

consolidation model with competing consolidators.

**CONTACT PERSON FOR MORE INFORMATION:**

For further information and to ascertain what, if any, matters have been added, deleted or postponed, please contact Vanessa A. Countryman, Office of the Secretary, at (202) 551-5400.

Dated: December 2, 2020.

**Vanessa A. Countryman,**  
Secretary.

[FR Doc. 2020-26899 Filed 12-3-20; 11:15 am]

BILLING CODE 8011-01-P

**SECURITIES AND EXCHANGE  
COMMISSION**

[Release No. 34-90541; File No. SR-LCH  
SA-2020-006]

**Self-Regulatory Organizations; LCH  
SA; Order Approving Proposed Rule  
Change Relating to the Amendments  
to LCH SA's Liquidity Risk Modelling  
Framework**

December 1, 2020.

**I. Introduction**

On October 20, 2020, Banque Centrale de Compensation, which conducts business under the name LCH SA ("LCH SA"), filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to amend its Liquidity Risk Modelling Framework (the "Framework")<sup>3</sup> with respect to the assignment and exercise of equity American options.<sup>4</sup> The Proposed Rule Change was published for comment in the **Federal Register** on October 30, 2020.<sup>5</sup> The Commission did not receive comments on the proposed rule change. For the reasons discussed below, the Commission is approving the proposed rule change.

**II. Description of the Proposed Rule  
Change**

LCH SA is proposing to amend the Framework in order to address more accurately its liquidity requirements arising from the physical settlement of

equity American options involving a defaulting clearing member during any liquidation of such clearing member. The current Framework accounts for liquidity provision related to the risk of assignment and exercise of equity American options and equity European options at expiration.<sup>6</sup> Given that equity American options can be exercised before their expiration dates (referred to below as "expiry"), LCH SA represented that there is a resulting funding risk with respect to the exercise of equity American options prior to expiry during the liquidation period of a defaulting clearing member that needs to be modelled and accounted for in its daily liquidity coverage ratio ("LCR") calculation.<sup>7</sup>

The LCR is the ratio of available assets over the liabilities of LCH SA under the stressed scenario of the default of the two largest clearing members ("Cover 2 scenario"), based on their liquidity needs.<sup>8</sup> On a daily basis, the LCR calculation identifies all of the potential option positions that are in the money or at the money on that day and the next business day.<sup>9</sup> Given the potential option exercise, the LCR calculation generates a liquidity need.<sup>10</sup> LCH SA represented that the proposed rule change would be an enhancement to the current Framework to address the funding risk posed by the potential exercise of an equity American option at any time before expiry when the two largest clearing members in terms of liquidity needs may face liquidity issues.<sup>11</sup>

To address this risk, LCH SA is proposing specific modifications to the Framework that would enable its LCR calculation to generate an enhanced liquidity need in a Cover 2 scenario involving the physical settlement of equity American options. The proposed rule change would replace the term "expiry" with the term "exercise" in both section 5.3.1.3 (*Cash Equity*) and section 5.3.4 (*Cover 2 selection, Cash Equity Settlement Liquidity Requirement*) to account for equity settlements arising from the options' exercise, rather than their expiry. The proposed rule change would also revise the assumption about when equity American options are considered to be exercised, which is set forth in the "Options Expiry" paragraph of section 5.3.1.3 of the Framework. In that paragraph, the proposed rule change

would replace the term "at expiry" with the phrase "any time by defaulting members in order to raise liquidity."<sup>12</sup>

In practice, LCH SA represents that the process under the amended Framework will work as follows on a daily basis:

- The liquidity needs arising from the equity American options that are in the money or at the money will be computed, without applying a stress scenario to the equities.
- The liquidity needs from the equity American options that are in the money or at the money will be computed, by applying a stress scenario to the equities.
- LCH SA will select the positions consistent with the two largest clearing members in terms of liquidity needs for both modes described above and will retain the most punitive one.
- This liquidity amount that LCH SA will potentially need for the settlement of equity American options (*i.e.*, the most punitive amount identified in the previous bullet) will then be added to the current cash equity settlement amount in the LCR.<sup>13</sup>

**III. Discussion and Commission  
Findings**

Section 19(b)(2)(C) of the Act directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to the organization.<sup>14</sup> For the reasons given below, the Commission finds that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act<sup>15</sup> and Rule 17Ad-22(e)(7)(i) thereunder.<sup>16</sup>

*A. Consistency With Section  
17A(b)(3)(F) of the Act*

Section 17A(b)(3)(F) of the Act requires, among other things, that the rules of LCH SA be designed to promote the prompt and accurate clearance and settlement of securities transactions and, to the extent applicable, derivative agreements, contracts, and transactions, to assure the safeguarding of securities and funds which are in the custody or control of LCH SA or for which it is responsible.<sup>17</sup>

As described above, the proposed rule change would amend the Framework with specific changes in order to address more accurately LCH SA's

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

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

<sup>3</sup> Capitalized terms used but not defined herein have the meanings specified in the LCH SA CDS Clearing Rule Book, Supplement, Procedures, or the Framework as applicable.

<sup>4</sup> See Notice *infra* note 5, 85 FR at 68935.

<sup>5</sup> Self-Regulatory Organizations; LCH SA; Notice of Filing of Proposed Rule Change Relating to the Amendments of LCH SA Risk Liquidity Modeling Framework, Exchange Act Release No. 90270 (October 26, 2020), 85 FR 68935 (October 30, 2020) (SR-LCH SA-2020-006) ("Notice").

<sup>6</sup> See Notice, 85 FR at 68936.

<sup>7</sup> *Id.*

<sup>8</sup> *Id.*

<sup>9</sup> *Id.*

<sup>10</sup> *Id.*

<sup>11</sup> *Id.*

<sup>12</sup> *Id.*

<sup>13</sup> *Id.*

<sup>14</sup> 15 U.S.C. 78s(b)(2)(C).

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

<sup>16</sup> 17 CFR 240.17Ad-22(e)(7)(i).

<sup>17</sup> 15 U.S.C. 78q-1(b)(3)(F).

liquidity requirements arising from the physical settlement of equity American options involving a defaulting clearing member during any liquidation of such clearing member. Such changes should enhance LCH SA's daily LCR calculations to determine more accurate liquidity levels in the event of the assignment and exercise of equity American options involving a defaulting clearing member prior to expiry. The Commission believes the proposed rule change should help LCH SA anticipate increased liquidity needs and maintain appropriate levels of liquidity in a Cover 2 scenario in which LCH SA would be required, pursuant to the Framework, to step in and meet a defaulter's obligation in the event of the assignment or exercise of equity American options. The Commission also believes that, by anticipating and ensuring that LCH SA meets its liquidity needs in this manner, the proposed rule change should facilitate LCH SA's ability to meet its obligations as a central counterparty in stressed situations, which, in turn, should allow LCH SA to continue to meet its obligation to promptly and accurately clear and settle securities transactions in such situations.

In addition, the proposed rule change should help mitigate the funding risk that may arise when equity American options are exercised before expiry and settled during the liquidation period of a defaulting clearing member, which in turn should help LCH SA safeguard securities and funds for which it is responsible.

For the reasons stated above, the Commission believes that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act.<sup>18</sup>

#### *B. Consistency With Rule 17Ad-22(e)(7)(i)*

Rule 17Ad-22(e)(7)(i) requires that, among other things, LCH SA establish, implement, maintain and enforce written policies and procedures reasonably designed to, as applicable, effectively measure, monitor, and manage the liquidity risk that arises in or is borne by the covered clearing agency, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity by maintaining sufficient liquid resources at the minimum in all relevant currencies to effect same-day, and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of foreseeable stress scenarios, that

includes, but is not limited to, the default of the participant family that would generate the largest aggregate payment obligation for LCH SA in extreme but plausible market conditions.<sup>19</sup>

As discussed above, LCH SA is proposing specific modifications to the Framework that would enable its daily LCR calculation to generate an enhanced liquidity need in a Cover 2 scenario involving the physical settlement of equity American options. By using the daily LCR calculation process to determine in advance LCH SA's liquidity needs in the event of the assignment and exercise of equity American options arising in a Cover 2 scenario, the Commission believes the amended Framework should enhance LCH SA's ability to determine whether it has sufficient resources to meet its liquidity needs should such a default occur, thus requiring LCH SA to step in and meet a defaulter's payment obligation. The Commission believes that this should, in turn, enable LCH SA to avoid any potential disruptions to its operations caused by the liquidity needs arising from such a default.

By applying both stressed and non-stressed scenarios to the underlying equities, and then selecting the option positions that are consistent with the two largest clearing members in terms of liquidity needs under both scenarios to determine the largest liquidity need, LCH SA's daily LCR calculation process under the amended Framework should help LCH SA determine a more accurate amount to add to the current cash equity settlement amount in the LCR to cover a potential increase in liquidity needs arising from the physical settlement of equity American options that are exercised prior to expiry under stressed liquidity conditions. The Commission therefore believes that the amended Framework should enable LCH SA to maintain sufficient liquid resources to effect settlement of its payment obligations under a wide range of foreseeable stress scenarios, including the default of the participant family that would generate the largest aggregate payment obligation for LCH SA in extreme but plausible market conditions.

For the above reasons, the Commission therefore finds that the proposed rule change is consistent with Rule 17Ad-22(e)(7)(i).<sup>20</sup>

#### **IV. Conclusion**

On the basis of the foregoing, the Commission finds that the proposed

rule change is consistent with the requirements of the Act, and in particular, with the requirements of Section 17A(b)(3)(F) of the Act<sup>21</sup> and Rule 17Ad-22(e)(7)(i) thereunder.<sup>22</sup>

*It is therefore ordered* pursuant to Section 19(b)(2) of the Act<sup>23</sup> that the proposed rule change (SR-LCH SA-2020-006) be, and hereby is, approved.<sup>24</sup>

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>25</sup>

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

[FR Doc. 2020-26783 Filed 12-4-20; 8:45 am]

**BILLING CODE 8011-01-P**

## **SECURITIES AND EXCHANGE COMMISSION**

### **Sunshine Act Meetings**

**TIME AND DATE:** 2:00 p.m. on Wednesday, December 9, 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;

<sup>21</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>22</sup> 17 CFR 240.17Ad-22(e)(7)(i).

<sup>23</sup> 15 U.S.C. 78s(b)(2).

<sup>24</sup> In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>25</sup> 17 CFR 200.30-3(a)(12).

<sup>18</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>19</sup> 17 CFR 240.17Ad-22(e)(7)(i).

<sup>20</sup> 17 CFR 240.17Ad-22(e)(7)(i).