

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 88 SECURITIES AND EXCHANGE COMMISSION File No.* SR - 2020 - * 006
 WASHINGTON, D.C. 20549
 Form 19b-4 Amendment No. (req. for Amendments *)

Filing by Banque Centrale de Compensation
 Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
Section 3C(b)(2) * <input type="checkbox"/>	

Exhibit 2 Sent As Paper Document 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 Liquidity Risk Modeling Framework in order to address more accurately the liquidity requirements in the event of the assignment and exercise of equity American options.

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 * Meziane Last Name * Mohamed
 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 10/20/2020 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 Proposed Rule Change**

(a) Banque Centrale de Compensation, which conducts business under the name LCH SA (“LCH SA”), is proposing to amend its Liquidity Risk Modeling Framework (the “**Framework**”) in order to address more accurately the liquidity requirements in the event of the assignment and exercise of equity American options (the “**Proposed Rule Change**”).

The text of the proposed rule change has been annexed as Exhibit 5.¹

(b) Not applicable.

(c) Not applicable.

Item 2. Procedures of the Self-Regulatory Organization

LCH SA has completed all of the required actions to be taken to approve and authorize the Proposed Rule Change. The Proposed Rule Change was approved by the LCH SA Executive Risk Committee (“**ERCo**”) on 9th of January 2020 and by the LCH SA Risk Committee (“**RiskCo**”) on 28th of January 2020. No further approvals to authorize this proposed rule change 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

¹ All capitalized terms not defined herein have the same definition as in the CDS Clearing Rule Book, Supplement or Procedures, as applicable.

On December 3, 2019, Banque Centrale de Compensation, which conducts business under the name LCH SA (“**LCH SA**”), filed with the Securities and Exchange Commission (“**Commission**”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“**Act**”),² and Rule 19b-4 thereunder³ the filing LCH SA-2019-007 to amend its Framework. This proposed rule change was duly approved by the Commission on January 24, 2020.⁴

LCH is now proposing to amend the Framework in order to address one recommendation made by the independent model validation team during the 2018/2019 review.

The purpose of the enhancement is to include, from a liquidity perspective, the funding risk arising from the physical settlement linked to the exercise of American options under stressed liquidity conditions prior to expiry. This is an extension of the scope as American and European options exercise at expiry is already covered by the current approved Framework.

Because Equity American options can be exercised before expiry, there is a risk of assignment and exercise of Equity American options at any time before expiry when the 2 largest clearing members in terms of liquidity needs for the covered clearing agency (Cover2 members) may start facing liquidity issues. During that period, the covered clearing agency could, as a result, observe an increase in the liquidity needs linked to the settlement of equity American options. This concern needs to be modelled and tackled within the liquidity coverage ratio (“**LCR**”) which

² 15 U.S.C. 78s(b)(1).

³ 17 CFR 240.19b-4

⁴ Self-Regulatory Organizations; LCH SA; Order Approving Proposed Rule Change Relating to Amendments to LCH SA’s Liquidity Risk Modelling Framework; Exchange Act Release No. 88039 (Jan. 24, 2020), 85 FR 5489 (Jan. 30, 2020) (LCH SA-2019-007)

is the ratio of assets available over the liabilities of LCH SA under the stressed scenario of the default of the 2 largest clearing members (in terms of liquidity needs).

This means that on a daily basis the LCR will identify all the potential positions that are in the money or at the money on the day of the computation and on the next business day as well. Then, given the potential option exercise, it will generate a liquidity need.

In practice, the daily process will work as follows:

- Computation of the liquidity needs coming from the equity American options that are in the money or at the money, by applying no market stress.
- Computation of the liquidity needs coming from the options that are in the money or at the money, by applying a stress scenario to the equities.
- We will select the positions consistent with the 2 largest clearing members in terms of liquidity needs for both modes described above and will retain the most punitive one.
- This amount will then be added to the current cash equity settlement amount in the LCR.

A six month back test from May to November 2019 showed the impact on the LCH SA LCR is less than 0,5% with the largest impact being 0,86% and occurred on the 13th of November 2019. LCR is an internal indicator computed at the clearing house level and there is no specific impact on any particular Clearing Member.

In order to introduce the Proposed Rule Change, LCH SA will need to slightly modify the Framework. The term “expiry” will be replaced by “exercise” in both sections 5.3.1.3 and 5.3.4 and the term “at expiry” will be replaced by “anytime by defaulting members in order to raise liquidity” in the paragraph Option Expiry of section 5.3.1.3.

(b) Statutory Basis

LCH SA believes that the Proposed Rule Change is consistent with the requirements of Section 17A of the Securities Exchange Act of 1934⁵ (the “Act”) and the regulations thereunder, including the standards under Rule 17Ad-22.⁶ In particular, Section 17(A)(b)(3)(F)⁷ of the Act 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 derivative agreements, contracts, and transactions and to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.⁸ As described above, LCH SA is proposing to amend the Framework to address specifically LCH SA’s liquidity requirements in the event of the assignment and exercise of equity American options involving a Defaulting Clearing Member during any liquidation of such clearing member. The proposed amendment will assist LCH SA in defining more accurately its liquidity requirements by assuring that LCH SA will maintain appropriate levels of liquidity in the event of the assignment and exercise of such American options involving a Defaulting Clearing Member. By anticipating and ensuring that LCH SA meets its liquidity needs in such case, the proposed rule change would help ensure that LCH SA is able to meet its financial obligations and would allow LCH SA to continue to meet its obligation to promptly and accurately clear and settle securities transactions in such situations. By taking into account the funding risk that may arise prior to expiry of American options, the Proposed Rule Change is also helping to safeguard the securities and funds in LCH SA's control and maintain an

⁵ 15 U.S.C. 78q-1.

⁶ 17 CFR 240.17Ad-22.

⁷ 15 U.S.C. 78q-1(b)(3)(F).

⁸ 15 U.S.C. 78q-1(b)(3)(F).

effective liquidity risk management. For these reasons, LCH SA believes that the Proposed Rule Change is consistent with Section 17A(b)(3)(F) of the Act.

Further, Rule 17Ad-22(e)(7) requires a covered clearing agency to “effectively measure, monitor, and manage the liquidity risk that arises in or is borne by the covered clearing agency, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity”.⁹

Regulation 17dA-22(e)(4)(ii) also requires a covered clearing agency that is involved in activities with a more complex risk profile, *e.g.*, that provides clearing services for security-based swaps, to maintain and enforce written policies and procedures reasonably designed to effectively “measure, monitor, and manage its credit exposures from its payment, clearing and settlement processes” to assure that it maintains additional financial resources to enable it to cover a wide range of foreseeable stress scenarios that include the default of the two participant family clearing members that would potentially cause the largest aggregate credit exposure for LCH SA in extreme but plausible market conditions.¹⁰

As noted above, the amended Framework is designed to enhance LCH SA’s to measure, monitor, and manage the liquidity risk that may arise in connection with its activities as a covered clearing agency. As such the amendments to the Framework regarding LCH SA’s liquidity requirements in the event of the assignment and exercise of equity American options involving a defaulting clearing member so that LCH SA can also maintain sufficient liquid resources at the minimum in all relevant currencies to effect the relevant settlement process of payment obligations with a

⁹ 17 C.F.R. § 240.17Ad-22(e)(7).

¹⁰ 17 C.F.R. § 240.17Ad-22(e)(4)(ii).

higher degree of confidence are consistent with the requirements of Regulation 17dA-22(e)(4)(ii) and 17dA-22(e)(7).¹¹

Regulation 17dA-22(e)(4)(i) and (vi)(A) requires a clearing agency to maintain and enforce written policies and procedures reasonably designed to conduct stress testing of its total financial resources once each day using standard predetermined parameters and assumptions to assure that it has sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence.¹²

As discussed above, by clarifying the daily process for computation of the liquidity needs coming from the physical settlement linked to the exercise of equity American options under stressed liquidity conditions, the proposed amendments enhance LCH SA's written policies and procedures with regard to stress testing practices and thereby assures that LCH SA maintains sufficient additional financial resources to enable it to cover a wide range of stress scenarios that include the default of the two participant family clearing members that would potentially cause the largest aggregate credit exposure for LCH SA in extreme but plausible market conditions. As such, therefore, the proposed amendments, therefore, are consistent with the requirements of Regulation 17dA-22(e)(4)(i) and (vi)(A).¹³

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

¹¹ 17 C.F.R. § 240.17Ad-22(e)(4)(ii) and 17dA-22(e)(7).

¹² 17 C.F.R. § 240.17Ad-22(e)(4)(i) and (vi)(A).

¹³ Id.

purposes of the Act.¹⁴ LCH SA does not believe the Proposed Rule Change would have any impact, or impose any burden, on competition. The Proposed Rule Change does not address any competitive issue or have any impact on the competition among central counterparties. LCH SA operates an open access model, and the Proposed Rule Change will have no effect on this model for any clearing member.

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.

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)

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

(d) Not applicable.

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

¹⁴ 15 U.S.C. 78q-1(b)(3)(I).

The Proposed Rule Change is not based on the rules of another self-regulatory organization or the Commission.

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 rule change.

- LCH SA Liquidity Risk Modeling Framework: **Omitted and filed separately with the Commission. 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-2020-006)

[DATE]

Self-Regulatory Organizations; LCH SA; Notice of Filing of Proposed Rule Change Relating to the amendments of LCH SA Risk Liquidity Modeling Framework.

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 to amend its Liquidity Risk Modeling Framework (the “**Framework**”) in order to address more accurately the liquidity requirements in the event of the assignment and exercise of equity American options (the “**Proposed Rule Change**”).

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

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

On December 3, 2019, Banque Centrale de Compensation, which conducts business under the name LCH SA (“**LCH SA**”), filed with the Securities and Exchange Commission (“**Commission**”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“**Act**”),⁴ and Rule 19b-4 thereunder⁵ the filing LCH SA-2019-007 to amend its Framework. This proposed rule change was duly approved by the Commission on January 24, 2020.⁶

LCH SA is now proposing to amend the Framework in order to address one recommendation made by the independent model validation team during the 2018/2019 review.

The purpose of the enhancement is to include, from a liquidity perspective, the funding risk arising from the physical settlement linked to the exercise of American

⁴ 15 U.S.C. 78s(b)(1).

⁵ 17 CFR 240.19b-4

⁶ Self-Regulatory Organizations; LCH SA; Order Approving Proposed Rule Change Relating to Amendments to LCH SA's Liquidity Risk Modelling Framework; Exchange Act Release No. 88039 (Jan. 24, 2020), 85 FR 5489 (Jan. 30, 2020) (LCH SA-2019-007)

options under stressed liquidity conditions prior to expiry. This is an extension of the scope as American and European options exercise at expiry is already covered by the current approved Framework.

Because equity American options can be exercised before expiry, there is a risk of assignment and exercise of Equity American options at any time before expiry when the 2 largest clearing members in terms of liquidity needs for the covered clearing agency (Cover2 members) may start facing liquidity issues. During that period, the covered clearing agency could, as a result, observe an increase in the liquidity needs linked to the settlement of equity American options. This concern needs to be modelled and tackled within the liquidity coverage ratio (“**LCR**”) which is the ratio of assets available over the liabilities of LCH SA under the stressed scenario of the default of the 2 largest clearing members (in terms of liquidity needs).

This means that on a daily basis the LCR will identify all the potential positions that are in the money or at the money on the day of the computation and on the next business day as well. Then, given the potential option exercise, it will generate a liquidity need.

In practice, the daily process will work as follows:

- Computation of the liquidity needs coming from the equity American options that are in the money or at the money, by applying no market stress.
- Computation of the liquidity needs coming from the options that are in the money or at the money, by applying a stress scenario to the equities.
- We will select the positions consistent with the 2 largest clearing members in terms of liquidity needs for both modes described above and will retain the most punitive one.

- This amount will then be added to the current cash equity settlement amount in the LCR.

A six month back test from May to November 2019 showed the impact on the LCH SA LCR is less than 0,5% with the largest impact being 0,86% and occurred on the 13th of November 2019. LCR is an internal indicator computed at the clearing house level and there is no specific impact on any particular Clearing Member.

In order to introduce the Proposed Rule Change, LCH SA will need to slightly modify the Framework. The term “expiry” will be replaced by “exercise” in both sections 5.3.1.3 and 5.3.4 and the term “at expiry” will be replaced by “anytime by defaulting members in order to raise liquidity” in the paragraph Option Expiry of section 5.3.1.3.

(b) Statutory Basis

LCH SA believes that the Proposed Rule Change is consistent with the requirements of Section 17A of the Securities Exchange Act of 1934⁷ (the “Act”) and the regulations thereunder, including the standards under Rule 17Ad-22.⁸ In particular, Section 17(A)(b)(3)(F)⁹ of the Act 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 derivative agreements, contracts, and transactions and to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.¹⁰ As described above, LCH SA is proposing to amend the Framework to address specifically LCH SA’s liquidity requirements in the event of the assignment and exercise of equity American

⁷ 15 U.S.C. 78q-1.

⁸ 17 CFR 240.17Ad-22.

⁹ 15 U.S.C. 78q-1(b)(3)(F).

¹⁰ 15 U.S.C. 78q-1(b)(3)(F).

options involving a Defaulting Clearing Member during any liquidation of such clearing member. The proposed amendment will assist LCH SA in defining more accurately its liquidity requirements by assuring that LCH SA will maintain appropriate levels of liquidity in the event of the assignment and exercise of such American options involving a Defaulting Clearing Member. By anticipating and ensuring that LCH SA meets its liquidity needs in such case, the proposed rule change would help ensure that LCH SA is able to meet its financial obligations and would allow LCH SA to continue to meet its obligation to promptly and accurately clear and settle securities transactions in such situations. By taking into account the funding risk that may arise prior to expiry of American options, the Proposed Rule Change is also helping to safeguard the securities and funds in LCH SA's control and maintain an effective liquidity risk management. For these reasons, LCH SA believes that the Proposed Rule Change is consistent with Section 17A(b)(3)(F) of the Act.

Further, Rule 17Ad-22(e)(7) requires a covered clearing agency to “effectively measure, monitor, and manage the liquidity risk that arises in or is borne by the covered clearing agency, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity”.¹¹

Regulation 17dA-22(e)(4)(ii) also requires a covered clearing agency that is involved in activities with a more complex risk profile, *e.g.*, that provides clearing services for security-based swaps, to maintain and enforce written policies and procedures reasonably designed to effectively “measure, monitor, and manage its credit exposures from its payment, clearing and settlement processes” to assure that it

¹¹ 17 C.F.R. § 240.17Ad-22(e)(7).

maintains additional financial resources to enable it to cover a wide range of foreseeable stress scenarios that include the default of the two participant family clearing members that would potentially cause the largest aggregate credit exposure for the covered clearing agency in extreme but plausible market conditions.¹²

As noted above, the amended Framework is designed to enhance LCH SA's to measure, monitor, and manage the liquidity risk that may arise in connection with its activities as a covered clearing agency. As such the amendments to the Framework regarding LCH SA's liquidity requirements in the event of the assignment and exercise of equity American options involving a defaulting clearing member so that LCH SA can also maintain sufficient liquid resources at the minimum in all relevant currencies to effect the relevant settlement process of payment obligations with a higher degree of confidence are consistent with the requirements of Regulation 17dA-22(e)(4)(ii) and 17dA-22(e)(7).¹³

Regulation 17dA-22(e)(4)(i) and (vi)(A) requires a clearing agency to maintain and enforce written policies and procedures reasonably designed to conduct stress testing of its total financial resources once each day using standard predetermined parameters and assumptions to assure that it has sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence.¹⁴

As discussed above, by clarifying the daily process for computation of the liquidity needs coming from the physical settlement linked to the exercise of equity American options under stressed liquidity conditions, the proposed amendments enhance

¹² 17 C.F.R. § 240.17Ad-22(e)(4)(ii).

¹³ 17 C.F.R. § 240.17Ad-22(e)(4)(ii) and 17dA-22(e)(7).

¹⁴ 17 C.F.R. § 240.17Ad-22(e)(4)(i) and (vi)(A).

LCH SA's written policies and procedures with regard to stress testing practices and thereby assures that LCH SA maintains sufficient additional financial resources to enable it to cover a wide range of stress scenarios that include the default of the two participant family clearing members that would potentially cause the largest aggregate credit exposure for LCH SA in extreme but plausible market conditions. As such, therefore, the proposed amendments, therefore, are consistent with the requirements of Regulation 17dA-22(e)(4)(i) and (vi)(A).¹⁵

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.¹⁶ LCH SA does not believe the Proposed Rule Change would have any impact, or impose any burden, on competition. The Proposed Rule Change does not address any competitive issue or have any impact on the competition among central counterparties. LCH SA operates an open access model, and the Proposed Rule Change will have no effect on this model for any clearing member.

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

¹⁵ Id

¹⁶ 15 U.S.C. 78q-1(b)(3)(I).

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-2020-006 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-2020-006. 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, 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-2020-006 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.¹⁷

Secretary

¹⁷ 17 CFR 200.30-3(a)(12).

EXHIBIT 5

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