

available for Web site 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 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not react 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-PEARL-2017-37 and should be submitted on or before December 28, 2017.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>38</sup>

**Eduardo A. Aleman,**

*Assistant Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-82194; File No. SR-LCH SA-2017-010]

### Self-Regulatory Organizations; LCH SA; Notice of Filing of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice Relating to the Implementation of the Markets in Financial Instruments Regulation

December 1, 2017.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on November 21, 2017, Banque Centrale de Compensation, which conducts business under the name LCH SA ("LCH SA"), filed with the Securities and Exchange Commission ("Commission") the proposed rule change ("Proposed Rule Change") described in Items I, II and III below, which Items have been primarily prepared by LCH SA. The Commission is publishing this notice to solicit comments on the Proposed Rule Change from interested persons.

#### I. Clearing Agency's Statement of the Terms of Substance of the Proposed Rule Change

LCH SA is proposing to amend its (i) CDS Clearing Rulebook (the

"Rulebook") and CDS Clearing Procedures (the "Procedures") to make conforming and clarifying changes necessary to implement certain provisions of the Markets in Financial Instruments Regulation ("MiFIR")<sup>3</sup> that are applicable to central counterparties ("CCPs") authorized under the European Markets Infrastructure Regulation ("EMIR")<sup>4</sup> (each such CCP, an "authorized CCP"). In particular, the Proposed Rule Change implements Article 29 of MiFIR, which requires authorized CCPs to establish effective systems, procedures and arrangements to ensure that transactions in cleared derivatives transactions are submitted and accepted for clearing on a straight-through processing ("STP") basis, and Article 30 of MiFIR, which requires authorized CCPs to establish indirect clearing arrangements with respect to exchange-traded derivatives ("ETDs") that are of "equivalent effect" to the corresponding requirements under EMIR.

Regulatory technical standards have also been adopted to set more specific requirements that authorized CCPs must meet to comply with MiFIR. The regulatory technical standards for straight-through processing ("RTS 26") were adopted in late 2016.<sup>5</sup> More recently, the European Commission adopted regulatory technical standards, which align the indirect clearing requirements under EMIR and MiFIR ("Indirect Clearing RTS").<sup>6</sup>

#### 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 such statements.

#### A. Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

##### 1. Purpose

###### a. Overview

As noted above, the principal purpose of the Proposed Rule Change is to amend LCH SA's Rulebook and Procedures to implement the provisions of MiFIR applicable to authorized CCPs and the Indirect Clearing RTS. MiFIR takes effect January 3, 2018 and it is expected that the Indirect Clearing RTS will take effect on the same date.

Specifically, Article 29 of MiFIR requires authorized CCPs to establish effective systems, procedures and arrangements to ensure that transactions in cleared derivatives are submitted and accepted for clearing on a straight-through processing basis. Article 4 of EMIR and the Indirect Clearing RTS set out specific compliance requirements for entities that participate in "indirect clearing arrangements" in connection with OTC derivatives. As an authorized CCP, LCH SA is required to amend its rules and procedures to give effect to these provisions of MiFIR and the Indirect Clearing RTS.

Set out below is an explanation of the relevant provisions of RTS 26 and the Indirect Clearing RTS followed in each case by a description of the amendments LCH SA has made to its Rulebook and Procedures to give effect to each RTS. Capitalized terms not otherwise defined herein have the meanings ascribed to them in the Rulebook.

###### b. Straight-Through Processing

RTS 26 establishes the specific requirements with which authorized CCPs, trading venues<sup>7</sup> and clearing

<sup>3</sup> Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012.

<sup>4</sup> Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade reporting.

<sup>5</sup> Commission Delegated Regulation (EU) 2017/582 of 29.6.2016 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council with regard to regulatory technical standards specifying the obligation to clear derivatives traded on regulated markets and timing of acceptance for clearing.

<sup>6</sup> Commission Delegated Regulation (EU) of 22.9.2017 amending Commission Delegated Regulation (EU) No 149/2013 with regard to regulatory technical standards on indirect clearing arrangements. A separate, but identical, set of RTS apply to indirect clearing of exchange-traded derivatives. See, Commission Delegated Regulation (EU) of 22.9.2017 supplementing Regulation (EU) No 600/2014 with regard to regulatory technical standards on indirect clearing arrangements.

<sup>7</sup> The term "trading venue" as used in RTS 26 refers to EU-based venues only (i.e., regulated markets, multilateral trading facilities and organized trading facilities). Accordingly, third-country venues (e.g., U.S. swap execution facilities, security-based swap execution facilities, designated contract markets and national securities exchanges) are not required to comply with the RTS 26 provisions applicable to trading venues. Notwithstanding this definition, the STP amendments described herein will apply with respect to all derivatives transactions concluded on swap execution facilities and designated contract markets registered with the U.S. Commodity Futures Trading Commission ("CFTC") and the definition of the term "Trading Venue" has been amended accordingly. See, Section 1.1.1 of the Rulebook.

<sup>38</sup> 17 CFR 200.30-3(a)(12).

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

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

members<sup>8</sup> must comply in order to ensure that transactions in cleared derivatives are submitted and accepted for clearing “as soon as technologically practicable using automated systems”, as required by Article 29(2) of MiFIR. LCH SA must comply with the RTS 26 requirements applicable to authorized CCPs. For ease of reference these requirements can be conceptually distinguished into: (i) A CCP’s information requirements; (ii) cleared derivatives transactions concluded on a trading venue; (iii) cleared derivatives transactions concluded bilaterally; and (iv) resubmission of cleared derivatives transactions in the event of clerical error or technical problems.

#### i. CCP Information Requirements

Article 1(2) of RTS 26 requires an authorized CCP to detail in its rules the information it needs from trading venues and counterparties to cleared derivatives transactions, and the format such information must take, in order for the authorized CCP to accept that transaction for clearing.

The Rulebook currently provides that all clearing members must be participants of at least one Approved Trade Source System, *i.e.*, a middleware provider, which receives Original Transaction Data relating to Intraday Transactions from the relevant Clearing Members or the relevant Trading Venue. The Approved Trade Source System is then responsible for ensuring that the data is then submitted to LCH SA. To give effect to the CCP information requirements of Article 1(2) of RTS 26, Article 3.1.4.1 of the Rulebook has been amended to confirm that the data relating to such submission must be made in a format acceptable to, or required by, the relevant Approved Trade Source System.

<sup>8</sup> The term “clearing member” is not defined in RTS 26. However, Article 29 of MiFIR refers to “investment firms which act as clearing members in accordance with” EMIR. The term “investment firm” refers only to those EU firms which are required to be authorized under the revised Markets in Financial Instruments Directive (“MiFID II”) and, therefore, third-country firms that are clearing members of authorized CCPs (*e.g.*, SEC-registered broker dealers (“BDs”) and futures commission merchants (“FCM”) registered with the CFTC) are not required to comply with the RTS 26 provisions applicable to clearing members. Nonetheless, it should be noted that BDs and FCMs are subject to comparable requirements under SEC and CFTC regulations. See, 17 CFR 240.15Fi-2(f)(2); 17 CFR 1.74 and 17 CFR 23.501. In any event, the STP requirements to which LCH SA is subject, discussed herein, apply with respect to all derivatives transactions submitted for clearing by any Clearing Member, including a Clearing Member that is a BD or FCM.

#### ii. Cleared Derivatives Transactions Concluded on a Trading Venue

For a cleared derivatives transaction concluded on a trading venue, Article 3(4) of RTS 26 requires an authorized CCP to accept or reject such transaction for clearing within 10 seconds of receipt of the relevant information from the trading venue.<sup>9</sup> Where the authorized CCP determines to reject the transaction for clearing, it is required to inform the clearing member and the trading venue on a real-time basis.

LCH SA has traditionally imposed a series of controls on Intraday Transactions, including the following:

- Eligibility Controls, which verify the completeness of the information relating to the Original Transaction and to determine whether the Original Transaction meets LCH SA’s Eligibility Requirements;
- Client Transaction Checks, which verify whether, in respect of an Original Transaction that is a Client Transaction, the relevant Clearing Member has consented to the registration of the trade on behalf of its Client; and
- Notional and Collateral Checks, which verify whether accepting the trade for clearing would exceed the relevant Clearing Member’s Maximum Notional Amount and/or whether the Clearing Member has sufficient collateral available to satisfy the margin requirement associated with clearing the trade.

LCH SA will be able to identify cleared derivatives transactions concluded on a trading venue—referred to as “Trading Venue Transactions” in the revised Rulebook—and has amended Section 5.3 of the Procedures to confirm that, in accordance with Article 3(4) of RTS 26, the relevant Clearing Member(s) are not required to provide their consent to the acceptance of a Trading Venue Transaction for clearing.

LCH SA will, however, apply the Notional and Collateral Checks to Trading Venue Transactions. Article 3.1.4.5 of the Rulebook has been amended to make clear that all stages of the intraday clearing process must occur within the timeframe required by Applicable Law, meaning that LCH SA must perform the Notional and Collateral Checks within the 10 second time-frame prescribed by Article 3(4) of RTS 26.

<sup>9</sup> As a CFTC-registered derivatives clearing organization, LCH SA is currently subject to this same requirement in connection with its CDS Clearing Service. See, 17 CFR 39.12(b)(7); CFTC Staff Guidance of Straight-Through Processing, dated September 26, 2013, available at <http://www.cftc.gov/idc/groups/public/@newsroom/documents/file/stpguidance.pdf>.

Finally, Article 3.1.5.1 of the Rulebook has been amended to clarify that notice of a Rejected Transaction will be provided to the relevant Trading Venue and/or Approved Trade Source System in accordance with Applicable Law.

#### iii. Cleared Derivatives Transactions Concluded Bilaterally

For a cleared derivatives transaction concluded bilaterally between counterparties, Article 4(2) of RTS 26 requires an authorized CCP to send the information it receives from the relevant counterparties to the relevant clearing member(s) within 60 seconds of receipt of such information. Article 4(3) of RTS 26 requires the authorized CCP to accept or reject such transaction for clearing within 10 seconds of receipt of the acceptance or non-acceptance by such clearing member(s). Where the authorized CCP determines to reject the transaction for clearing, it is required to inform the clearing member on a real-time basis.

Cleared derivatives transactions concluded bilaterally will, in accordance with Section 5.3 of the Procedures, be subject to the Client Transaction Checks referred to above. In particular, LCH SA will, upon successful completion of the Eligibility Controls, send a Consent Request to the relevant Clearing Member(s). Pursuant to Article 3.1.4.5 of the Rulebook, LCH SA is required to send each such Consent Request in accordance with the timeframe required by Applicable Law (*i.e.*, 60 seconds).

A Clearing Member then has a choice in how to respond to the Consent Request. It may opt for a so-called “Automatic Take-Up Process”, whereby the Clearing Member effectively pre-approves specific Clients for automatic acceptance of Consent Requests; in such circumstances, the Clearing Member will not be required to respond to the Consent Request. A Clearing Member may also opt for a “Manual Take-Up Process”, whereby it must affirmatively respond within the time frame required by Applicable Law (*i.e.*, 60 seconds) or otherwise by the end of the real-time clearing session on that day. LCH SA will then accept or reject the trade, and make the relevant notifications, within the timeframe required under Applicable Law.

Finally, Article 3.1.5.1 of the Rulebook has been amended to clarify that notice of a Rejected Transaction will be provided to the relevant Clearing Member and/or Approved Trade Source System in accordance with Applicable Law.

## iv. Resubmission

Where the non-acceptance of a cleared derivatives transaction for clearing is due to a clerical or technical error, Article 5(3) of RTS 26 permits the trade to be resubmitted within one hour, provided the original counterparties to the trade agree to such resubmission. Article 3.1.5.1 of the Rulebook has been amended to state that a Rejected Transaction may be resubmitted for clearing in accordance with Applicable Law.

## v. Treatment of Backloading Transactions

STP requirements apply to “cleared derivatives transactions”, which are defined in Article 29(2) of MiFIR to include derivatives that are concluded on an EU regulated market, all OTC derivatives that are subject to an EMIR mandatory clearing requirement, and all other derivatives which are agreed by the relevant counterparties to be cleared. LCH SA has amended the Rulebook to designate Backloading Transactions as out of scope of MiFIR’s STP requirements. Specifically, Article 3.1.6.3 now provides that LCH SA is entitled to assume that any Backloading Transaction submitted for clearing by LCH SA was either entered into prior to the effective date of MiFIR (*i.e.*, January 3, 2018) or is otherwise not subject to an EMIR mandatory clearing requirement and that the parties to the Backloading Transaction did not agree at the time of execution for the Backloading Transaction to be subject to clearing.

## c. Indirect Clearing Arrangements

## i. Indirect Clearing RTS

Article 4(3) of EMIR requires that indirect clearing arrangements should not increase counterparty risk and ensure protections that are of “equivalent effect” to the protections for client clearing set out in Articles 39 and 48 of EMIR. The term “indirect clearing arrangement” refers to a set of relationships—also called a “chain”—where at least two intermediaries are interposed between an end-client and the relevant authorized CCP. The most basic indirect clearing chain therefore involves the following four entities: An authorized CCP; a clearing member of the authorized CCP; the client of the Clearing Member that is itself an intermediary (“Direct Client”); and the client of such Direct Client (“Indirect Client”). Longer chains are permitted in certain circumstances.

The majority of the obligations under the Indirect Clearing RTS fall to Clearing Members and Direct Clients.

However, authorized CCPs must comply with new requirements relating to account structures, default management and risk management.<sup>10</sup> Because indirect clearing was a concept introduced in EMIR, the Rulebook already had a number of features to implement the initial set of indirect clearing requirements. LCH SA has made the following conforming amendments to reflect the updated requirements of the Indirect Clearing RTS.

## ii. Indirect Client Account Structures

An authorized CCP must permit a clearing member to open and maintain at least the following two types of accounts for its Direct Client(s) that have Indirect Client(s):

- One omnibus segregated account for all Indirect Clients of all such Direct Clients (“CCP OSA”); and
- one gross (position and margin) segregated account per Direct Client for all Indirect Clients of that Direct Client that choose gross segregation (a “CCP GOSA”).

Therefore an authorized CCP is expected to maintain at least: (i) One CCP OSA per clearing member; plus (ii) the requisite number of Direct Client-specific CCP GOSAs per clearing member.

The Indirect Clearing RTS do not specify whether the CCP OSA must be held either gross or net for calling margin or for position-keeping purposes, leaving the specific arrangements to the discretion of each authorized CCP. Finally, and for the avoidance of doubt, CCP OSAs and CCP GOSAs are separate from any Direct Client-specific individual or omnibus accounts opened pursuant to Article 39 of EMIR.

The principal indirect clearing-related amendment to the Rulebook is the introduction of two new account structures that reflect the requirements of the Indirect Clearing RTS. Specifically, LCH SA has introduced a new CCM Indirect Client Net Segregated Account Structure (*i.e.*, a CCP OSA) as

<sup>10</sup> The indirect clearing arrangements for OTC derivatives described herein, in particular, the requirements relating to account structures and default management, generally will not be applicable to Clearing Members that are FCM Clearing Members or U.S. Clearing Members, *i.e.*, BDs. In this regard, in connection with the CDS Clearing Service, FCM Clearing Members will continue to be required to maintain cleared swaps customer accounts in accordance with the segregation requirements set out in Section 4d(f) of the Commodity Exchange Act and Part 22 of the CFTC’s rules, 17 CFR 22.1 *et seq.* Similarly, a U.S. Clearing Member that is not also an FCM Clearing Member will be required to maintain customer security-based swap accounts in accordance with 17 CFR 240.15c3–3.

well as a new CCM Indirect Client Gross Segregated Account Structure (*i.e.*, a CCP GOSA), collectively referred to as CCM Indirect Client Segregated Account Structures.

A CCM Indirect Client Net Segregated Account Structure contains the following elements:

- A CCM Client Trade Account per CCM Indirect Client that belongs to such Account Structure. A CCM Client Trade Account is an account that records the Cleared Transactions registered in the name of the relevant CCM Indirect Client;
- a single CCM Indirect Client Net Segregated Margin Account, in which all Cleared Transactions of all the CCM Indirect Clients in that Structure are netted to create a single set of Open Positions per contract for purposes of calculating a single, overall initial and variation margin requirement in respect of such Account Structure; and
- a single CCM Client Collateral Account, which records the Collateral provided by the CCM to satisfy the CCM Client Margin Requirement(s) in respect of the Account Structure and for purposes of identifying any CCM Client Excess Collateral in respect of the Account Structure.

A CCM Indirect Client Gross Segregated Account Structure contains the following elements:

- A CCM Client Trade Account per CCM Indirect Client that belongs to such Account Structure;
- a CCM Indirect Client Gross<sup>11</sup> Segregated Margin Account per CCM Indirect Client that belongs to such Account Structure, in which the Cleared Transactions of such CCM Indirect Client are netted to create a set of Open Positions for purposes of calculating initial and variation margin requirements in respect of such CCM Indirect Client; and
- a single CCM Client Collateral Account, which records the Collateral provided by the CCM to satisfy the CCM Client Margin Requirement(s) in respect of the Account Structure and for purposes of identifying any CCM Client Excess Collateral in respect of the Account Structure.

Title V, Chapter 2 of the Rulebook has been amended to specify the circumstances in which such Account Structures may be opened. In particular, Article 5.2.1.3 has been amended to clarify that a given CCM Client that provides indirect clearing services to

<sup>11</sup> Pursuant to an email from LCH SA’s representative dated November 30, 2017, staff in the Division of Trading and Markets corrected an incorrect reference to a “CCM Indirect Client Net Account.” LCH SA intended to refer to a “CCM Indirect Client Gross Account.”

CCM Indirect Clients must be allocated to one CCM Indirect Client Net Segregated Account Structure but may, upon request, be allocated to one CCM Indirect Client Gross Segregated Account Structure.

### iii. Default Management

The Indirect Clearing RTS primarily address a Clearing Member's default management of an insolvent Direct Client and therefore do not specifically address an authorized CCP's treatment of CCP OSAs and CCP GOSAs in the event of a Clearing Member default. However, the better view appears to be that these accounts should be held to the extent possible in accordance with the requirements of EMIR Articles 39 and 48, which leads to the following obligations for an authorized CCP.

**Porting/Leapfrog Payment.** In line with the EMIR requirement that indirect clearing arrangements be of "equivalent effect" to client clearing protections, in the event of a Clearing Member default, a CCP is expected to be able to attempt to port the positions of Indirect Clients in a CCP GOSA to a backup Direct Client or, failing that, to attempt to make a "leapfrog" payment over the insolvency estate of the defaulted Clearing Member directly to the Direct Client for the account of its Indirect Clients.

**Value Segregation Only.** To facilitate the porting and leapfrog arrangements set out above, it will be necessary for an authorized CCP to maintain separate collateral pools for each CCP GOSA. However, in line with Article 39(10) of EMIR, the term "assets"—which must be segregated—refers to collateral held to cover a given set of positions and includes the right to the return/transfer of equivalent assets. Accordingly, a CCP is not required to identify the specific collateral assets posted in respect of a given Indirect Client in a CCP GOSA but instead may rely on "value segregation" only.

The Rulebook addresses the treatment of CCM Indirect Client Segregated Account Structures in the event of the default of the CCM, the CCM Client and of LCH SA itself.

#### *CCM Default.*

• In the event of a CCM default, Clause 4.3 of the CDS Default Management Process states that LCH SA will attempt in the first instance to port the Client Cleared Transactions of a CCM Indirect Gross Segregated Account Client to a single Backup Clearing Member, provided that certain conditions are met, including that the Backup Clearing Member has unconditionally agreed to act as Backup Clearing Member and the instruction is

received within the prescribed timeframe—referred to as the "Porting Window"—established by LCH SA for this purpose. In the alternative, LCH SA may liquidate the existing Client Cleared Transactions and re-establish them with the Backup Clearing Member. LCH SA will also, upon instruction, transfer the associated Collateral to the Backup Clearing Member. There will be no porting attempted for Client Cleared Transactions in a CCM Indirect Client Net Segregated Account Structure.

• In respect of Client Cleared Transactions in a CCM Indirect Client Net Segregated Account Structure (or where porting is not achieved in respect of Client Cleared Transactions in a CCM Indirect Client Gross Segregated Account Structure), Clause 4.4.3 of the CDS Default Management Process requires LCH SA to calculate an amount—called the "CDS Client Clearing Entitlement"—equal to: (1) The pro rata share of the liquidation of the Non-Ported Cleared Transactions; plus (2) the pro rata share of the liquidation value of the Client Assets recorded in the relevant Client Collateral Account; minus (2) the pro rata share of the costs of any hedging undertaken; minus (4) the pro rata share of the costs, expenses and liabilities of LCH SA in implementing the CDS Client Default Management Process, in each case where such pro rata share is attributable to a given CCM Indirect Client. The relevant CDS Clearing Entitlement(s) will then be paid to the CCM Client of the defaulting CCM.

• Upon a CCM default, Article 4.3.3.1 of the Rulebook clarifies that CCM Indirect Clients belonging to a CCM Indirect Client Gross Segregated Account Structure bear no fellow-customer risk: only the value of the Collateral referable to a given CCM Indirect Client—called the "CCM Indirect Client Gross Account Balance"—will be available to satisfy any Damages attributable to the liquidation of any Non-Ported Cleared Transactions referable to such CCM Indirect Client. By contrast, all Collateral recorded in respect of a given CCM Indirect Client Net Segregated Account will be available to satisfy any Damages relating to the liquidation of any Non-Ported Cleared Transactions of any CCM Indirect Client belonging to such CCM Indirect Client Net Segregated Account.

**CCM Client Default.** In the event of the default of a CCM Client that has CCM Indirect Clients, LCH SA's normal default management arrangements for CCMs will not apply. Instead, the defaulting CCM Client will be default managed by the CCM, which will

determine whether to liquidate the Client Cleared Transactions registered in the relevant CCM Indirect Client Segregated Account Structures or to attempt to port the Client Cleared Transactions of the CCM Indirect Clients belonging to a CCM Indirect Client Gross Segregated Account Structure to a Backup Client. Porting may occur on a consolidated basis, *i.e.*, where all the CCM Indirect Clients appoint a single Backup Client, or on a per-CCM Client Trade Account basis, *i.e.*, where a given CCM Indirect Client appoints a single Backup Client specific to that CCM Indirect Client. Article 5.4.1.3 of the Rulebook provides that LCH SA will make the relevant transfers in its records at the instruction of the CCM undertaking the default management of its defaulting CCM Client.

**LCH SA Default.** LCH SA has amended Article 1.3.1.9 of the Rulebook to clarify that, following a default by LCH SA, CCMs shall calculate a separate CCM Client Termination Amount in respect of each CCM Indirect Client Net Segregated Account Structure and each CCM Indirect Client Gross Segregated Account Structure it holds with LCH SA.

### iv. Miscellaneous

Article 3(3) of the Indirect Clearing RTS requires an authorized CCP to identify, monitor and manage any "material risks" arising from the provision of indirect clearing services that may affect the resilience of the authorized CCP to adverse market developments. In addition, Article 2(3) of the Indirect Clearing RTS states that an authorized CCP may not "prevent the conclusion of" indirect clearing arrangements that are entered into on reasonable commercial terms.

Article 5.1.3.1 of the Rulebook has been amended to clarify that a CCM may permit its CCM Clients to offer clearing services to their CCM Indirect Clients provided certain conditions are met. Specifically, the contractual terms of the indirect clearing arrangements must comply with the relevant requirements of EMIR and MiFIR and must further provide for the establishment of CCM Indirect Client Segregated Account Structures (described in greater detail above) in accordance with the wishes of the relevant CCM Indirect Clients. LCH SA has also largely retained Article 5.1.3.2, which sets out the general terms on which LCH SA facilitates the offering of CDS Clearing Services to CCM Indirect Clients.

Article 5.2.1.1 of the Rulebook also includes an express recognition that a given CCM Client may be acting in the

capacity of clearing its own proprietary transactions as well as in the capacity of providing clearing services to its CCM Indirect Clients. Finally, Title V, Chapter 3 of the Rulebook has been amended to provide for non-default transfers of all Client Cleared Transactions in a given CCM Indirect Client Segregated Account Structure (accompanied by the associated Client Assets upon request) or partial transfers of Client Cleared Transactions in a given CCM Indirect Client Segregated Account Structure (without the associated Client Assets) to the relevant accounts of a Receiving Clearing Member.

#### d. Certain Clarifying Amendments

LCH SA has also made certain clarifying revisions to the Rulebook, Procedures and Clearing Notice as described below.

#### i. Auction Member Representative

Various provisions of the CDS Default Management Process (Annex 1 of the Rulebook) have been revised to clarify the responsibilities between a Non-Defaulting Clearing Member and the Auction Member Representative appointed by the Non-Defaulting Clearing Member to act in such Clearing Member's place in the competitive bidding process as described in Clause 5.4 of the CDS Default Management Process.

#### ii. Member Uncovered Risk

The definition of "Member Uncovered Risk", now "Group Member Uncovered Risk", has been revised to take into account the relevant LCH Group Risk Policy, which considers whether Clearing Members belong to the same group for purposes of the relevant risk calculations. The revisions are set out in Section 4.4.1.2 and Section 4.4.1.8 of the Rulebook and Section 2.12, Section 2.16 and Section 6.4 of the Procedures.

#### iii. Calculation of Contributed Prices

Section 5.18.2 of the Procedures has been revised to reflect changes made to the methodology with regard to the application of the bid-ask restraint in the calculation of contributed prices. In addition, the references to a particular time in the Rulebook regarding the price contribution process have been removed. Consequently, the definition of "End of Day" has been removed from the Rulebook. Article 4.2.7.7 of the Rulebook and Section 5.18.5 (b) and (d) of Procedure 5 have been amended accordingly.

#### iv. New Approved Trade Source System

Clearing Notice no. 2017/064 regarding the Approved Trade Source

Systems has been amended to add a new Approved Trade Source System which is Bloomberg Trade Facility Ltd.

#### 2. Statutory Basis

LCH SA has determined that Proposed Rule Change is consistent with the requirements of Section 17A of the Act<sup>12</sup> and regulations thereunder applicable to it. In particular, the amendments implementing the MiFIR requirements relating to straight-through processing and the EMIR requirements relating to indirect clearing arrangements for OTC derivatives promote the prompt and accurate clearance and settlement of derivatives transactions and ensure the safeguarding of securities and funds that are within the custody or control of LCH SA, each within the meaning of Section 17A(b)(3)(F) of the Act.<sup>13</sup>

#### B. Clearing Agency's Statement on Burden on Competition

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.

#### C. Clearing Agency's Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others

Written comments relating to the Proposed Rule Change have not been solicited or received. LCH SA will notify the Commission of any written comments received by LCH SA.

#### III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the **Federal Register** or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) By order approve or disapprove such proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and

arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>) or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-LCH SA-2017-010 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-2017-010. This file number should be included on the subject line if email 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 Web site (<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 Web site 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 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of LCH SA and on LCH SA's Web site at <http://www.lch.com/asset-classes/cdsclear>.

All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-LCH SA-2017-010 and should be submitted on or before December 28, 2017.

<sup>12</sup> 15 U.S.C. 78q-1.

<sup>13</sup> 15 U.S.C. 78q-1(b)(3)(F).

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>14</sup>

**Eduardo A. Aleman,**

*Assistant Secretary.*

[FR Doc. 2017-26320 Filed 12-6-17; 8:45 am]

**BILLING CODE 8011-01-P**

## SECURITIES AND EXCHANGE COMMISSION

[Investment Company Act Release No. 32931; 812-14834]

### Regents Park Funds, LLC and Two Roads Shared Trust

December 1, 2017.

**AGENCY:** Securities and Exchange Commission (“Commission”).

**ACTION:** Notice.

Notice of an application for an order under section 6(c) of the Investment Company Act of 1940 (the “Act”) for an exemption from sections 2(a)(32), 5(a)(1), 22(d), and 22(e) of the Act and rule 22c-1 under the Act, under sections 6(c) and 17(b) of the Act for an exemption from sections 17(a)(1) and 17(a)(2) of the Act, and under section 12(d)(1)(f) for an exemption from sections 12(d)(1)(A) and 12(d)(1)(B) of the Act. The requested order would permit (a) index-based series of certain open-end management investment companies (“Funds”) to issue shares redeemable in large aggregations only (“Creation Units”); (b) secondary market transactions in Fund shares to occur at negotiated market prices rather than at net asset value (“NAV”); (c) certain Funds to pay redemption proceeds, under certain circumstances, more than seven days after the tender of shares for redemption; (d) certain affiliated persons of a Fund to deposit securities into, and receive securities from, the Fund in connection with the purchase and redemption of Creation Units; and (e) certain registered management investment companies and unit investment trusts outside of the same group of investment companies as the Funds (“Funds of Funds”) to acquire shares of the Funds.

**APPLICANTS:** Regents Park Funds, LLC (the “Initial Adviser”), a California limited liability company that is registered as an investment adviser under the Investment Advisers Act of 1940 and Two Roads Shared Trust (the “Trust”), a Delaware statutory trust registered under the Act as a series open-end management investment company.

**FILING DATE:** The application was filed on October 12, 2017 and amended on November 8, 2017.

**HEARING OR NOTIFICATION OF HEARING:** An order granting the requested relief will be issued unless the Commission orders a hearing. Interested persons may request a hearing by writing to the Commission’s Secretary and serving applicants with a copy of the request, personally or by mail. Hearing requests should be received by the Commission by 5:30 p.m. on December 26, 2017, and should be accompanied by proof of service on applicants, in the form of an affidavit, or for lawyers, a certificate of service. Pursuant to rule 0-5 under the Act, hearing requests should state the nature of the writer’s interest, any facts bearing upon the desirability of a hearing on the matter, the reason for the request, and the issues contested. Persons who wish to be notified of a hearing may request notification by writing to the Commission’s Secretary.

**ADDRESSES:** Secretary, Securities and Exchange Commission, 100 F Street NE., Washington, DC 20549-1090;

Applicants: The Initial Adviser, 4041 MacArthur Blvd., Suite 155, Newport Beach, CA 92660; and the Trust, 17605 Wright Street, Omaha, NE 68130.

**FOR FURTHER INFORMATION CONTACT:** Courtney S. Thornton, Senior Counsel, at (202) 551-6812, or Robert H. Shapiro, Branch Chief, at (202) 551-6821 (Division of Investment Management, Chief Counsel’s Office).

**SUPPLEMENTARY INFORMATION:** The following is a summary of the application. The complete application may be obtained via the Commission’s Web site by searching for the file number, or for an applicant using the Company name box, at <http://www.sec.gov/search/search.htm> or by calling (202) 551-8090.

#### *Summary of the Application*

1. Applicants request an order that would allow Funds to operate as index exchange traded funds (“ETFs”).<sup>1</sup> Fund shares will be purchased and redeemed

<sup>1</sup> Applicants request that the order apply to Affinity World Leaders Equity ETF (the “Initial Fund”) and any additional series of the Trust, and any other open-end management investment company or series thereof (each, included in the term “Fund”), each of which will operate as an ETF and will track a specified index comprised of domestic or foreign equity and/or fixed income securities (each, an “Underlying Index”). Each Fund will (a) be advised by the Initial Adviser or an entity controlling, controlled by, or under common control with the Initial Adviser (each such entity or any successor thereto, an “Adviser”) and (b) comply with the terms and conditions of the application. For purposes of the requested order, “successor” is limited to an entity that results from a reorganization into another jurisdiction or a change in the type of business organization.

at their NAV in Creation Units only. All orders to purchase Creation Units and all redemption requests will be placed by or through an “Authorized Participant,” which will have signed a participant agreement with the Distributor. Shares will be listed and traded individually on a national securities exchange, where share prices will be based on the current bid/offer market. Any order granting the requested relief would be subject to the terms and conditions stated in the application.

2. Each Fund will hold investment positions selected to correspond generally to the performance of an Underlying Index. In the case of Self-Indexing Funds, an affiliated person, as defined in section 2(a)(3) of the Act (“Affiliated Person”), or an affiliated person of an Affiliated Person (“Second-Tier Affiliate”), of the Trust or a Fund, of the Adviser, of any sub-adviser or promoter of a Fund, or of the Distributor will compile, create, sponsor or maintain the Underlying Index.<sup>2</sup>

3. Shares will be purchased and redeemed in Creation Units and generally on an in-kind basis. Except where the purchase or redemption will include cash under the limited circumstances specified in the application, purchasers will be required to purchase Creation Units by depositing specified instruments (“Deposit Instruments”), and shareholders redeeming their shares will receive specified instruments (“Redemption Instruments”). The Deposit Instruments and the Redemption Instruments will each correspond pro rata to the positions in the Fund’s portfolio (including cash positions) except as specified in the application.

4. Because shares will not be individually redeemable, applicants request an exemption from section 5(a)(1) and section 2(a)(32) of the Act that would permit the Funds to register as open-end management investment companies and issue shares that are redeemable in Creation Units only.

5. Applicants also request an exemption from section 22(d) of the Act and rule 22c-1 under the Act as secondary market trading in shares will take place at negotiated prices, not at a

<sup>2</sup> The Initial Fund will track TRSAWL Index, which is compiled by Affinity Investment Advisors, LLC, the sub-adviser to the Initial Fund. Each Self-Indexing Fund will post on its Web site the identities and quantities of the investment positions that will form the basis for the Fund’s calculation of its NAV at the end of the day. Applicants believe that requiring Self-Indexing Funds to maintain full portfolio transparency will help address, together with other protections, conflicts of interest with respect to such Funds.