

22. Should Tier II Finders be required to enter into a written agreement with the issuer where the issuer, without affecting the Finder's obligations, also assumes liability with respect to investors for the Finder's misstatements in the course of his or her engagement by the issuer?

23. Should the proposed exemption be conditioned on a Finder filing a notice with the Commission of reliance on the exemption from registration? Why or why not? If so, when should Finders be required to file the notice? What, if any, disclosures should be required in the notice?

24. Should there be any limitations on the amount of fee a Finder can receive?

25. Should we impose limitations on the form of compensation Finders can receive? Should Finders be prohibited in certain circumstances from receiving transaction-based compensation, and instead be required to receive compensation that is not tied to the success of the transaction (that is a fixed fee or other arrangement)? If so, under what circumstances and how should Finders then be compensated?

26. Should a Finder be able to receive a financial interest in an issuer as compensation for its services? Why or why not?

27. Are the explicit limitations on the activities in which Finders can or cannot engage appropriate for each tier of Finder? What other activities should be expressly permitted or prohibited for each class of Finder?

28. Should we provide guidance on how a Finder can establish that he or she did not know and, in the exercise of reasonable care, could not have known, that the issuer had failed to comply with the conditions of an exemption?

29. Should we provide further guidance on the solicitation-related activities in which Tier II Finders can engage on behalf of an issuer, for example, guidance surrounding a Tier II Finder's discussion of issuer information and arrangement and participation in meetings with issuers and investors?

30. Should we provide guidance regarding activities of private fund advisers, M&A Brokers as defined in the *M&A Broker Letter*,<sup>99</sup> or real estate brokers that may require registration

<sup>99</sup> An M&A Broker is defined as a person engaged in the business of effecting securities transactions solely in connection with the transfer of ownership and control of a privately-held company through the purchase, sale, exchange, issuance, repurchase, or redemption of, or a business combination involving, securities or assets of the company, to a buyer that will actively operate the company or the business conducted with the assets of the company. See *M&A Broker Letter*.

under Section 15(a) of the Exchange Act? Should we consider codifying the *M&A Broker Letter*?<sup>100</sup>

31. Are there other areas in which the Commission should provide guidance regarding the registration requirements of Section 15(a) of the Exchange Act to other types of limited-purpose broker-dealers?

32. If the proposed exemption is adopted, which staff letters, if any, should or should not be withdrawn, and why?

33. Have we appropriately defined the disqualification condition for Finders?

34. Have we appropriately limited the proposed exemption to individuals who are not associated persons of a broker-dealer?

35. Should the proposed exemption include a limitation such that it would not be available to individuals who were associated persons of a broker-dealer within the previous 12 months?

36. Should the proposed exemption be limited to individuals who are not associated persons of a municipal advisor or investment adviser representatives of an investment adviser?

37. Should the proposed exemption be limited to individuals who are not associated persons of an issuer? Why or why not?

38. Would the proposed exemption provide sufficient investor protections while promoting capital formation for small businesses?

39. Would the proposed exemption have a competitive impact on registered brokers?

40. With respect to the activities permitted for Tier I Finders, what are the practical implications of the requirements if they were subject to broker registration? What about for Tier II Finders?

41. Should we instead take an alternative approach for either class of Finders?

42. Are there areas related to the proposed Finders framework for which the Commission should provide guidance?

43. Should we coordinate with other regulators to provide clarity and consistency on what types of activities Finders and other limited purpose brokers may engage in?

44. Are there any other sources of data or information that could assist the Commission in analyzing the consequences of the proposed exemption? We request that commenters provide any relevant data or information.

45. Other than the possible obligation of a Finder to register as a broker-dealer,

the proposed exemption is not intended to affect the rights of the Commission or any other party to enforce compliance with applicable law, or the available remedies for violations of the law. This includes, in the case of the Commission, the ability to impose a broker-dealer registration bar on a person for misconduct that would warrant a bar. Are there any other considerations in this regard that the Commission should take into account as it considers the exemptive relief?

By the Commission.

Dated: October 7, 2020.

**Vanessa A. Countryman,**  
*Secretary.*

[FR Doc. 2020-22565 Filed 10-9-20; 8:45 am]

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-90099; File No. SR-LCH SA-2020-005]

### Self-Regulatory Organizations; LCH SA; Notice of Filing of Proposed Rule Change Relating to the Clearing of Options on Index Credit Default Swaps in Respect of North American Indices (More Specifically, CDX.NA.IG and CDX.NA.HY)

October 6, 2020.

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 September 24, 2020, Banque Centrale de Compensation, which conducts business under the name LCH SA ("LCH SA"), filed with the Securities and Exchange Commission ("Commission") the proposed rule change described in Items I, II, and III below, which Items have been prepared primarily by LCH SA. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

Banque Centrale de Compensation, which conducts business under the name LCH SA ("LCH SA"), is proposing to amend its rules to permit the clearing of options on index credit default swaps in respect of North American indices (more specifically, CDX.NA.IG and CDX.NA.HY) ("CDX Swaptions") (the "Proposed Rule Change").

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

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

<sup>100</sup> See *supra* footnote 24 and accompanying text.

According to filings LCH SA–2017–006 and 007, currently, LCH SA clears today options on certain European index CDS as the underlying, *i.e.*, CDS on Markit iTraxx® Europe Index and iTraxx® Crossover Index (“iTraxx Swaptions”).

The text of the Proposed Rule Change has been annexed as Exhibit 5.<sup>3</sup>

The launch of the CDX Swaptions initiative will be contingent on LCH SA’s receipt of all necessary regulatory approvals.

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

In its filing with the Commission, LCH SA included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. LCH SA has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of these statements.

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

#### 1. Purpose

The Proposed Rule Change will permit LCH SA to introduce clearing of CDX Swaptions.

As part of this initiative, LCH SA is proposing to amend its (i) Reference Guide: CDS Margin Framework (“CDSClear Margin Framework”) and (ii) CDS Clearing Supplement (“Supplement”) and (iii) CDS Clearing Procedures (“Procedures”).

#### i. CDSClear Margin Framework

The introduction of CDX Swaptions requires minimal changes to extend the existing risk framework to the new product, these are reflected in the LCH SA Reference Guide: CDS Margin Framework alongside other changes described below enabling it to cover the clearing of CDX Swaptions. This has led to an opportunity to make other changes, unrelated to the CDX Swaptions, also described below, including changes to the Vega Margin which would apply to both iTraxx Swaptions and CDX Swaptions.

Paragraph 2.3.4 which deals with the Daily Contributions Assessment has been expanded in order to include CDX Swaptions. Members’ price contribution will be mandatory on CDX Swaptions for all strikes that are multiples of 2.5

bps for CDX.NA.IG and 0.5 point for CDX.NA.HY of a given expiry from the moment Members have at least one open position on one of that expiry’s strike, in order to ensure implied volatility measurements are updated on a daily basis. Otherwise, LCH SA will fall back to Markit’s composite prices or according to section 2.3.3.2 of the Reference Guide: CDS Margin Framework, use pre-defined rules to fill in missing data.

The proposed changes in section 3.9 (which are unrelated to the requirements for clearing CDS Options on CDX) serve to enrich and align the methodology for calculating Vega Margin with LCH SA’s approach across all products and business segments. Vega Margin captures the risk of volatility changes in the options premium relative to the strikes, *i.e.*, the skew risk and the risk of changes in the volatility of volatility. As a result of a risk model validation finding, LCH SA is proposing to transition from a parametric model to a historical model, using predefined scenarios to simulate the risk of volatility change. In order to introduce shocks on the volatility itself rather than on the calculation’s model parameters only as was the case before, the new methodology would rely on use of four regular and four stressed historical scenarios for each index family, calibrated based on the worst skew risk and the volatility of volatility risk at given confidence levels. Since Vega Margin represents an add-on amount to spread margin that accounts for potential moves in assumed volatility, the P&L impact of the proposed change is not expected to be significant.

(a) The volatility scenarios are built using data going back to April 3, 2007 whereby for each index family, historical scenarios are identified by making an estimate of the largest 5-day shifts in volatility distance, at a given percentile, between At-The-Money strikes and implied volatilities for options with a delta of 10, 25, 75 and 90%, so as to capture the deformation of volatility surface across.

(b) The Skew and Smile scenarios are calibrated against the worst volatility surface distortion (*i.e.*, largest changes of the volatility distance previously defined) at a given confidence level. The scenarios are derived in the form of volatility shocks at each delta level, these are used to shift the end of day volatilities, at the corresponding delta levels, to calibrate a set of shifted or Stochastic Volatility Inspired (SVI) scenarios as depicted in the updated table in paragraph 3.9.2.

(c) The number of scenarios calculated for each index family has been adjusted from eight previously to four as a result of the shocks now being applied at volatility level.

In paragraph 4.1.9 of CDSClear Margin Framework,

- As requested by the LCH SA Risk model validation department, a comment has been added to highlight that although the example given pertains to iTraxx Swaptions, the same logic applies to CDX Swaptions;
- in the description of Step 2 regarding the calculation of the cost of vega hedging, it has been detailed that the volume of delta neutral Swaption notional that can be reasonably unwound by LCH SA in a day is derived from a clearing member survey and that the volume of principal index 5YR Off-The-Run–1 series Swaption notional that can be reasonably unwound by LCH SA in a day is defined in the section on indices;
- in the description of Step 3, the contributions to the macro-hedge cost, the CDX Swaptions have been added to the description of the variable beta (“β”) that defines an index sub-family, either Main or Xover for iTraxx, and IG or HY for CDX.
- in the description of Step 4 regarding the final Liquidity Charge and in order to aggregate the costs of delta hedging and vega hedging, while no changes are required to the liquidity and concentration risk margin methodology, a formula has been added to clarify that the existing methodology would also apply and to describe how the Foreign Exchange rate is introduced into the final Liquidity Charge formula in order to cater for CDX Swaptions.

With respect to the calculation of liquidity charge, in the event of a clearing member default the market does not require for swaptions to be liquidated as a delta-hedged package intended to trade and hedge an option along with an index but it is deemed more optimal to do so from a friction cost standpoint as per the market feedback. LCH SA attempts to source the hedges from the CDS part of the defaulting member’s portfolio using a delta hedging algorithm to ensure minimal hedging costs before sourcing the hedges from the market, and language has been added to note that the volume of the delta neutral package of the selected option that can be reasonably unwound per day is based on a member survey. Finally, additional commentary serves to confirm how currency conversion from USD to EUR

<sup>3</sup> All capitalized terms not defined herein have the same definition as the Framework or Default Fund Methodology, as applicable.

will apply where options forming part of the delta-hedged package are priced in USD.

Paragraph 4.2 sets forth accrued coupon liquidation risk margin (margin covering the risk that a protection buyer will not be paying any accrued coupon via the VM between the time it defaults and the end of the liquidation of its portfolio) for both CDS and CDS Options. The accrued coupon liquidation risk margin with respect to CDS Options remains the same, but now reflects that any such amount for CDX Swaptions contracts is converted from USD to EUR.

Finally, the following changes, unrelated to the CDX Swaptions initiative were made.

(a) Section 3 provides for the total initial margin framework with respect to both CDS and CDS Options. While the methodology for calculating Short Charge margin in section 3.2 remains the same, the summary language in paragraph 3.1 has been amended to explicit that it covers the Profit and Loss impact of liquidating a defaulting member's portfolio under one or two credit events, whereas the number of credit events considered was previously set to two.

This is also reflected in the Risk Overview table in paragraph 3.2. The specific rule to calculate the Short Charge on Financial entities (which covered the default risk by the two largest Financials entities comprising the underlying constituent entities of the relevant index) has been removed. The Short Charge accounts for the risk of default by the underlying constituent entities of the relevant index, and per the model used for linear U.S. products this amount would also cover the possibility of a default in respect of an exposure representing the average net short exposure of the ten (10) riskiest exposures with the defined recovery rate cap. Since the approach in respect of iTraxx Swaptions only accounts for the risk of default of the entity with the largest net short exposure, the language has been amended to include the additional default risk that must be taken into account in respect of CDX Swaptions on CDX.NA.HY. Additionally, the Financial Short Charge (which covered the default risk by the two largest Financials entities comprising the underlying constituent entities of the relevant index) has been deleted. A corresponding change has been made to section 3.2, which provides an overview of the risks captured by each margin component.

(b) Reference to a 10 year sample for the Foreign Exchange rate has been removed from paragraph 3.4.8.3 as it

was not an accurate description of how the Foreign Exchange rate was computed.

(c) A typographical error in paragraph 3.8.2 has been corrected (double parenthesis and period missing).

The Content table and the summary of changes to the document have been updated as a result of the above mentioned items. Finally, corresponding changes to provision numbering throughout the Reference Guide: CDS Margin Framework have been made as necessary.

## ii. Supplement

### (a) CDX Swaption-Related Amendments

The Supplement has been amended in order to include the relevant provisions to allow the clearing of the new CDX Swaptions.

In Part C of the Supplement, the following amendments have been made to Section 1.2 (*Terms defined in the CDS Clearing Supplement*):

i. The "CDX Swaption Standard Terms Supplement" definition has been added to refer to the applicable documentation to the CDX Swaptions, as published by Markit North America Inc. and as amended by the Supplement;

ii. the definition of the term "Index Swaption Cleared Transaction Confirmation" has been amended to make a reference to the applicable form of confirmation which is relevant for CDX Swaptions and make some minor corrections in new indent (a) and in the last paragraph of the definition;

iii. the new defined term of "Submission Deadline" has been added in order to cater for both the Markit iTraxx and CDX exercise windows in respect of a swaption which differ; and

iv. the definition of "Transaction Data" has been amended to make a reference to the Option Type which is relevant for CDX Swaptions.

In Sections 6.3, 6.4, 6.5 (paragraph (c)), 6.10 (paragraph (b)) and Sections 5.3, 5.5 and 5.7 of Appendix VIII (*CCM Client Transaction Requirements*) of Part C of the Supplement, references to the standard fixed time of 4:00 p.m. (London time) or 5:00 p.m. (Central European Time), which would only be applicable to iTraxx Swaptions, have been replaced by a reference to the new defined term of "Submission Deadline".

In Section 7.2, references to the relevant paragraph of the CDX Swaption Standard Terms Supplement for consistency purpose have been added.

References to a CDX as an Underlying Index and the Swaption Type have been added to the Schedules of Appendix 1 (*Form of Exercise Notice*) and Appendix

II (*Form of Abandonment Notice*) to Part C of the Supplement.

In Appendix VIII (*CCM Client Transaction Requirements*) to Part C of the Supplement, Section 1 has been amended to refer to the CDX Swaptions Standard Terms Supplement and the definition of "STS Supplement" has been removed. Consequently, the reference to the "STS Supplement" in Section 8.2. of this Appendix has been replaced by a reference to the "iTraxx Swaption Standard Terms Supplement" as this only concerns iTraxx Swaptions. References to the relevant paragraph of the CDX Swaption Standard Terms Supplement or the relevant paragraph of such Supplement have been added where relevant and any reference to the STS Supplement has been removed from Sections 8.3 and 8.4 of this Appendix.

### (b) Miscellaneous Amendments

LCH SA is also taking the opportunity of the modification of the Supplement to make a few changes for clarification/harmonization purposes.

In Part C of the Supplement, Section 9.1 (*Creation of Matched Pairs*), a principle governing the size of the Matched Pairs created by LCH SA in the context of a Restructuring or an Exercise has been added to align with equivalent provisions of Parts A and B of the Supplement. We have taken the opportunity to remove the amounts of the Matched Pair from Section 8.1 (*Creation of Matched Pairs*) of Parts A and Part B of the Supplement since such amounts are proposed to be set out in a new Clearing Notice which outlines the maximum applicable Matched Pair notional amounts to allow for greater flexibility in adapting these amounts according to market conditions and evolution of open interest going forward.

Since the Protocol Effectiveness Condition in respect of the ISDA 2019 NTCE Protocol published by ISDA on 27 August 2019 is now satisfied, the conditional with the reference to "if" have been removed from Section 2.4 and Appendix XIII (Section 2.6) of Part B of the Supplement and from Section 2.3 and Appendix VIII (Section 2.4) of Part C of the Supplement. An equivalent amendment has been made to Appendix XIII of Part A of the Supplement (Section 2.6) in respect of the 2014 ISDA Credit Derivatives Definitions Protocol published by ISDA on 21 August 2014 for consistency purpose.

References to the Implementation Date as provided for in the 2019 ISDA Narrowly Tailored Credit Event Protocol have been removed from the definition of the "iTraxx® Swaption Standard

Terms Supplement” in Section 1.2 of Part C of the Supplement to refer to the current version of this document which is the version published on 20 March 2017. Indeed, at the time the 2019 ISDA NTCE Protocol-related amendments were drafted and submitted to the regulatory process, an initial Swaption Standard Terms Supplement draft taking into account this Protocol was available. Finally, this draft was taken no further and the most recent version which is applicable remains the version published in 2017. Consequently, in Section 2.2 (*Index Swaption Cleared Transaction Confirmation*) of Part C of the Supplement, any confirmation in respect of a Swaption will be amended by specifying in a new indent (d) that the Standard Terms Date applicable to the underlying transaction of a Swaption will be the most updated version of the Standard Terms Supplement to ensure that the applicable version is the one that has taken into account the 2019 ISDA NTCE Protocol (*i.e.*, the versions applicable to Markit iTraxx and CDX published on the Implementation Date of such Protocol). As consequence, the following indents in Section 2.2 have been renumbered from (e) to (i).

Finally, the following corrections have been made to the Supplement:

i. In Sections 7.10 of Parts A and B, the reference to a “CDS Clearing Member” has been replaced by “Clearing Member” which is the correct defined term to be used;

ii. In Sections 9.1 of Parts A and B, paragraph (c), it is specified that the Self Referencing Transaction is a Clearing Member Self Referencing Transaction to be consistent with the title of Section 9.1;

iii. In Section 1.2 of Part B, in the definition of “Index Cleared Transaction Confirmation”, the correct name of the publisher of the documentation for Markit CDX has been inserted;

iv. In Section 1.2 of Part C, a typographical error has been corrected in the definition of “Swaption Restructuring Cleared Transaction” and the word “Eligible” has been removed from the definition of “Underlying Index Transaction” as an Eligible Index Swaption is not a defined term; and

v. In Appendix VIII of Part C, the definitions have been removed from Section 1 as these terms are already defined in Section 1.2 of Part C.

### iii. Procedures

LCH SA also proposes to modify Section 5 of the Procedures (*CDS Clearing Operations*) in order to include the CDX Swaptions in the scope of the

End of Day Price Contribution as set out in Paragraph 5.18.

Therefore, references to “CDS” have been changed to “CDS and an Index Swaption” in paragraphs 5.18.3 and 5.18.5, for instruments with a CDS Contractual Currency in U.S. Dollar. In paragraph 5.18.4, the first sentence has been modified to ensure perfect clarity, additionally the scope of the End of Day Contributed Prices in respect of CDS with a Contractual Currency in U.S. Dollar has been extended to include Index Swaptions.

In paragraph 5.18 (b), the restriction to Index Swaptions with a CDS Contractual Currency in Euro has been removed and the Delta Hedged Swaption Package has been split into two sub-sections in order to cater for the two different timings for the iTraxx Swaptions on the one hand and the CDX Swaptions on the other.

### (b) Statutory Basis

LCH SA believes that the Proposed Rule Change in connection with the clearing of CDS Options on CDX is consistent with the requirements of Section 17A of the Securities Exchange Act of 1934<sup>4</sup> (the “Act”) and the regulations thereunder, including the standards under Rule 17Ad–22.<sup>5</sup> Section 17(A)(b)(3)(F)<sup>6</sup> of the Act requires, among other things, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions and derivative agreements, contracts, and transactions and to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible. As noted above, the Proposed Rule Change is designed to manage the risk arising from the clearing of CDX Swaptions and to streamline the description of the existing margin framework for CDS Options to take into account CDX Swaptions and improve the organization and clarity of the CDSClear Margin Framework.

LCH SA believes that the proposed changes to the CDSClear Margin Framework satisfy the requirements of Rule 17Ad–22(b)(2), (e)(1), and (e)(6).<sup>7</sup>

Rule 17Ad–22(b)(2) requires a clearing agency to use margin requirements to limit its credit exposures to participants under normal market conditions and to use risk-based

models and parameters to set margin requirements.<sup>8</sup>

Rule 17Ad–22(e)(6) requires a covered clearing agency that provides central counterparty services to cover its credit exposures to its participants by establishing a risk-based margin system that meets certain minimum requirements.<sup>9</sup>

As described above, LCH SA proposes to amend its margin framework to manage the risks associated with clearing CDX Swaptions. Specifically, the proposed rule change amends the existing short charge component of the total initial margin to take into account a specificity in respect of options on CDX.NA.HY consistent with Rule 17Ad–22(e)(6)(i) requiring a covered clearing agency that provides CCP services to establish, implement, maintain and enforce written policies and procedures reasonably designed to result in a margin system that, at a minimum, considers and produces margin levels commensurate with the risks and particular attributes of each relevant product, portfolio, and market.

In addition, the proposed rule change adds the new methodology for calculating Vega Margin, based on a historical model approach rather than a parametric model, to account for the skew risk and volatility of volatility risk specific to CDS Options. These changes are unrelated to the clearing of CDX Swaptions and intended to align LCH SA’s approach across all products and business segments, while still relying on use of a risk-based model to set margin requirements and limit LCH SA’s credit exposures to participants in clearing CDS and/or CDS Options under normal market conditions, consistent with Rule 17Ad–22(b)(2).

For the same reasons, the Proposed Rule Change would improve LCH SA’s ability to manage financial risk exposures that may arise in the course of its ongoing clearance and settlement activities and thus better allow LCH SA to complete the accurate clearance and settlement process in the event of a member default. Similarly, it should enhance LCH SA’s ability to help assure the safeguarding of securities and funds which are in the custody or control of LCH SA or for which it is responsible, consistent with the section 17(A)(b)(3)(F).

LCH SA also believes that the Proposed Rule Change is consistent with Rule 17Ad–22(e)(6)(i) and (v) requiring a covered clearing agency to

<sup>4</sup> 15 U.S.C. 78q–1.

<sup>5</sup> 17 CFR 240.17Ad–22.

<sup>6</sup> 15 U.S.C. 78q–1(b)(3)(F).

<sup>7</sup> 17 CFR 240.17Ad–22(b)(2), (e)(1) and (e)(6).

<sup>8</sup> 17 CFR 240.17Ad–22(b)(2).

<sup>9</sup> 17 CFR 240.17Ad–22(e)(6)(i).

establish, implement, maintain and enforce written policies and procedures reasonably designed to ensure the use of an appropriate method for measuring credit exposure that accounts for relevant product risk factors and portfolio effects across products. Its risk-based margin methodology, including the new Vega Margin approach, takes into account, and generates margin levels commensurate with, the risks and particular attributes of each of the CDS and CDS Options at the product and portfolio levels, appropriate to the relevant market it serves. CDX Swaptions initiative will not introduce any new product risk factors. All risk factors of North American CDX indices are already covered as LCH SA already clears them, and the implied volatilities were already captured by the existing model for iTraxx options (partly in the spread margin for the at-the-money volatility moves, and partly in the vega margin for skew and smile risk). Portfolio effects are still captured in the same way, also consistent with the EMIR 80% cap on offsets.

In addition, LCH SA believes that the margin calculation under the revised CDSClear Margin Framework would sufficiently account for the 5-day liquidation period for house account portfolio and 7-day liquidation period for client portfolio and therefore, is reasonably designed to cover LCH SA's potential future exposure to participants in the interval between the last margin collection and the close out of positions following a participant default, consistent with the provisions of Rule 17Ad-22(e)(6)(iii) requiring a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to calculate margin sufficient to cover its potential future exposure to participants in the interval between the last margin collection and the close out of positions following a participant default.<sup>10</sup>

LCH SA also believes that the proposed rule change is consistent with Rule 17Ad-22(e)(1), which requires each covered clearing agency's policies and procedures reasonably designed to provide for a well-founded, clear, transparent, and enforceable legal basis for each aspect of its activities in all relevant jurisdictions. As described above, the proposed rule change would streamline the description of margin methodology in CDSClear legal and Margin Framework. Instead of relying on shocks applied to unobservable parameters of a risk model, the change introduced to the methodology for calculating Vega Margin is focusing on

the observable changes in volatilities. LCH SA believes that the Proposed Rule Change would improve the organization and clarity of these policies and provide for a clear and transparent legal basis for LCH SA's margin requirements, consistent with Rule 17Ad-22(e)(1).<sup>11</sup>

For the reasons stated above, LCH SA believes that the proposed rule change with respect to CDSClear Margin Framework in connection with clearing of CDS Options on CDX is consistent with the requirements of prompt and accurate clearance and settlement of securities transactions and derivative agreements, contracts and transactions, and assuring the safeguarding of securities and funds in the custody or control of the clearing agency or for which it is responsible, in accordance with 17(A)(b)(3)(F) of the Act.<sup>12</sup>

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

Section 17A(b)(3)(I) of the Act requires that the rules of a clearing agency not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.<sup>13</sup> LCH SA does not believe that the proposed rule change would impose burdens on competition that are not necessary or appropriate in furtherance of the purposes of the Act. Specifically, the proposed changes to CDSClear Margin Framework would apply equally to all Clearing Members whose portfolio includes CDS and/or CDS Options. Because the margin methodology is risk-based, consistent with the requirements in Rule 17Ad-22(b)(2) and (e)(6), depending on a Clearing Member's portfolio, each Clearing Member would be subject to a margin requirement commensurate with the risk particular to its portfolio. Such margin requirement imposes burdens on a Clearing Member but such burdens would be necessary and appropriate to manage LCH SA's credit exposures to its CDSClear participants and to maintain sufficient financial resources to withstand a default of two participant families to which LCH SA has the largest exposures in extreme but plausible market conditions, consistent with the requirements under the Act.

Therefore, LCH SA does not believe that the proposed rule change would impose a burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

#### *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:

##### *Electronic Comments*

- 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-2020-005 on the subject line.

##### *Paper Comments*

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-LCH SA-2020-005. 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 website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than

<sup>11</sup> 17 CFR 240.17Ad-22(e)(1).

<sup>12</sup> 15 U.S.C. 78q-1(b)(3)(F).

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

<sup>10</sup> 17 CFR 240.17Ad-22(e)(6)(iii).

those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549 on official business days between the hours of 10:00 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 website at: <https://www.lch.com/resources/rules-and-regulations/proposed-rule-changes-0>. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-LCH SA-2020-005 and should be submitted on or before November 3, 2020.

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

**J. Matthew DeLesDernier,**  
Assistant Secretary.

[FR Doc. 2020-22474 Filed 10-9-20; 8:45 am]

BILLING CODE 8011-01-P

## SECURITIES AND EXCHANGE COMMISSION

### Sunshine Act Meetings

**TIME AND DATE:** 11 a.m. on Wednesday, October 14, 2020.

**PLACE:** The meeting will be held via remote means and/or at the Commission's headquarters, 100 F Street NE, Washington, DC 20549.

**STATUS:** This meeting will be closed to the public.

#### MATTERS TO BE CONSIDERED:

Commissioners, Counsel to the Commissioners, the Secretary to the Commission, and recording secretaries will attend the closed meeting. Certain staff members who have an interest in the matters also may be present.

In the event that the time, date, or location of this meeting changes, an announcement of the change, along with the new time, date, and/or place of the meeting will be posted on the Commission's website at <https://www.sec.gov>.

The General Counsel of the Commission, or his designee, has certified that, in his opinion, one or more of the exemptions set forth in 5

U.S.C. 552b(c)(3), (5), (6), (7), (8), 9(B) and (10) and 17 CFR 200.402(a)(3), (a)(5), (a)(6), (a)(7), (a)(8), (a)(9)(ii) and (a)(10), permit consideration of the scheduled matters at the closed meeting.

The subject matter of the closed meeting will consist of the following topic:

Institution and settlement of injunctive actions;

Institution and settlement of administrative proceedings;

Resolution of litigation claims; and

Other matters relating to enforcement proceedings.

At times, changes in Commission priorities require alterations in the scheduling of meeting agenda items that may consist of adjudicatory, examination, litigation, or regulatory matters.

**CONTACT PERSON FOR MORE INFORMATION:** For further information; please contact Vanessa A. Countryman from the Office of the Secretary at (202) 551-5400.

Dated: October 7, 2020.

**Vanessa A. Countryman,**  
Secretary.

[FR Doc. 2020-22617 Filed 10-8-20; 11:15 am]

BILLING CODE 8011-01-P

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-90114; File No. SR-NYSECHX-2020-28]

### Self-Regulatory Organizations; NYSE Chicago, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Adopt Temporary Interpretation and Policy .10 Under NYSE Chicago Article 6, Rule 13

October 7, 2020.

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (the "Act")<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that on September 25, 2020, NYSE Chicago, Inc. ("NYSE Chicago" or the "Exchange") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

<sup>2</sup> 15 U.S.C. 78a.

<sup>3</sup> 17 CFR 240.19b-4.

### I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes a rule change to adopt temporary Interpretation and Policy .10 (Temporary Extension of the Limited Period for Registered Persons to Function as Principals) under NYSE Chicago Article 6, Rule 13 (Registration Requirements) applicable to Participants. The proposed rule change is available on the Exchange's website at [www.nyse.com](http://www.nyse.com), at the principal office of the Exchange, and at the Commission's Public Reference Room.

### II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the self-regulatory organization 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 those statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant parts of such statements.

#### A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

##### 1. Purpose

The Exchange proposes to adopt temporary Interpretation and Policy .10 (Temporary Extension of the Limited Period for Registered Persons to Function as Principals) under NYSE Chicago Article 6, Rule 13 (Registration Requirements) applicable to Participants.<sup>4</sup> The proposed rule change would extend the 120-day period that certain individuals can function as a principal without having successfully passed an appropriate qualification examination through December 31, 2020,<sup>5</sup> and would apply only to those individuals who were designated to function as a principal prior to September 3, 2020. This proposed rule change is based on a filing recently

<sup>4</sup> The term "Participant" means any Participant Firm that holds a valid Trading Permit and any person associated with a Participant Firm who is registered with the Exchange. A Participant shall be considered a "member" of the Exchange for purposes of the Exchange Act. See Article 1, Rule 1(s).

<sup>5</sup> If NYSE Chicago seeks to provide additional temporary relief from the rule requirements identified in this proposed rule change beyond December 31, 2020, NYSE Chicago will submit a separate rule filing to further extend the temporary extension of time.

<sup>14</sup> 17 CFR 200.30-3(a)(12).