk drivers*

Appendix 3 (subsection 6.3) summarizes LCH SA's various sources of liquidity, risks that could reduce the amount of liquidity available from those sources, and the associated scenario or metric related to LCH SA's use of those sources, like operational or LCR. LCH SA proposes to make changes to Appendix 3 to conform to the changes discussed above. For example, LCH SA is renaming a discussion of withdrawal of excess cash to withdrawal of excess collateral and noting that the withdrawal could be characterized as "partial," because LCH SA assumes it occurs over seven days.

3. *Liquidity risk drivers synthesis by reports*

Appendix 4 (subsection 6.4), titled "Liquidity risk drivers synthesis by reports," summarizes certain reports that LCH SA uses to monitor its liquidity. LCH SA proposes to make changes to Appendix 4 to conform to the changes discussed above. For example, LCH SA is adding a provision related to switches from FTTAs to SPAs.

4. *Liquidity risk monitoring reports*

Appendix 5 (subsection 6.5) presents a sample daily liquidity monitoring report. LCH SA is updating Appendix 5 to include a current version of this report, updated for the changes discussed above.

5. *Stress scenarios list*

Appendix 7 (subsection 6.7) is a list of the scenarios that LCH SA uses in stress testing its liquidity resources. LCH SA proposes to add language clarifying that the scenario list disclosed is for informational purposes only and represents the list of

scenarios at the time of drafting the current version of the Framework. The actual computation of liquidity metrics is dependent on the actual scenarios used to calibrate the default fund for LCH SA's different services and thus may differ. Moreover, the list in Appendix 7 currently identifies the stress scenarios by name and assigns each stress scenario an identification number. LCH SA is removing the identification numbers, as LCH SA believes they are no longer needed.

*E. Operating Model and main data source used to run liquidity metrics*

To address an independent Model Validation recommendation, LCH SA is adding a new section 7 to the Framework. Section 7 is a new appendix that will show a high-level functional workflow regarding the computation of liquidity metrics. The chart will be disclosed for informational purposes only, such that any revision will be made if LCH SA amends its methodology or the Framework.

*F. New Procedure: LCR metric compliant with SEC rules and US established practices*

To complement the changes to the Framework, LCH SA is also adopting a new procedure. The new procedure describes how LCH SA establishes a LCR for purposes of complying with the Commission's liquidity requirements.<sup>16</sup> The procedure will detail the resources that LCH SA includes when calculating this LCR, the specific methodology for this LCR, the escalation process for any potential breaches in this LCR, the frequency of

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<sup>16</sup> 17 CFR 240.17ad-22(e)(7).

LCH SA’s review of this methodology, and the controls in place regarding the calculation and ongoing review of this LCR metric.

### **III. Discussion and Commission Findings**

Section 19(b)(2)(C) of the Act requires the Commission to approve a proposed rule change of a self-regulatory organization if it finds that the Proposed Rule Change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to the organization.<sup>17</sup> Under the Commission’s Rules of Practice, the “burden to demonstrate that a proposed rule change is consistent with the Exchange Act and the rules and regulations issued thereunder . . . is on the self-regulatory organization [‘SRO’] that proposed the rule change.”<sup>18</sup>

The description of a proposed rule change, its purpose and operation, its effect, and a legal analysis of its consistency with applicable requirements must all be sufficiently detailed and specific to support an affirmative Commission finding,<sup>19</sup> and any failure of an SRO to provide this information may result in the Commission not having a sufficient basis to make an affirmative finding that a proposed rule change is consistent with the Exchange Act and the applicable rules and regulations.<sup>20</sup> Moreover, “unquestioning reliance” on an SRO’s representations in a proposed rule change is not sufficient to justify Commission approval of a proposed rule change.<sup>21</sup>

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<sup>17</sup> 15 U.S.C. 78s(b)(2)(C).

<sup>18</sup> Rule 700(b)(3), Commission Rules of Practice, 17 CFR 201.700(b)(3).

<sup>19</sup> *Id.*

<sup>20</sup> *Id.*

<sup>21</sup> *Susquehanna Int’l Group, LLP v. Securities and Exchange Commission*, 866 F.3d 442, 447 (D.C. Cir. 2017).

After carefully considering the Proposed Rule Change, the Commission finds that the Proposed Rule Change is consistent with the requirements of the Exchange Act and the rules and regulations thereunder applicable to LCH SA. More specifically, for the reasons given below, the Commission finds that the Proposed Rule Change is consistent with Section 17A(b)(3)(F) of the Act,<sup>22</sup> Rule 17Ad-22(e)(7)(i), and Rule 17Ad-22(e)(7)(vi)(B).<sup>23</sup>

*A. Consistency with Section 17A(b)(3)(F) of the Act*

Section 17A(b)(3)(F) of the Act requires, among other things, that LCH SA's rules be designed to promote the prompt and accurate clearance and settlement of securities transactions and, to the extent applicable, derivative agreements, contracts, and transactions.<sup>24</sup> Based on review of the record, and for the reasons discussed below, LCH SA's changes are consistent with the prompt and accurate clearance and settlement of securities transactions because they improve LCH SA's management of its liquidity risk.

LCH SA relies on the Framework to support its management of liquidity risk arising from a potential Clearing Member default, default of Euronext Clearing, and operational liquidity requirements. Managing such risks, such as through the maintenance of liquid resources sufficient to meet payment obligations, reduces the likelihood that LCH SA would fail to make payments when due, thereby avoiding disruptions to the settlement of transactions for which such payments are due. Thus, the Framework, as a rule of LCH SA, supports the prompt and accurate clearance and settlement of the derivatives transactions LCH SA clears, including security-based swaps.

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<sup>22</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>23</sup> 17 CFR 240.17ad-22(e)(7)(i) and 17 CFR 240.17ad-22(e)(7)(vi)(B).

<sup>24</sup> 15 U.S.C. 78q-1(b)(3)(F).

As described above, LCH SA is amending the Framework to clarify the description of certain sources of liquidity. Specifically, with respect to a cross-currency tri-party repo arrangement that LCH SA can use to obtain Euro cash for non-Euro, non-cash collateral, every year CaLM must demonstrate to LCH SA's Board that the arrangement is highly reliable even in case of extreme but plausible market conditions. Moreover, with respect to collateral that CaLM obtains via repo or reverse repo arrangements, where Clearstream is CSD, the collateral obtained by CaLM is not considered part of LCH SA's liquidity resources. These changes will make the Framework more accurate by clarifying circumstances in which certain sources should not be counted as part of LCH SA's liquidity resources.

LCH SA also is amending the Framework to clarify details about how it models for the liquidity needs arising from the daily settlement process and how it accounts for non-defaulting members withdrawing excess collateral. Specifically, LCH SA is modifying the previous assumption that 100 percent of excess collateral is withdrawn immediately following a stress event, to more closely align with current empirical clearing member behaviors and with the appropriate liquidity horizon period. LCH SA is also adding to the calculation of operational liquidity requirements the needs arising from switches to non-liquid resources from liquid resources and to SPAs from FTTAs. These changes will make the Framework more accurate, by making LCH SA's assumptions about the withdrawal of excess collateral more closely match how clearing members have withdrawn excess collateral and including additional liquidity needs presented by switches to non-liquid resources and to SPAs.

LCH SA also is amending the Framework to provide additional detail about how it utilizes auto-collateralization to settle transactions in its RepoClear service. As described above, using auto-collateralization and pledging to the 3G pool allows LCH SA to settle transactions where a buyer of securities has failed to perform. LCH SA can obtain cash to settle the transaction while potentially limiting the reduction in its liquidity to the haircut charged at the 3G pool. Describing this process in detail will make the Framework more informative and help establish a consistent process for settling RepoClear transactions using auto-collateralization, when needed.

LCH SA is also enhancing the Framework to better describe aspects of one of its reverse stress tests, correct errors, and update outdated information. These changes, like the other changes discussed above, make the Framework more accurate and clearer, improving the effectiveness of the Framework as a tool supporting LCH SA's management of liquidity risk arising from a potential member default, default of Euronext Clearing, and operational liquidity requirements, which facilitates prompt and accurate clearance and settlement.

Finally, LCH SA is establishing a new procedure to detail how it establishes a LCR that specifically complies with the Commission's liquidity requirements. This new procedure will describe the resources that LCH SA includes when calculating this LCR, the specific methodology for this LCR, the escalation process for any potential breaches, and the ongoing review of this LCR. This new procedure will help establish a clear and

consistent methodology for demonstrating compliance with the Commission's liquidity requirements.

These changes, taken together, would improve LCH SA's ability to determine the amount of its liquidity needs and the amount of its resources to satisfy those liquidity needs. More accurately determining the amount of LCH SA's liquidity needs and resources would thereby improve LCH SA's ability to control and quantify its liquidity risk. Control over and accurate measurement of liquidity risk is necessary to ensure that LCH SA's liquidity needs do not exceed its resources so that LCH SA can meet its payment obligations on time without disrupting settlement. Thus, the proposed changes to the Framework promote prompt and accurate clearance and settlement.

Based on the foregoing, the Proposed Rule Change is consistent with the requirements of Sections 17A(b)(3)(F) of the Act.<sup>25</sup>

*B. Consistency with Rules 17Ad-22(e)(7)(i) and 17Ad-22(e)(7)(vi)(B) under the Act*

Rules 17Ad-22(e)(7)(i) and (e)(7)(vi)(B) require LCH SA to establish, implement, maintain, and enforce written policies and procedures reasonably designed to effectively measure, monitor, and manage the liquidity risk that arises in or is borne by LCH SA, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity by, at a minimum:

- maintaining sufficient liquid resources at the minimum in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a

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<sup>25</sup> *Id.*

wide range of foreseeable stress scenarios that includes, but is not limited to, the default of the participant family that would generate the largest aggregate payment obligation for the covered clearing agency in extreme but plausible market conditions;<sup>26</sup> and

- determining the amount and regularly testing the sufficiency of the liquid resources held for purposes of meeting the minimum liquid resource requirement under 17Ad-22(e)(7)(i) by, at a minimum, conducting a comprehensive analysis on at least a monthly basis of the existing stress testing scenarios, models, and underlying parameters and assumptions used in evaluating liquidity needs and resources, and considering modifications to ensure they are appropriate for determining the LCH SA's identified liquidity needs and resources in light of current and evolving market conditions.<sup>27</sup>

As discussed above, LCH SA is proposing to clarify certain aspects of the Framework, such as when certain potential sources are included in its liquidity resources, the extent of certain liquidity needs, and how it uses auto-collateralization to settle transactions in its RepoClear business line. LCH SA is also adding, as operational liquidity requirements, the needs arising from switches to non-liquid resources from liquid resources and to SPAs from FTTAs. LCH SA is also modifying how it assumes non-defaulting clearing members withdraw excess collateral. Finally, LCH SA is adding a new procedure to describe the methodology it uses for demonstrating compliance with the Commission's liquidity requirements. These changes will improve the Framework by

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<sup>26</sup> 17 CFR 240.17ad-22(e)(7)(1).

<sup>27</sup> 17 CFR 240.17ad-22(e)(7)(vi)(B).

more accurately determining the amount of LCH SA's liquidity needs and resources. In doing so, the Proposed Rule Change will help ensure that the Framework is designed to effectively measure, monitor, and manage the liquidity risk that arises in or is borne by LCH SA and that LCH SA maintains sufficient liquid resources consistent with Rule 17Ad-22(e)(7)(i).<sup>28</sup>

As also discussed above, LCH SA will monitor daily the assumptions related to certain of its liquid needs. Specifically, LCH SA will monitor daily the assumptions related to how it models the withdrawal of excess collateral, switches from liquid to non-liquid resources, margin reduction rate, and switches from FTTAs to SPAs. Moreover, LCH SA will monitor and report daily the specific LCR that it uses to demonstrate compliance with the Commission's liquidity requirements. These changes will help ensure that LCH SA conducts comprehensive analysis on at least a monthly basis of the underlying parameters and assumptions used in evaluating its liquidity needs consistent with Rule 17Ad-22(e)(7)(vi)(B).<sup>29</sup>

Based on the foregoing, the Proposed Rule Change is consistent with the requirements of Rules 17Ad-22(e)(7)(i) and (e)(7)(vi)(B) under the Act.<sup>30</sup>

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<sup>28</sup> 17 CFR 240.17ad-22(e)(7)(i).

<sup>29</sup> 17 CFR 240.17ad-22(e)(7)(vi)(B).

<sup>30</sup> 17 CFR 240.17ad-22(e)(7)(i) and (e)(7)(vi)(B).

#### **IV. Conclusion**

On the basis of the foregoing, the Commission finds that the Proposed Rule Change is consistent with the requirements of the Act, and in particular, Section 17A(b)(3)(A) of the Act<sup>31</sup> and Rules 17Ad-22(e)(7)(i) and (e)(7)(vi)(B) under the Act.<sup>32</sup>

IT IS THEREFORE ORDERED pursuant to Section 19(b)(2) of the Act that the Proposed Rule Change (SR-LCH SA-2025-003) be, and hereby is, approved.<sup>33</sup>

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.<sup>34</sup>

**Stephanie Fouse,**

*Assistant Secretary.*

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<sup>31</sup> 15 USC 78q-1(b)(3)(A).

<sup>32</sup> 17 CFR 240.17ad-22(e)(7)(i) and (e)(7)(vi)(B).

<sup>33</sup> In approving the Proposed Rule Change, the Commission considered the proposal's impacts on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>34</sup> 17 CFR 200.30-3(a)(12).