

Via CFTC Portal

12 April 2021

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

Re: Proposed LCH SA CDSClear Initiative – U.S. Client Clearing for Single-Name CDS

Dear Mr. Kirkpatrick,

Pursuant to CFTC regulation §40.6(a), 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 clearing rules in order to offer clearing services in respect of single-name credit default swaps that are "security-based swaps" to be submitted by Clearing Members on behalf of their U.S. Clients for clearing by LCH SA. LCH SA is also proposing to revise a number of its rules to make additional amendments and conforming and clarifying amendments for consistency purposes (the “**Proposed Rule Changes**”).

The intended date of implementation of this initiative is on or after 31 May, 2021, subject to any relevant regulatory review or approval process duly completed and in no event will the changes will be implemented earlier than ten (10) business days after the formal filing with the CFTC. The launch of clearing single-name CDS for U.S. Clients will be contingent upon LCH SA’s receipt of all necessary regulatory approvals. LCH SA emphasizes that the FCM/BD Swaps Client Account Structure referred to below will not be permitted until the LCH SA obtains an order from the Commission to permit LCH SA to hold customer property used to margin both cleared swaps and cleared security-based swaps in a 4d(f) Account, and to provide for portfolio margining of such cleared swaps and cleared security-based swaps.

The Proposed Rule Changes are attached hereto as Appendix.

Part I: Explanation and Analysis

LCH SA is proposing to amend its (i) CDS Clearing Rule Book (the “**Rule Book**”), (ii) CDS Clearing Supplement (the “**Clearing Supplement**”), (iii) some of its CDS Clearing Procedures (the “**Procedures**”), and (iv) FCM Clearing Regulations (“**Clearing Regulations**”), to allow the offer of clearing services in

respect of single-name credit default swaps ("CDS") that are "security-based swaps" ("SBS") to be submitted for clearing by Clearing Members on behalf of their U.S. Clients¹.

LCH SA is also proposing to revise a number of its rules to make additional amendments and conforming and clarifying amendments for consistency purposes. The text of the Proposed Rule Changes is in Appendix A.

Part II: Description of Rule changes

The purpose of the Proposed Rule Changes is to revise LCH SA's rules and procedures to (A) allow LCH SA to extend its clearing services in respect of single-name CDS for U.S. Clients of Clearing Members and (B) make additional amendments and conforming and clarifying amendments for consistency purposes.

A. Amendments to permit LCH SA to offer clearing services in relation to the clearing of single-name CDS for U.S. Clients

A single-name CDS is a contract based on the credit risk of a single issuer (a "Reference Entity") in which the buyer of protection transfers the credit risk of the Reference Entity to the seller of protection without transferring the underlying obligation of the Reference Entity. The key terms of a single-name CDS include, among other things, (1) the identity of the Reference Entity, (2) the agreed upon notional amount, (3) the maturity date, (4) required payments by the protection buyer, (5) "credit events" that result in an obligation from the protection seller to the protection buyer, and (6) settlement terms. Upon the launch of clearing of single-name CDS for U.S. Clients, LCH SA will provide central counterparty services for such single-name CDS that are accepted for clearing.

Each of the changes to facilitate the clearing of single-name CDS for U.S. Clients are described in further detail below.

1) Rule Book

a) Changes to Defined Terms

The Rule Book would be amended to add several new defined terms in order to accommodate the extension of LCH SA's CDS Clearing Services in respect of single-name CDS submitted to LCH SA for clearing on behalf of US. Clients. Specifically, LCH SA proposes to add a definition for "BD" as a legal entity that is a "broker" or "dealer" as defined in Section 3(a)(4) or 3(a)(5) of the Securities Exchange Act of 1934 (the "Exchange Act"), respectively, and is registered in such capacity with the SEC and a member in good standing of FINRA (a defined term of "FINRA" would be added to the Rule Book and defined as the Financial Industry Regulatory Authority, Inc., or any successor thereto).

The term "FCM Clearing Member" would in turn be retitled as "FCM/BD Clearing Member" and would be defined as any FCM, BD, or legal entity that is both an FCM and BD that has been admitted as a

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

clearing member. "FCM Client" would likewise be retitled as "FCM/BD Client" and would mean any Client that is (i) a Cleared Swaps Customer of an FCM/BD Clearing Member to which the FCM/BD Clearing Member provides CDS Client Clearing Services with respect to positions in FCM/BD Cleared Transactions that are "Cleared Swaps," or (ii) an SBS Customer of an FCM/BD Clearing Member to which the FCM/BD Clearing Member provides CDS Client Clearing Services with respect to positions in FCM/BD Cleared Transactions that are SBS. A defined term "SBS Customer" would be added to the Rule Book and would be defined as "security-based swap customer" (as defined in Exchange Act Rule 15c3-3)² of an FCM/BD Clearing Member to which the FCM/BD Clearing Member provides CDS Client Clearing Services with respect to positions in FCM/BD Cleared Transactions that are SBS in one or more accounts described in the FCM/BD SBS Client Account Structure.

A new defined term "Cleared Swap" would be added in the Rule Book, in order to differentiate between "swaps" and "SBS" and the different account structures for each (as further described below), to mean an "FCM/BD Cleared Transaction" (i) constituting a "Cleared Swap" as defined in CFTC Regulation 22.1³ or (ii) constituting an SBS that is held in the FCM/BD Swaps Client Account Structure.⁴ A "Cleared Swaps Customer," in turn, would be defined as (i) a "Cleared Swaps Customer," as defined in CFTC Regulation 22.1, of an FCM/BD Clearing Member with respect to Cleared Swaps, and (ii) a person that would be a "Cleared Swaps Customer," as defined in CFTC Regulation 22.1, of an FCM/BD Clearing Member with respect to any transaction constituting an SBS that is a Cleared Swap, as if such transaction is a Cleared Swap for purposes of the definition of "Cleared Swaps Customer" in CFTC Regulation 22.1.⁵ "Cleared Swaps Customer Collateral" would be defined as "Cleared Swaps Customer Collateral," as defined in CFTC Regulation 22.1, with respect to Cleared Swaps, including with respect to any transaction constituting an SBS that is a Cleared Swap, as if such transaction is a Cleared Swap for purposes of the definition of "Cleared Swaps Customer Collateral" in CFTC Regulation 22.1.⁶

The defined terms in the Rule Book which relate to the account structure in which collateral for Cleared Swaps and SBS would be held would be revised to accommodate three account structures: (1) a separate account structure for Cleared Swaps, (2) a separate account structure for SBS, and (3) an account structure in which an FCM/BD Clearing Member that is both an FCM and a BD may elect to clear and hold margin for FCM/BD Cleared Transactions that are SBS for FCM/BD Clients on a commingled basis with Cleared Swaps in accordance with the Portfolio Margining Order. Each account structure is described in further detail below and the defined terms (and the changes to existing defined terms) with respect to those account structures would include:

- "FCM/BD Client Account Structure" would mean the accounts comprising the FCM/BD Swaps Client Account Structure and the FCM/BD SBS Client Account Structure set out in the Rule Book and registered in the CDS Clearing System in the name of an FCM/BD Clearing Member.

² 17 C.F.R. § 240.15c3-3.

³ 17 C.F.R. § 22.1

⁴ SBS held in the FCM/BD Swaps Client Account structure would include SBS eligible for portfolio margining as contemplated in the Commission's Order Granting Conditional Exemptions under the Securities Exchange Act of 1934 in connection with Portfolio Margining of Swaps and Securities-Based Swaps, 77 Fed. Reg. 75211 (Dec. 19, 2012) (the "Portfolio Margining Order").

⁵ 17 C.F.R. § 22.1

⁶ 17 C.F.R. § 22.1

- "FCM/BD Swaps Client Account Structure" would mean the accounts comprising the FCM/BD Swaps Client Account Structure and registered in the CDS Clearing System in the name of an FCM/BD Clearing Member.
- "FCM/BD SBS Client Account Structure" would mean the accounts comprising the FCM/BD SBS Client Account Structure and registered in the CDS Clearing System in the name of an FCM/BD Clearing Member.
- "FCM/BD Client Collateral Account" would mean an FCM/BD Swaps Client Collateral Account and/or an FCM/BD SBS Client Collateral Account.
- "FCM/BD Swaps Client Collateral Account" would mean an account opened in the books of LCH SA to record the Collateral held by LCH SA for the benefit of an FCM/BD Clearing Member's FCM/BD Clients with respect to Cleared Swaps, the aggregate value of such Collateral being divided among, and recorded in: (i) the FCM/BD Swaps Client Financial Account; (ii) the FCM/BD Swaps Buffer Financial Account; and (iii) the FCM/BD Swaps Unallocated Client Collateral Financial Account.
- "FCM/BD SBS Client Collateral Account" would mean an account opened in the books of LCH SA to record the Collateral held by LCH SA for the benefit of an FCM/BD Clearing Member's SBS Customers with respect to FCM/BD Cleared Transactions that are SBS (excluding any SBS transactions held in the FCM/BD Swaps Client Account Structure as Cleared Swaps), the aggregate value of such Collateral being divided among, and recorded in: (i) the FCM/BD SBS Client Financial Accounts; (ii) the FCM/BD SBS Buffer Financial Account; and (iii) the FCM/BD SBS Client Excess Collateral Financial Account.
- "FCM/BD Client Financial Account" would mean an FCM/BD Swaps Client Financial Account or an FCM/BD SBS Client Financial Account.
- "FCM/BD Swaps Client Financial Account" would mean a segregated account opened in the books of LCH SA for each Cleared Swaps Customer of an FCM/BD Clearing Member with a view to record the Legally Segregated Value related to Cleared Swaps of such Cleared Swaps Customer as determined by LCH SA in accordance with the CDS Clearing Rules.
- "FCM/BD SBS Client Financial Account" would mean a segregated account opened in the books of LCH SA for an SBS Customer of an FCM/BD Clearing Member with a view to record the Legally Segregated Value related to SBS (excluding SBS that are held in the FCM/BD Swaps Client Account Structure as Cleared Swaps) of such FCM/BD Clearing Member's SBS Customer as determined by LCH SA in accordance with the CDS Clearing Rules.
- "FCM/BD Client Margin Account" would mean an FCM/BD Swaps Client Margin Account or an FCM/BD SBS Client Margin Account.
- "FCM/BD Swaps Client Margin Account" would mean an account opened by LCH SA in the name of an FCM/BD Clearing Member for the benefit of each Cleared Swaps Customer of such FCM/BD Clearing Member in the CDS Clearing System for risk management purposes, in which the FCM/BD Cleared Transactions of such Client that are Cleared Swaps are netted and

corresponding Open Positions are registered, and each FCM/BD Client related Cleared Swaps positions corresponding to Eligible Intraday Transactions and Irrevocable Backloading STM Transactions pre-registered in the Account Structure of such FCM/BD Clearing Member (if so applicable) are recorded, in order to calculate the FCM/BD Client Margin Requirement and Client NPV Payment Requirement of such FCM/BD Clearing Member in respect of such FCM/BD Client.

- "FCM/BD SBS Client Margin Account" would mean an account opened by LCH SA in the name of an FCM/BD Clearing Member for the benefit of each SBS Customer of such FCM/BD Clearing Member in the CDS Clearing System for risk management purposes, in which the SBS of the SBS Customers (excluding SBS that are held in the FCM/BD Swaps Client Account Structure as Cleared Swaps) are netted and corresponding Open Positions are registered, and each FCM/BD Client related SBS positions (excluding SBS transactions that are held in the FCM/BD Swaps Client Account Structure as Cleared Swaps) corresponding to Eligible Intraday Transactions and Irrevocable Backloading STM Transactions pre-registered in the Account Structure of such FCM/BD Clearing Member (if so applicable) are recorded, in order to calculate the FCM/BD Client Margin Requirement and Client NPV Payment Requirement of such FCM/BD Clearing Member in respect of such SBS Customer.
- "FCM/BD Client Trade Account" would mean an FCM/BD Swaps Client Trade Account or an FCM/BD SBS Client Trade Account.
- "FCM/BD Swaps Client Trade Account" would mean an account opened by LCH SA in the name of an FCM/BD Clearing Member for the benefit of a Customer of such FCM/BD Clearing Member in order to register all Cleared Swaps (including any SBS that are held in the FCM/BD Swaps Client Account Structure as Cleared Swaps) in relation to such FCM/BD Client.
- "FCM/BD SBS Client Trade Account" would mean an account opened by LCH SA in the name of an FCM/BD Clearing Member for the benefit of an SBS Customer of such FCM/BD Clearing Member in order to register all SBS cleared by such FCM/BD Clearing Member (excluding SBS that are held in the FCM/BD Swaps Client Account Structure as Cleared Swaps) in relation to such SBS Customer.
- "FCM/BD Buffer Financial Account" would mean an FCM/BD Swaps Buffer Financial Account or an FCM/BD SBS Buffer Financial Account.
- "FCM/BD Swaps Buffer Financial Account" would mean a segregated account opened in the books of LCH SA to record the value of an FCM/BD Clearing Member's FCM/BD Client Collateral Buffer with respect to Cleared Swaps.
- "FCM/BD SBS Buffer Financial Account" would mean a segregated account opened in the books of LCH SA to record the value of an FCM/BD Clearing Member's FCM/BD SBS Client Collateral Buffer.
- "FCM/BD Client Collateral Buffer" would mean FCM/BD Swaps Client Collateral Buffer or FCM/BD SBS Client Collateral Buffer.

- "FCM/BD Swaps Client Collateral Buffer" would mean the aggregate value of Collateral transferred by an FCM/BD Clearing Member to LCH SA, comprising such FCM/BD Clearing Member's own property, and recorded in such FCM/BD Clearing Member's FCM/BD Swaps Buffer Financial Account which may be used by LCH SA to meet obligations in respect of the Cleared Swaps of Cleared Swaps Customers, including for the purpose of satisfying the Notional and Collateral Checks performed by LCH SA in respect of Eligible Intraday Transactions comprising one or more Client Trade Leg(s).
- "FCM/BD SBS Client Collateral Buffer" would mean the aggregate value of Collateral transferred by an FCM/BD Clearing Member to LCH SA, comprising such FCM/BD Clearing Member's own property, and recorded in such FCM/BD Clearing Member's FCM/BD SBS Buffer Financial Account which may be used by LCH SA to meet obligations in respect of the FCM/BD Cleared Transactions of SBS Customers, including for the purpose of satisfying the Notional and Collateral Checks performed by LCH SA in respect of Eligible Intraday Transactions comprising one or more Client Trade Leg(s).
- "FCM/BD Available Client Collateral Buffer" would mean the FCM/BD Swaps Available Client Collateral Buffer or the FCM/BD SBS Available Client Collateral Buffer.
- "FCM/BD Swaps Available Client Collateral Buffer" would mean the portion of the FCM/BD Swaps Client Collateral Buffer which, at the relevant time, is not allocated to any FCM/BD Swaps Client Margin Account and is available to be used to enable the novation of Client Trade Legs.
- "FCM/BD SBS Available Client Collateral Buffer" would mean the portion of the FCM/BD SBS Client Collateral Buffer which, at the relevant time, is not allocated to any FCM/BD SBS Client Margin Account and is available to be used to enable the novation of Client Trade Legs.
- "FCM/BD Swaps Client Excess Collateral" would mean the amount of any FCM/BD Excess Collateral attributable to an FCM/BD Swaps Client Margin Account and held on an intraday basis prior to the next Morning Call before it is transferred to the related FCM/BD Clearing Member's FCM/BD Swaps Unallocated Client Collateral Financial Account.
- FCM/BD SBS Client Excess Collateral would mean the FCM/BD Client Excess Collateral as set out in the proposed new Article 6.2.5.2(ii) of the Rule Book.
- "FCM/BD SBS Client Excess Collateral Financial Account" would mean a segregated account opened in the books of LCH SA to record the value of FCM/BD SBS Client Excess Collateral as determined by LCH SA.
- "FCM/BD Swaps Unallocated Client Collateral Financial Account" would mean a segregated account opened in the books of LCH SA to record the value of FCM/BD Swaps Unallocated Client Excess Collateral as determined by LCH SA.
- "FCM/BD Swaps Unallocated Client Excess Collateral" would mean the FCM/BD Client Excess Collateral as set out in the proposed amended Section 6.2.5 of the Rule Book.

Changes to the Rule Book would also be made in certain jurisdictional definitions to reflect that SBS would be available for Clearing to U.S. Clients. Specifically, "Non-U.S. CCM" would be defined, when used in the context of an Original Transaction, as a CCM that has its residence in, is organized under the laws of, or has its principal place of business located in, a jurisdiction other than the United States, its territories or possessions and is not a registered BD or FCM. A "Non-U.S. CCM Client" would be defined as a CCM Client that is not a U.S. CCM Client. A "U.S. CCM Client" would be defined as a Client of an FCM or a BD or any Client that has its residence in, is organized under the laws of, or has its principal place of business located in the United States, its territories or possessions.

The following defined terms in Chapter 1, Section 1.1.1 would also include conforming changes to accommodate the clearing of single-name CDS for U.S. Clients: "Account Structure," "Affiliate," "Allocated Client Collateral Buffer," "Available Client Collateral Buffer," "Backup Clearing Member," "Carrying Clearing Member," "CCM," "CDS Clearing Rules," "CDS Clearing Service," "Cleared Transaction," "Client," "Client Account Structure," "Client Assets," "Client Collateral Account," "Client Collateral Buffer," "Client Collateral Buffer Shortfall," "Client Collateral Buffer Threshold," "Client Excess Collateral," "Client Margin Account," "Client Margin Requirement," "Client Margin Shortfall," "Client Termination Amount," "Client Trade Account," "Excess Collateral," "Excess Collateral Threshold," "FCM Allocated Client Collateral Buffer," "FCM CDS Clearing Regulations," "FCM Cleared Transaction," "FCM Client Collateral Buffer Shortfall," "FCM Client Collateral Buffer Threshold," "FCM Client Excess Collateral," "FCM Client Margin Requirement," "FCM Client Margin Shortfall," "FCM Client Termination Amount," "FCM Excess Collateral," "FCM House Cleared Transaction," "FCM House Collateral Account," "FCM House Excess Collateral," "FCM House Excess Collateral Shortfall," "FCM House Excess Collateral Threshold," "FCM House Margin Account," "FCM House Margin Requirement," "FCM House Margin Shortfall," "FCM Margin Balance," "FCM Required Collateral Amount," "General Member," "House Collateral Account," "House Excess Collateral," "House Excess Collateral Shortfall," "House Excess Collateral Threshold," "House Margin Account," "House Margin Requirement," "House Margin Shortfall," "Legally Segregated Value," "Margin Account," "Margin Balance," "Notional and Collateral Check," "Porting FCM Cleared Transaction," "Receiving Clearing Member," "Required Collateral Amount," and "Select Member."

In addition to the foregoing changes, various other conforming and clarifying changes would be made throughout Title I (General Provisions & Legal Framework) to incorporate terms to accommodate single-name CDS cleared for FCM/BD Clients. Those conforming and clarifying changes are set forth in Articles 1.2.10.3(xix) and (xxi), 1.2.10.4(vii), (x) and (xi), 1.2.14.4, 1.2.14.5(iv), 1.3.1.3(vi), 1.3.1.4, 1.3.1.6 (ii) - (iv), 1.3.1.9, and 1.3.1.10.

b. Membership and Clearing Operations

Article 2.1.1.2 of the Rule Book would be revised to provide that, without prejudice to the membership requirements set out in the CDS Clearing Rules and applicable law, both FCMs and BDs are eligible to become Clearing Members.

Additional conforming and clarifying changes would be made throughout Title II (Legal Obligations) to include terms for single name CDS and certain other clarifying changes, including in Article 2.2.0.3, 2.2.1.1 (iv), (xxi), (xxiv), and (xxv), 2.2.1.2, 2.2.2.1, 2.2.3.1, 2.3.4.2, 2.4.2.11, and 3.1.10.9.

c. Risk Management

The procedures with respect to the return of collateral are set forth in Article 4.2.2.5 of the Rule Book and would be revised, in the case of an FCM/BD Clearing Member, so that if the FCM/BD Margin Balance of an FCM/BD Client Financial Account exceeds the relevant FCM/BD Client Margin Requirement prior to the Morning Call or the value of the Collateral attributed to the FCM/BD Buffer Financial Account exceeds the FCM/BD Client Collateral Buffer Threshold, then the amount of the excess: (1) if related to Cleared Swaps, will be reclassified as FCM/BD Swaps Unallocated Client Excess Collateral; and (2) if related to SBS (excluding SBS that are held in the FCM/BD Swaps Client Account Structure as Cleared Swaps (as described below)), will be reclassified as FCM/BD SBS Client Excess Collateral, and thereafter may be returned to the FCM/BD Clearing Member.

Other conforming changes in Title IV (Risk Management) of the Rule Book are set forth in Article 4.2.2.1, 4.2.2.4, 4.2.2.6, 4.2.3.1, 4.2.6.3, 4.2.6.4, 4.2.6.6, 4.3.1.3, 4.3.2.3(i), (x), (xv) and (xix), 4.3.2.4, 4.3.2.7, 4.3.3.1(i), 4.3.3.2, and 4.3.3.4.

d. CDS Client Clearing Services provided by a CCM

Article 5.1.1.2, which relates to the provision of CDS Client Clearing Services and sets limitations on the scope of services that may be provided by a Clearing Member that is a CCM, previously provided, in clause (v), that a Non-U.S. CCM shall not provide CDS Client Clearing Services to any U.S. CCM Client with respect to an Original Transaction that is SBS and that a U.S. CCM shall not provide any CDS Client Clearing Services to any U.S. CCM Client with respect to an Original Transaction that is SBS. Clause (v) of Article 5.1.1.2 would be deleted in its entirety. Separately, clause (vi) would be re-numbered as clause (v) and would provide that a CCM shall not provide CDS Client Clearing Services to any U.S. CCM Client with respect to an Original Transaction (which would include any SBS) unless such CCM is an FCM and/or BD.

e. CDS Client Clearing Services provided by an FCM/BD Clearing Member

Article 6.1.1.2(vi) previously provided that an FCM shall not provide CDS Client Clearing Services to any FCM Client with respect to SBS; it would be revised to delete that restriction.

Article 6.2.1.1 sets forth the required account structure for FCM/BD Clearing Members. Article 6.2.1.1(i) would set forth the required account structure for an FCM (which may also be a BD) with respect to any Cleared Swaps, which would entail:

- An FCM/BD Swaps Client Trade Account for each Cleared Swaps Customer.
- An FCM/BD Swaps Client Margin Account for each Cleared Swaps Customer.
- An FCM/BD Swaps Client Financial Account for each Cleared Swaps Customer.
- An FCM/BD Swaps Unallocated Client Collateral Financial Account.
- An FCM/BD Swaps Buffer Financial Account.

- An FCM/BD Swaps Client Collateral Account.

For an FCM/BD Clearing Member that is a BD (which may also be an FCM), with respect to SBS (excluding SBS that are permitted to be held in an account with Cleared Swaps), Article 6.2.1.1(ii) would require the following account structure:

- An FCM/BD SBS Client Trade Account for each SBS Customer.⁷
- An FCM/BD SBS Client Margin Account for each SBS Customer.⁸
- An FCM/BD SBS Client Financial Account for each SBS Customer.⁹
- An FCM/BD SBS Client Excess Collateral Financial Account.¹⁰
- An FCM/BD SBS Buffer Financial Account.¹¹
- An FCM/BD SBS Client Collateral Account.¹²

⁷ Article 6.2.2.1, which relates to the establishments of trade accounts, would be revised to provide for the establishment of FCM/BD SBS Client Trade Accounts for SBS Customers.

⁸ Article 6.2.3.1, which relates to the establishment of client margin accounts, would be revised to provide for the establishment of FCM/BD SBS Client Margin Accounts for SBS Customers. Article 6.2.3.2 would be revised to provide that FCM/BD Cleared Transactions (i) registered in an FCM/BD Swaps Client Trade Account for a Cleared Swaps Customer will be allocated to the corresponding FCM/BD Cleared Swaps Client Margin Account and (ii) registered in an FCM/BD SBS Client Trade Account for an SBS Customer will be allocated to the corresponding FCM/BD SBS Client Margin Account, for the purpose of the determination of the Open Positions and NPV Payment Requirements attributable to such FCM/BD Client.

⁹ Article 6.2.4.1, which relates to the establishment of Client Financial Accounts, would be revised to include a new clause (ii) (a) setting forth the establishment of an FCM/BD SBS Client Financial Account for each SBS Customer, in which LCH SA will record the value of Collateral provided by the FCM/BD Clearing Member in respect of such SBS Customer's Open Positions in SBS.

¹⁰ Article 6.2.4.1(ii)(c) would be added to provide that LCH SA shall open an FCM/BD SBS Client Excess Collateral Financial Account, in which LCH SA will record the value of FCM/BD SBS Client Excess Collateral. Article 6.2.5.2 (ii) would provide that an FCM/BD Clearing Member is not permitted to maintain any FCM/BD Client Excess Collateral on a day-to-day basis with respect to SBS, but may hold FCM/BD Client Excess Collateral on an intraday basis and that LCH SA shall transfer the value of any FCM/BD Client Excess Collateral that is reflected in any FCM/BD SBS Client Financial Account of the FCM/BD Clearing Member prior to the Morning Call to the FCM/BD Clearing Member's FCM/BD SBS Client Excess Collateral Financial Account. In addition, Article 6.2.5.2(iv) would provide that LCH SA shall hold FCM/BD SBS Client Excess Collateral in the FCM/BD SBS Client Excess Collateral Financial Account for the benefit of FCM/BD Clearing Member's FCM/BD Clients that are SBS customers as a class in accordance with SEC regulations and Applicable Law and that upon the request of an FCM/BD Clearing Member, LCH SA will return FCM/BD SBS Client Excess Collateral to such FCM/BD Clearing Member.

¹¹ Article 6.2.4.1(ii)(b) would be added to provide that LCH SA shall open an FCM/BD SBS Buffer Financial Account, in which LCH SA will record the value of Collateral provided as FCM/BD SBS Client Collateral Buffer. Article 6.2.5.2 (iii) would notably provide that an FCM/BD Clearing Member shall not, and represents to LCH SA that it shall not, deposit an amount of FCM/BD Client Collateral Buffer with LCH SA that, in combination with any other money, securities or other property deposited by it with any other Derivatives Clearing Organization or Clearing Agency, in a manner whereby such FCM/BD Clearing Member is assumed to be the sole legal and beneficial owner of such property, to meet the aggregate obligations of its SBS Customers.

¹² Article 6.2.4.1(ii)(d) would be added to provide that LCH SA shall open an FCM/BD SBS Client Collateral Account in which LCH SA will record the Collateral held by LCH SA recorded in the foregoing accounts.

A new Article 6.2.1.1(iii) would also be added to provide that an FCM/BD Clearing Member that is both an FCM and a BD may elect to clear and hold margin for FCM/BD Cleared Transactions that are SBS for FCM/BD Clients in the FCM/BD Swaps Client Account Structure on a commingled basis with Cleared Swaps and margin such combined positions on a portfolio basis in compliance with Applicable Laws, provided that each FCM/BD Client participating in the portfolio margining shall be an eligible contract participant as defined in Section 1a(18) of the Commodity Exchange Act. Upon such election, FCM/BD Cleared Transactions that are SBS will be included as "Cleared Swaps" and maintained in the FCM/BD Swaps Client Account Structure.

Articles 6.1.1.1, 6.1.1.2, 6.1.1.3, 6.1.1.4, 6.1.1.5, 6.2.1.2, 6.2.1.3, 6.2.1.4, 6.2.2.1, 6.2.2.2, 6.2.3.1, 6.2.3.2, 6.2.3.3, 6.2.4.1, 6.2.4.2, 6.2.4.3, 6.2.4.4, 6.2.5.1, 6.2.5.2, 6.2.6.1, 6.2.6.2, 6.3.1.1, 6.3.2.1, 6.3.3.1, 6.3.4.1, 6.3.4.2, 6.3.5.1, 6.3.5.2, 6.4.1.1, and 6.4.1.3 would also include certain conforming and clarifying changes.

f. Default Management

Appendix I of the Rule Book (CDS Default Management Process), Clause 1.1 which provides for the definition of "Transaction Categories" would be amended to provide that different categories of Cleared Transactions will include "Single Name Cleared Transactions" for consistency purposes. Clause 3.3 of Appendix I would also be amended to provide that the CDS Default Management Process shall be carried out in a manner consistent with the requirements of the SPIC (which is the Securities Investor Protection Corporation or any successor thereto in accordance with the proposed definition of new defined term of "SIPC" in Section 1.1.1 of the Rule Book), Exchange Act and SEC Regulations. Clause 5.4 of Appendix I, which relates to the Competitive Bidding Process, would be revised to provide in Clause 5.4.1, that a Non-Defaulting Clearing Member that is a BD but not an FCM is not required to participate in Competitive Bidding for an Auction Package containing any Cleared Swaps and that a Non-Defaulting Clearing Member that is an FCM but not a BD is not required to participate in Competitive Bidding for an Auction Package containing any SBS.

Other conforming changes in Appendix I are set forth in Clauses 3.3, 4.2.1, 4.2.2, 4.2.3, 4.2.5, 4.2.8, 4.3.1, 4.4.3, 4.5.2, 8.1.4, 8.5, 8.7 and 8.9.

2) Clearing Supplement

Various clarifying and conforming changes would be made to the Clearing Supplement to account for the clearing of SBS for FCM/BD Clients. Specifically, certain references to "FCM" therein would be replaced with "FCM/BD." Those changes are set forth in Sections 1.7 and 9.2 (c) of Parts A and B of the Clearing Supplement and in Sections 1.7 and 6.10 (b) and (d) of Part C of the Clearing Supplement.

3) Procedures

Section 2 of the Procedures (Margin, NPV Payment and Price Alignment) would include conforming changes in Sections 2.2, 2.3, 2.5, and 2.16.

Section 3 of the Procedures (Collateral, Variation Margin and Cash Payment) would be amended, in Section 3.3 (b), which relates to the Collateral Account structure, to add a reference to the FCM/BD SBS

Client Collateral Account to record the collateral held by LCH SA for the benefit of an FCM/BD Clearing Member's SBS Customers with respect to SBS (excluding SBS that are held in an account in the FCM/BD Swaps Client Account Structure), the aggregate value of such Collateral being divided amongst, and recorded in: the FCM/BD SBS Client Financial Account; the FCM/BD SBS Buffer Financial Account; and the FCM/BD SBS Client Excess Collateral Financial Account.

Section 3.7(a) would be amended to provide that with respect to the Clients of a Clearing Member, LCH SA will perform Collateral Calls, in respect of SBS, with a "TARGET2 Account" used to make Collateral Calls in relation to the Client Margin Requirements with respect to SBS (excluding SBS held in the FCM/BD Swaps Client Account Structure) and FCM/BD Client Collateral Buffer Threshold of each FCM/BD Clearing Member, which for the avoidance of doubt would form part of the LCH SBS Client Segregated Depository Account. Section 3.7(b) would also be amended to provide that an FCM/BD Clearing Member may hold three "TARGET2 Accounts," for purposes of Collateral Calls in respect of (i) its FCM/BD House Margin Requirement and FCM/BD House Excess Collateral Threshold and, (ii) its Client Margin Requirement(s) with respect to Cleared Swaps and FCM/BD Client Collateral Buffer Threshold and (iii) its Client Margin Requirement(s) with respect to SBS (excluding SBS that held in the FCM/BD Swaps Client Account Structure) and FCM/BD Client Collateral Buffer Threshold. Section 3.7(g) would be amended to provide that, in respect of an FCM/BD SBS Client Excess Collateral Financial Account, the FCM/BD Clearing Member may request LCH SA to return some or all FCM/BD SBS Client Excess Collateral in the form of Euro denominated Cash Collateral provided that the requested amount does not exceed the FCM/BD SBS Client Excess Collateral recorded in its FCM/BD SBS Client Collateral Account.

Section 3.8(a) - (b) of the Procedures would be amended to provide that with respect to Clients of a Clearing Member, LCH SA would open (i) a multi-currency account used to credit non-Euro, non-USD Cash Collateral which is transferred by an FCM/BD Clearing Member to be recorded in its FCM/BD SBS Client Collateral Account, which would form part of the LCH SBS Client Segregated Depository Account for purposes of the FCM/BD CDS Clearing Regulations and (ii) an account used to credit USD Cash Collateral which is transferred by FCM/BD Clearing Members to be recorded in their FCM/BD SBS Client Collateral Account, which would also form part of the LCH SBS Client Segregated Depository Account for purposes of the FCM/BD CDS Clearing Regulations. With respect to excess collateral, Section 3.8(h) and (i), which relate to the return of collateral would be amended to provide for the return of excess collateral in respect of SBS. Section 3.18 (c) would be amended to provide that LCH SA will open a cash account used to debit or credit USD to satisfy Cash Payments and/or Variation Margin Collateral Transfer obligations in USD with respect to all relevant Client Cleared Transactions of each FCM/BD Clearing Member that are SBS (excluding SBS that are held in the FCM/BD Swaps Client Account Structure). Other conforming changes in Section 3 of the Procedures are included in the recital and Sections 3.2, 3.3, 3.4, 3.7(a), (d), (f) and (g), 3.8 (a), (b), (c), (f), (g), (h) and (i), 3.9 (d) and (e), 3.10 (b), 3.14, 3.17 and 3.18.

Section 4 of the Procedures (Eligibility Requirements) would be amended to delete the provision in Section 4.1 which previously provided that (i) in respect of an FCM Client, a U.S. CCM Client of a Non-U.S. CCM or a CCM Client of a U.S. CCM, the Original Transaction may not be a Single Name CDS or any other SBS identified as such in a Clearing Notice; and (ii) in respect of a Non-U.S. CCM Client, the Original Transaction may not be a Single Name CDS or any other SBS identified as such in a Clearing Notice unless such transaction is cleared through a Non-U.S. CCM.

Section 5 of the Procedures (CDS Clearing Operations) would be revised to include conforming changes in Sections 5.6 and 5.11.

4) Clearing Regulations

The Clearing Regulations, currently titled as "FCM CDS Clearing Regulations," would be retitled as the "FCM/BD CDS Clearing Regulations."

Various defined terms in the Clearing Regulations would be updated to accommodate the extension of LCH SA's clearing services in respect of single-name CDS to FCM/BD Clients. The defined term "FCM Cleared Swaps Client Segregated Depository Account" would be retitled as the "FCM/BD Cleared Swaps Client Segregated Depository Account" and references in that definition to "FCM Clients" would be replaced with "Cleared Swap Customers." Similarly, the references in the defined term "LCH Cleared Swaps Client Segregated Depository Account" to "FCM Clients" would be replaced with "Cleared Swaps Customers" and references to "Cleared Transactions" therein would refer to Cleared Transactions that are "Cleared Swaps." A new defined term "LCH SBS Client Segregated Depository Account" would be added and would mean an omnibus account maintained by an FCM/BD Clearing Member for its SBS Customers with a Bank, which is segregated in accordance with the Exchange Act and SEC Regulations and contains collateral deposited by such SBS Customers in connection with FCM/BD Cleared Transactions that are SBS cleared for such SBS Customers by such FCM/BD Clearing Member, excluding any SBS held in the FCM/BD Swaps Client Account Structure that are permitted to be held in an account with Cleared Swaps as defined in CFTC Regulation 22.1 under Applicable Law. A new defined term for "Bank" would also be added, to refer to a "Bank" as defined in Section 3(a)(6) of the Exchange Act. Finally, the defined term "LCH Cleared Swaps Proprietary Depository Account" would be replaced with the general term of "LCH Proprietary Depository Account".

Regulation 1 of the Clearing Regulations (Governing Law and Jurisdiction) would be updated to replace references to "FCM" with "FCM/BD" and to provide that the Clearing Regulations shall also be construed in accordance with the Exchange Act.

Regulation 2 (Depository Accounts) of the Clearing Regulations would be revised to provide for the relevant accounts for SBS. Each FCM/BD would be required to establish and maintain an FCM/BD SBS Client Segregated Depository Account on behalf of its SBS Customers in accordance with applicable provisions of the Exchange Act and SEC regulations, including but not limited to Section 3E and Section 15(c) of the Exchange Act¹³ and Exchange Act Rule 15c3-3.¹⁴ The Clearing Regulations would require that the SBS Client Segregated Depository Account be maintained with a Bank in accordance with the Exchange Act. The FCM/BD SBS Client Segregated Depository Account maintained by each FCM/BD Clearing Member would be designated as a "Special Reserve Account for the Exclusive Benefit of the Cleared Security-Based Swap Customers" of the FCM/BD Clearing Member as provided in Exchange Act Rule 15c3-3(p).¹⁵ LCH SA would be required to open an LCH SBS Client Segregated Depository Account on behalf of the SBS Customers of FCM/BD Clearing Members in accordance with applicable provisions of the Exchange Act and SEC Regulations. This account shall be maintained with a Bank and shall contain no assets other than Collateral deposited by FCM/BD Clearing Members in connection with the clearing of SBS held in the FCM/BD SBS Client Account Structure on behalf of their SBS Customers. The LCH SBS Client Segregated Depository Account maintained by LCH SA shall be designated as a "Special Clearing

¹³ 15 U.S.C. §§ 78c-5, 78o(c)

¹⁴ 17 C.F.R. § 240.15c3-3.

¹⁵ 17 C.F.R. § 240.15c3-3(p).

Account for the Exclusive Benefit of the Cleared Security-Based Swaps Customers” of the FCM/BD Clearing Member for purposes of the Exchange Act and SEC Regulations.

Regulation 3 (Collateral) of the Clearing Regulations would be updated to provide that securities or cash deposited will be subject to a security interest and held in either an LCH Cleared Swaps Client Segregated Depository Account or an LCH SBS Client Segregated Depository Account, as applicable. Regulation 3 would also be updated to provide that no collateral deposited in an FCM/BD Clearing Member’s LCH Cleared Swaps Client Segregated Depository Account or LCH SBS Client Segregated Depository Account shall be applied on or in respect of payment or satisfaction of any of the FCM/BD Clearing Member’s liabilities to LCH SA as recorded in any of the FCM/BD Clearing Member’s Proprietary Accounts.

Regulation 4 (Transfer) of the Clearing Regulations would be amended to provide that if an FCM/BD Clearing Member is a Defaulting Clearing Member, any action taken by LCH SA pursuant to the CDS Clearing Rule Book (including the CDS Default Management Process appended thereto) would be taken in compliance with the Exchange Act and SEC Regulation, as applicable, and applicable bankruptcy laws regarding the liquidation or transfer of SBS.

Regulation 5 (Security Interest) of the Clearing Regulations would be revised to specify that each FCM/BD Clearing Member grants LCH SA a first security interest in and a first priority and unencumbered first lien upon any and all cash, securities, receivables, rights and intangibles and any other collateral or assets deposited with or transferred to LCH SA, or otherwise held by LCH SA, including all property deposited in an LCH SBS Client Segregated Depository Account. Regulation 5 would also clarify that notwithstanding such security interest, in no event shall LCH SA’s security interest in the Collateral in an LCH SBS Client Segregated Depository Account held on behalf of the FCM/BD Clearing Member’s Clients be exercised to satisfy any obligations or liabilities of such FCM/BD Clearing Member other than in connection with obligations or liabilities relating to Cleared Swaps cleared by such FCM/BD Clearing Member on behalf of its Cleared Swaps Customers or relating to SBS cleared by such FCM/BD Clearing Member on behalf of its SBS Customers.

Additional clarifying and conforming changes in the Clearing Regulations would be set forth in the Clearing Regulations, including the use of new defined terms such as FCM/BD Clearing Members, FCM/BD Cleared Transactions, FCM/BD Clients, Cleared Swaps, Cleared Swaps Customers, FCM/BD Swaps Client Financial Account.

B. Additional Amendments

Appendix I of the Rule Book (CDS Default Management Process) would be amended to provide that each Non-Defaulting Clearing Member would never be required to bid for more than 100% of the relevant Auction Package. Therefore, Clause 5.4.4, which relates to the calculation of the Minimum Bid Size for each Non-Defaulting Clearing Member required to bid for an Auction Package, is revised by repealing and replacing the current calculation formula applied by LCH SA to determine the Minimum Bid Size with the following one: $MBS = \min ([A/B] \times C; 100\%)$. An equivalent amendment is proposed to be made to Clause 5.9.1, which deals with the Recalculated Minimum Bid Size to be determined in the context of a second round of Competitive Bidding, to ensure that each Non-Defaulting Clearing Member will not be required to bid for more than 100% of the relevant Residual Auction Package by adding a reference to the “maximum value for the Bid Credit of the Minimum Bid Size” at the end of indent (i).

Clause 8.1.1 of Appendix 1 of the Rule Book would be amended to remove a reference to the Early Termination Trigger Date at the end of the paragraph for consistency purpose since all payment and delivery obligations in the context of the Early Termination process will be made at the date and times as set out in the following provisions of Clause 8.

Regulation 6 (*Rules Relating to FCM/BD Cleared Swaps Client Segregated Accounts*) of the Clearing Regulations would be also modified to implement the CFTC Letter N°19-17 of July 10, 2019 (“Advisory and Time-Limited No-Action Relief with Respect to the Treatment of Separate Accounts by Futures Commission Merchants”) pursuant to which a Derivatives Clearing Organization may permit the Futures Commission Merchant to treat the separate accounts of a customer as accounts of separate entities subject to a number of conditions provided for in that letter. Therefore, Regulation 6 (e) would be amended to allow FCM/BD Clearing Members to benefit from this no-action relief regarding the withdrawal of the Cleared Swaps Customer funds by providing that references to “Cleared Swaps Customer” shall include all Cleared Swaps Customers for the same beneficial owner, unless the FCM/BD Clearing Member complies with the relevant conditions set out in CFTC Letter No. 19-17 of July 10, 2019.

In addition to the foregoing changes, the amendments to the Rule Book, Clearing Supplement, Procedures and Clearing Regulations also contain typographical corrections, cross-references corrections, clean-up changes, and similar technical corrections as well as various conforming references to the new or revised defined terms.

Part III: Core Principles Compliance

LCH SA has reviewed the Proposed Rule Changes against the requirements of the DCO Core Principles, and finds that these changes will continue to comply with all the requirements and standards therein and in particular with the following principles and Commission’s regulations including, but not limited to § 39.13, 39.15, and 39.27.

DCO Core Principle D – Risk management. CFTC Regulation 39.13 requires a DCO to ensure that it possesses the ability to manage the risks associated with discharging the responsibilities of the derivatives clearing organization through the use of appropriate tools and procedures. From a financial risk management and margin requirements and an operational point of view, clearing single-name CDS for U.S. Clients would not require changes to the existing operational procedures as single-name CDS transactions are already cleared by LCH SA for Clearing Members admitted as CCMs for their own account and for the account of their Non-U.S. Clients. LCH SA will also apply its existing margin methodology, segregation requirements, and existing default management policies and procedures for single-name CDS to be cleared on behalf of U.S. Clients in accordance with the requirements of Core Principle D and § 39.13.

DCO Core Principle F – Treatment of funds. CFTC Regulation 39.15 requires a DCO to establish standards and procedures that are designed to protect and ensure the safety of funds and assets belonging to clearing members and their customers. In providing clearing for single-name CDS on behalf of U.S. Clients, LCH SA will apply its existing practices, policies, and procedures with respect to the portability of accounts, including as to the portability of accounts from Defaulting Clearing Members to an appointed Backup Clearing Member, allowing the protection of collateral from Clearing Member default or

insolvency which is compliant with Core Principle F and the requirements of § 39.15(d) regarding the transfer of customer positions.

DCO Core Principle R – Legal risk considerations. LCH SA has determined that the Proposed Rule Changes are consistent with the requirements of CFTC Regulation 39.27 to remain in good standing at all times in the relevant jurisdictions and to operate pursuant to a well-founded, transparent, and enforceable legal framework that addresses each aspect of its activities. The Proposed Rule Changes would modify LCH SA's existing rules and procedures to clearly define the requirements for single-name CDS and establish an enforceable legal framework for LCH SA to clear single-name CDS on behalf of U.S. Clients. The Proposed Rule Changes would also make certain clarifying and conforming changes in the Rule Book, which is consistent with the requirements of Core Principle R and § 39.27.

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/rules-and-regulations/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 rules.

Certification

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

Should you have any questions please contact me at: françois.faure@lseg.com



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APPENDIX

Proposed Rule Changes to LCH SA CDS Clearing Rule Book documentation:

- 1) CDS Clearing Rule Book
- 2) CDS Clearing Supplement
- 3) Section 2 of the Procedures
- 4) Section 3 of the Procedures
- 5) Section 4 of the Procedures
- 6) Section 5 of the Procedures
- 7) FCM/BD CDS Clearing Regulations