

Via CFTC Portal

26 May 2023

Mr Christopher J. Kirkpatrick
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street NW
Washington, DC 20581

Re: Proposed amendments to LCH SA Liquidity Risk Modelling Framework

Dear Mr. Kirkpatrick,

Pursuant to CFTC regulation §40.6(a), LCH SA (“**LCH SA**”), a derivatives clearing organization (“**DCO**”) registered with the Commodity Futures Trading Commission (the “**CFTC**”), is submitting for self-certification the proposed amendments to its Liquidity Risk Modelling Framework (the “**Framework**”), which describes the Liquidity Stress Testing framework by which the Collateral and Liquidity Risk Management department service (“**CaLRM**”) of LCH SA assures 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**”).¹

The Proposed Rule Change is expected to be effective by mid-June 2023 however, in no event, will either be implemented earlier than 10 business days after the proposed changes are filed with the CFTC.

The text of the Proposed Rule Change is attached hereto as Appendix.

Part I: Explanation and Analysis

LCH SA is proposing to reorganize the structure of the Framework to conform the Framework to the common template adopted by LSEG for use by each of its affiliates. The content of the current Framework has been fully transferred to the new LSEG template structure without any changes in the wording of the existing paragraphs of the current Framework. To the extent that some general parts of the standardized LSEG template were not fully covered in the current Framework, these sections were either: (a) completed using the information taken from other LCH SA internal documents; or (b) drafted by CaLRM to increase the level of detail of the Framework.

¹ Capitalized terms used but not defined herein shall have the meaning specified in LCH SA’s existing CDS Clearing Rule Book or Clearing Supplement.

Part II: Description of Rule Changes

LCH SA is proposing to modify the Framework as follows:

An executive summary has been added to the Framework to provide an overview of the Framework and highlight its main principles along with the methodology for the assessment of the liquidity risk, in particular noting that the Framework details various ongoing monitoring activities related to the liquidity risk model such as the daily assessment of the liquidity resources available to meet the liquidity requirements in standard as well as stress conditions, periodic reverse stress testing and validation of stress testing framework along with the model governance activities for making any changes to LCH SA's liquidity risk model;

Section 1.4 of the amended Framework, Model Governance, was taken from paragraph 87 of the LCH Risk Policy, Liquidity Risk, and provides an overview of the governance process to be followed depending on the different risk model actions (e.g. major change, non-material change, model monitoring, model validation);

Section 1.5 of the amended Framework, Model Exposure, was taken from paragraph 86 of the LCH Risk Policy, Liquidity Risk, and classifies the importance of the model as high as an incorrect model could lead to a liquidity shortfall and have a significant impact on the CCP's liquidity resources;

Section 1.6.1.3 Synthesis, appendix 6.3 Reminder of SA's sources of liquidity and related risk drivers and appendix 6.5 Liquidity risk monitoring reports of the amended Framework: It has been specified that the intraday credit line provided by Norges Bank can be used by LCH SA to cover the non-Euro Variation margin payments related to the activity of Euronext Oslo;

Section 1.6.2: A spelling error have been corrected from "Transfer to the 3G pool tested on Feb 15th 2019. For Spain, Germany, and Belgium the liquidity impact is currently equal to the auto-collateralization amount(successful transfer tested in September 2019)" to "Transfer to the 3G pool tested on Feb 15th 2019. For Spain, Germany, and Belgium the liquidity impact is currently equal to the auto-collateralization amount (successful transfer tested in September 2019)";

Section 2 of the amended Framework, Limitations and Compensating Controls, prepared by CaLRM, describes the features of the amended Framework;

Sections 3.1 and 3.2 of the amended Framework, Model Choice and Industry Standard, respectively, prepared by CaLRM, explain that LCH SA calculates its daily liquidity resources requirements using the industry-standard cover 2 approach, which is also required by Article 53 of Regulation (EU) No. 153/2013;

Section 4.1.2 of the amended Framework, Model Inputs and Variable Selection, prepared by CaLRM, summarizes the factors that are taken into account in calculating liquidity resources and liquidity requirements, which are set out in greater detail in Section 4.1.5, Model assumptions, of the amended Framework.

Section 4.1.4 of the amended Framework, Mathematical formula, derivation and algorithm, and numerical approximation, prepared by CaLRM, summarizes the formula for calculating the operational target, i.e., the amount of liquidity required to be held to satisfy the liquidity needs related to the

operational management of LCH SA in a stressed environment that does not lead to a member's default, as explained in Section 4.1.5, Model assumptions, of the amended Framework. In particular, the content of sections 4.1.4 and 4.1.5 of the amended Framework have been transposed from the section 5.2.1.1 of the current Framework Assumption. The separation of information has the purpose of providing more clarity to the document and comply with the LSEG template format; the operational risk";

Section 4.1.5 Model Assumptions of the amended Framework reflects two rewording that increase the clarity of the document. In particular, the sentence "The difference $\min(\text{computed} - \text{actual}, 0)$ is reported in the OP from the 1st of the month till the day that $\text{computed DF} = \text{actual DF}$ " has been updated to "The difference $\min(\text{computed} - \text{actual}, 0)$ is reported in the OP from the 1st of the month until the day that $\text{computed DF} = \text{actual DF}$ and the sentence " To have a 100% alignment with actual validation and settlement flow a manual intervention would be necessary to be performed every beginning of the month in order to manually input the date in the program but this is not recommendable since it would increase significantly the operational risk" is proposed to be modified as "To have a 100% alignment with actual validation and settlement flow, a manual intervention would need to be performed every beginning of the month in order to manually input the date in the program but this is not recommended since it would increase significantly the operational risk";

Sections 4.2.2 and 4.3.2, Model inputs and Variable selection of the amended Framework, prepared by CaLRM to complete the LSEG template, summarizes the variables used to calculate the liquidity coverage ratio ("LCR") for LCH SA and CC&G, which are set out in detail in Sections 4.2.4 and 4.3.4, respectively, of the amended Framework;

Sections 4.1.3, 4.2.3 and 4.3.3, Model outputs of the amended Framework, prepared by CaLRM to complete the LSEG template, states that, based on the liquidity profile for that day, CaLRM generates daily reports on LCH SA's operational liquidity resource requirements, and the LCR for LCH SA and CC&G, respectively;

Section 5.1 of the amended Framework, Ongoing Monitoring reflects the fact after the transposition to the new LSEG template the sections detailing the calculation of Operation target (4.1), LCR and liquidity buffer (4.2) now precede the presentation of the ongoing monitoring and therefore the following sentence have been removed "The next section provides with the operational target, LCR, the liquidity buffer calculation.";

Section 5.4 of the amended Framework, Model Change as Applicable, is drawn from paragraph 88 of the LCH Risk Policy, Liquidity Risk; and details the criteria considered to assess the materiality of a risk model change;

Section 5.5 of the amended Framework, Testing Summary and Model Limitations, was prepared by CaLRM and summarizes the information set out in paragraphs 95-97 of the LCH Risk Policy, Liquidity Risk, to give an overview of the risk model performance assessment that includes daily monitoring, periodic reverse stress testing and annual model validation;

Appendix 6.4 Liquidity risk drivers synthesis by reports in the amended Framework: The format of the table that summarizes the different risk drivers has been adjusted to better reflect the mapping of the

single risk drivers under the appropriate three macro categories to which they may belong Defaulter, Closure of Italian Debt Activities, BAU. In Particular,

- the Defaulter category includes the following risk drivers: Non default of EU Sovereign, Settlement, VM, ECB Haircut, Investment losses
- the Closure of Italian debt Activities category includes the following risk drivers: IM+AM Italy and CC1G Default Fund Italy
- the BAU category includes the following risk drivers: Excess, Substitutions, Avoiding fails, Margin reductions, VM to pay to CC&G, Default Fund Reduction.

Part III: Core Principle Compliance

LCH SA reviewed the introduction of the Proposed Rule Change against the requirements of the Commission's regulations and DCO Core Principles and has concluded that its compliance with all the requirements and standards therein and in particular with the following principle and Commission's regulations including, but not limited to § 39.11 would not be adversely affected by the proposed amendments.

DCO Core Principle B – Financial Resources. LCH SA has determined that the Proposed Rule Change is consistent with the DCOs requirements of CFTC Regulation 39.11 requiring a DCO to maintain financial resources sufficient to cover its exposures with a high degree of confidence and to enable it to perform its functions in compliance with the core principles set out in section 5b of the Act. A derivatives clearing organization shall identify and adequately manage its general business risks and hold sufficient liquid resources to cover potential business losses that are not related to clearing members' defaults, so that the derivatives clearing organization can continue to provide services as an ongoing concern. As discussed above, the sole purpose of the amended Framework is to reorganize the structure of the Framework to conform the Framework to the common template adopted by LSEG for use by each of its affiliates. The content of the current Framework has been fully transferred to the new LSEG template structure without any substantial changes in the wording of the existing paragraphs of the current Framework. To the extent that some general parts of the LSEG standardized template were not fully covered in the current Framework, these sections were either: (a) completed using the information taken from other LCH SA internal documents; or (b) drafted by CaLRM to increase the level of detail of the Framework. The policies and procedures set out in the amended Framework, therefore, continue to be consistent with the requirements of Core Principle B and Commission Rule 39.11.

Part IV: Public Information

LCH SA has posted a notice of pending certifications with the CFTC and a copy of the submission on LCH's website at: <https://www.lch.com/resources/rulebooks/proposed-rule-changes>

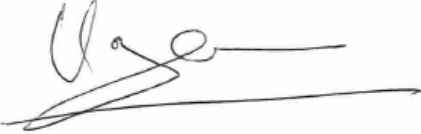
Part V: Opposing Views

There were no opposing views expressed to LCH SA by governing board or committee members, members of LCH SA that were not incorporated into the rule.

Certification

LCH SA hereby certifies to the CFTC, pursuant to the procedures set forth in the Commission regulation § 40.6, that attached changes submission complies with the Commodity Exchange Act, as amended, and the regulations promulgated there under.

Should you have any questions please contact me.

A handwritten signature in black ink, appearing to read 'Carole Uzan', with a long horizontal line extending to the right.

Carole Uzan

Chief Compliance Officer

+33 1 86 47 64 82

carole.uzan@lseg.com

APPENDIX

Proposed Rule changes to LCH SA CDS Clearing framework:

Liquidity Risk Modelling Framework (V 6.0) **(to be filed separately with the CFTC under Confidential Treatment request)**