

rule change is consistent with Section 17A(b)(3)(F) of the Act.³⁶

Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency, such as DTC, be designed to, among other things, promote the prompt and accurate clearance and settlement of securities transactions, assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible, and foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions.³⁷ The proposed rule change is consistent with Section 17A(b)(3)(F) of the Act for the reasons stated below.

As described in Sections II and III above, the proposed rule change will expand NSCC's ETF clearing services to facilitate the "in-kind" creation and redemption of ETFs with options as underlying components by establishing new messaging connectivity between NSCC and OCC and allowing NSCC to submit instructions to OCC on behalf of their participants. Market participants primarily manage this process outside of NSCC today (*i.e.*, ex-clearing) through fragmented and manual workflows, and without the benefit of NSCC's CCP guaranty, which introduces operational and counterparty credit risks among market participants and may result in additional balance sheet costs to APs. The proposed rule change should address these challenges by allowing NSCC to function as the central hub for creation and redemption order processing for ETFs with option components.³⁸ Specifically, the proposed rule change would apply NSCC's CCP guaranty for transactions involving ETFs and eligible underlying components that are currently processed ex-clearing. By guaranteeing settlement of these transactions, the proposed rule change should reduce bilateral counterparty credit risks among participants, which should reduce systemic risks during periods of market stress and thereby promote the safeguarding of securities and funds.³⁹

Further, by automating the routing of instructions for underlying options components to OCC, the proposed rule change should reduce the reliance on manual processes and the potential for settlement failures, errors, and operational disruptions, thereby promoting the prompt and accurate clearance and settlement of securities transactions.⁴⁰ Finally, establishing a standardized messaging interface between NSCC and OCC, which was developed in collaboration with key industry stakeholders, should foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions.⁴¹ For these reasons, the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act.

V. 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 of the Act⁴² and the rules and regulations promulgated thereunder.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act⁴³ that proposed rule change SR-NSCC-2026-001, be, and hereby is, *approved*.⁴⁴

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁴⁵

Sherry R. Haywood,

Assistant Secretary.

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⁴⁰ *Id.*, at 2 and 4-5 (stating that the proposed rule change would minimize operational risks such as miscommunications or delays that could lead to failed trades by reducing reliance on manual processes, represents a critical step forward in modernizing ETF clearing processes, reduces operational risks and enhances market efficiency, would support competition without unfair discrimination, and enables more APs to participate by reducing operational complexity).

⁴¹ *Id.* at 4-5 (stating that the proposal could promote market growth and innovation).

⁴² 15 U.S.C. 78q-1.

⁴³ 15 U.S.C. 78s(b)(2).

⁴⁴ In approving the Proposed Rule Change, the Commission considered its impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

⁴⁵ 17 CFR 200.30-3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-104980; File No. SR-LCH SA-2025-010]

Self-Regulatory Organizations; LCH SA; Order Approving Proposed Rule Change Relating to LCH SA's Default Management Policy, Investment Risk Policy, Liquidity Risk Policy, Settlement, Payment and Custody Risk Policy, Model Governance, Validation and Review Policy and Contract and Market Acceptability Policy

March 12, 2026.

I. Introduction

On December 29, 2025, Banque Centrale de Compensation, which conducts business under the name LCH SA ("LCH SA"), filed with the Securities and Exchange Commission (the "Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act")¹ and Rule 19b-4 thereunder,² a proposed rule change to submit for Commission approval the following risk policies (the "Risk Policies"): (i) the Default Management Policy; (ii) the Investment Risk Policy; (iii) the Liquidity Risk Policy; (iv) the Settlement, Payment and Custody Risk Policy; (v) the Model Governance, Validation and Review Policy; and (vi) the Contract and Market Accessibility Policy. The proposed rule change was published for comment in the **Federal Register** on January 5, 2026.³ On January 28, 2026, pursuant to Section 19(b)(2) of the Exchange Act,⁴ the Commission designated a longer period within which to approve, disapprove, or institute proceedings to determine whether to approve or disapprove the proposed rule change, until April 5, 2026.⁵ The Commission did not receive comments regarding 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 a clearing agency registered with the Commission. Through its CDSClear business unit, LCH SA provides central counterparty services for security-based swaps, including credit default swaps ("CDS")

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Securities Exchange Act Release No. 104529 (Dec. 30, 2025), 91 FR 315 (Jan. 5, 2026) (File No. SR-LCH SA-2025-010) ("Notice").

⁴ 15 U.S.C. 78s(b)(2).

⁵ Securities Exchange Act Release No. 104716 (Jan. 28, 2026), 91 FR 4704 (Feb. 2, 2026) (File No. SR-LCH SA-2025-010).

³⁶ 15 U.S.C. 78q-1(b)(3)(F).

³⁷ *Id.*

³⁸ See STA Letter, *supra* note 35, at 4 (stating that automating this process and bringing it into a CCP environment may facilitate "in-kind" transactions in more types of options-based ETFs and reduce operational complexities).

³⁹ *Id.* ("Without CCP involvement in redemptions, participants face direct counterparty exposure, which can amplify systemic risks during periods of market stress. NSCC's role as a CCP would extend its guaranty to the settlement of the ETFs as well as any underlying components eligible for clearance and settlement at NSCC. This is particularly important for ETFs with option components, which may involve volatile assets and require precise position adjustments").

and options on CDS. LCH SA is an affiliate of LCH, Ltd, through common ownership by LCH Group Holdings Limited (“LCH Group”). LCH SA’s ultimate parent company is London Stock Exchange Group. LCH Group issued the Risk Policies, and, thereafter, LCH SA adopted them.

LCH SA’s Risk Policies formally enact the specific risk management requirements that govern its operations as a clearing agency. The policies and procedures set forth therein clarify the roles and responsibilities within LCH SA for compliance with the Risk Policies. LCH SA’s Risk Policies must ensure consistency with all relevant laws and regulations, including the European Markets Infrastructure Regulation (“EMIR”) and, relevant here, Section 17A of the Act⁶ and the regulations thereunder.⁷

A. The Default Management Policy (“DMP”)

The Default Management Policy (“DMP”) sets forth the minimum standards that LCH SA must meet in managing clearing member defaults. Clearing member defaults, if not properly managed, could lead to losses for LCH SA and its clearing members. The DMP sets out general standards related to calling a default, managing a default, and communicating the occurrence of a default. The DMP also sets out the relevant responsibilities of LCH SA personnel and the review cycle of the policy.

The default management process begins with placing a clearing member in default, also known as calling a default. The DMP requires that the authority for placing a clearing member in default belong to the Chief Executive Officer (“CEO”) of LCH SA. The DMP further requires that the CEO’s grounds for default be clear and agreed to by LCH SA’s legal team.

With respect to managing a default, LCH SA has stated that the DMP requires that LCH SA establish Default Management Guidelines (“Guidelines”) and Default Management Procedures (“Procedures”).⁸ According to LCH SA, the DMP is part of larger multi-tiered framework, that includes Default Management Guidelines and Default Management Procedures.⁹ The Guidelines must comply with the principles of the DMP and provide a specific guide for implementing LCH SA’s default management process. The

Procedures must comply with the Guidelines and specify the processes and procedures, specific to CDSClear, that LCH SA will use in managing the default of a clearing member of CDSClear,¹⁰ and must be reviewed quarterly.

The DMP also requires that the LCH SA CEO (or their authorized delegate) convene a Default Crisis Management Team (“DCMT”) and a Default Management Group (“DMG”). As required by the DMP, DCMT is responsible for the overall management of a default at LCH SA, while the DMG can execute actions to manage a default, such as liquidating positions and implanting hedging strategies. The DMP sets certain standards the DCMT and DMG must satisfy. For example, if the DMG includes external representation, such as other clearing member traders, then the DMG is required to enter into a contractual agreement with those parties to ensure their independence and outline their duty to provide impartial advice to LCH SA. The DMG also is responsible for documenting critical actions and decisions, and maintaining records of all relevant documents, including emails.

The DMP sets out other requirements related to LCH SA’s management of the default of a clearing member. For example, the DMP requires that LCH SA have a defined exit methodology for each defaulting clearing member’s portfolio. The DMP also requires that LCH SA have adequate resources to manage a member default. LCH SA may borrow personnel from support and operations groups to manage a default, but staffing must be sufficient to maintain ordinary business processes. Finally, the DMP sets out requirements regarding testing the default management process, which LCH SA refers to as fire drills.

The DMP sets out the roles and responsibilities within LCH SA for managing a default, including who can initiate a default, draft the appropriate documents, inform regulators, and make certain public disclosures. For example, LCH SA compliance must notify regulators when a decision is made to place a clearing member in default, while LCH SA finance is responsible for producing the financial statement at the end of the default management process. LCH SA legal, in conjunction with other LCH SA personnel, is responsible for

ensuring that key aspects of the default procedures are publicly disclosed in the LCH SA CDSClear Rulebook (“the Rulebook”). Finally, in addition to establishing the DMG and the other responsibilities noted above, the CEO is the executive responsible for, and the owner of, the DMP.

The DMP requires that the policy itself be reviewed annually by LCH SA’s Executive Risk Committee (“ERCo”) and Risk Committee, with any non-compliance reported to the ERCo. Moreover, the Risk Committee must recommend the DMP to the LCH SA Board of Directors (“Board”) for approval. The LCH SA CEO and Chief Risk Officer (“CRO”), or their authorized delegates, can jointly decide to override the DMP if the application leads to results which are not in line with the intent of the policy, such as by delaying action or increasing risk.

B. Investment Risk Policy

The Investment Risk Policy (“IRP”) sets forth standards that LCH SA must follow for the management of investment risk. The IRP defines investment risk as the risk of a loss arising from the investment of cash funds to manage daily liquidity needs, either through outright investments, cash deposits or the repo markets. The IRP applies to investment risk from certain cash funds obtained by LCH SA in respect to its business functions. Specifically, those funds include cash that LCH SA receives from clearing members to satisfy margin and default funds requirements, cash arising from settlement failures, and LCH SA’s own funds, such as capital and retained earnings. Because LCH SA invests these funds, it is inherently exposed to investment-related risks.

The IRP includes standards related to counterparties and issuers with which LCH SA may invest cash and instruments in which LCH SA may invest cash. The IRP includes, in an appendix, specific limits that apply to LCH SA’s investments and sets the process for monitoring, changing, and approving these limits. Finally, the IRP sets out the relevant responsibilities of LCH SA personnel and the review cycle of the policy.

With respect to investment counterparties and issuers, the IRP’s standards are primarily based on a counterparty’s internal credit score (“ICS”). The ICS represents LCH SA’s assessment of the risk of investment with a particular counterparty or investing in a particular issuer’s

⁶ 15 U.S.C. 78q–1.

⁷ Each of the Risk Policies generally identify the relevant provisions of law and regulation applicable to that policy.

⁸ Notice, 91 FR at 315.

⁹ *Id.*

¹⁰ The Procedures are set out in Appendix 1 to the CDSClear Rule Book. Notice, 91 FR at 315; LCH SA CDS Clearing Rule Book, APPENDIX 1 CDS DEFAULT MANAGEMENT PROCESS, https://www.lseg.com/content/dam/post-trade/en_us/documents/lch/rulebooks/lch-sa/csdclear-rulebook-24092025.pdf.

securities.¹¹ For example, a central bank or sovereign government is an appropriate counterparty if it has a certain minimum ICS. Certain counterparties or issuers must meet other criteria, in addition to a minimum ICS. Credit and financial institutions, for example, must be authorized, regulated, and eligible for investment under the regulations applicable to LCH SA.

With respect to instruments in which LCH SA may invest cash, the IRP sets out certain minimum standards for the transactions and for the specific investments. All investment transactions must be executed in a manner consistent with market practice, and cash investments should be in a currency that LCH SA uses for clearing. For specific instruments, the criteria depend on the type of investment. LCH SA can make cash deposits, for example, with eligible central banks and overnight deposits with acceptable credit institutions. As another example, LCH SA may only invest in securities that, among other things, are issued by an approved sovereign, government guaranteed institution, or supranational institution.

The IRP also includes two annexes. These annexes specify discrete investment limits that apply to LCH SA and its affiliated clearing agency, LCH Ltd. For example, to avoid over exposure to certain entities, the annex sets overall concentration limits on cash deposits at central banks, and purchases of securities issued by sovereign entities associated with central banks, with the limits set per ICS. Moreover, the annex sets overall limits on the percentage of a particular issue of sovereign securities that LCH SA may purchase. Similarly, the annex sets out limits on the cash deposits, reverse repurchase, and other transactions that LCH SA may engage in with credit and financial institutions. These limits are set by ICS and measured in Euro equivalent against the transaction amount. The annex contains similar limits for other investment counterparties, overall aggregate exposure limits, and haircuts for reverse repurchase transactions, among other things.

The IRP further establishes how LCH SA should monitor and update these limits. Overall, LCH SA's Second-line

Collateral and Liquidity Risk Management group ("CaLM Risk") is the owner of the annex and is responsible for monitoring compliance with the investment limits. If any limits are breached, the breach must be reported to LCH SA's Collateral and Liquidity Management group ("CaLM") and to the CRO. LCH SA's Credit Risk group assigns and maintains ICS for investment counterparties and can update specific investment limits with a change in ICS. Finally, the IRP gives the CRO authority to amend limits for up to three business days, as needed to facilitate liquidity management in exceptional circumstances.

The IRP sets out other relevant responsibilities of LCH SA personnel. Responsibility for adherence to the IRP falls to the CRO, who is the policy owner. The Collateral and Liquidity Management ("CaLM") team is responsible for investment and monitoring activities, static data and collateral pricing, and reviewing controls at least annually. The CaLM Risk team bears the responsibility of assessing and monitoring investment exposure, including country and supranational concentration, such as correlated exposure across members or collateral in respect to a specific sovereign entity. LCH SA Compliance is responsible for monitoring and communicating relevant regulatory rules to internal stakeholders and for maintaining compliance with regulations as they apply to CaLM's activities. LCH SA Legal is responsible for preparing legal documentation and providing a review of segregation arrangements. Finally, the IRP requires the ERCo to review and approve new investments, counterparties and issuers, and may even authorize exceedances to certain thresholds, such as country concentration limits, subject to additional notification to specified units at LCH SA.

The IRP requires that the policy itself be reviewed annually by the ERCo and Risk Committee and be approved by the Board. Moreover, while the Risk Committee and the Board must approve any changes to the IRP itself, the ERCo may approve changes to the annexes, with notification to the Risk Committee.

C. The Liquidity Risk Policy

The Liquidity Risk Policy ("LRP") sets forth standards that LCH SA must meet in managing liquidity risk. Liquidity risk is the risk that LCH SA will not have sufficient liquidity to meet payment obligations when due. LCH SA has stated that the LRP's main goal is to ensure it has enough cash on hand to

meet daily obligations.¹² The LRP includes standards related to determining liquidity resources and needs, assessing LCH SA's overall liquidity position, and specific measures and limits regarding LCH SA's liquidity position. The LRP also sets out the relevant responsibilities of LCH SA personnel and the review cycle of the policy.

The LRP describes generally LCH SA's sources of liquidity and needs for liquidity. With respect to sources, the LRP identifies cash deposits and investments held by LCH SA, its own non-cash unencumbered assets, and other unencumbered assets gained either from repurchase agreements or from defaulting members which can be readily transferred to cash. The LRP also describes other potential sources of liquidity, including defaulted members' non-cash margin contributions, Central Bank loans collateralized through member deposits, and in certain cases, assets received from non-defaulting counterparties when LCH SA completes the obligations of defaulted members. The LRP also sets out certain minimum standards that these sources must satisfy, such as minimum ICS for credit institutions.

Liquidity needs are primarily categorized as operational or default related. Operational liquidity needs include, among other requirements, repaying excess collateral to clearing members (which can occur when a clearing member's margin requirement decreases); replacement of cash collateral with non-cash collateral when members substitute non-cash assets for cash; and liquidity provided to business operations to facilitate settlement. Default-related liquidity needs are those arising from the default of a clearing member, such as liquidity needed to cover a defaulting member's obligations, settle its positions, or pay non-defaulting member counterparties variation margin. The LRP identifies other potential liquidity needs outside of operations and defaults, such as cash restricted by investment activities or payments delayed by operational issues at commercial and central banks.

The LRP describes how LCH SA must assess its liquidity position. Generally, LCH SA must subtract its total liquidity requirements from its total liquidity resources, to determine an overall excess (or deficit) of liquidity resources. The LRP requires that LCH SA perform a liquidity assessment daily, on all currencies, to cover a forward period of thirty days (or less, with ERCo approval), and that intraday assessments

¹¹ LCH SA assigns and applies the ICS pursuant to its Counterparty Credit Risk Policy. For more information regarding that policy and the ICS, see Self-Regulatory Organizations; LCH SA; Order Approving Proposed Rule Change Relating to LCH SA's Risk Governance Framework and Collateral, Financial, Credit, Operational and Third Party Risk Policies, Exchange Act Release No. 104051 (Sep. 25, 2025), 90 FR 47001, 47004 (Sep. 30, 2025) (LCH SA-2025-007).

¹² Notice, 91 FR at 317.

need to be made if LCH SA has certain scheduled obligations to make. The LRP also has requirements to ensure that the liquidity assessment is sufficient relative to LCH SA's liquidity risk. For example, it must factor in regulatory restrictions as they pertain to client assets and incorporate stress scenarios under certain extreme but plausible market conditions, which might occasionally implicate even deeper analysis. In addition to assessing forward, LCH SA must model how the default of its two clearing member groups with the largest liquidity requirements would affect its liquidity position, including in executed but plausible stress scenarios.

In addition to these minimum requirements for assessing its liquidity position, the LRP also establishes certain minimum coverage requirements that LCH SA must meet. For example, the LRP requires that LCH SA determine each day its liquidity coverage ratio, which is defined as the total available liquidity resources divided by liquidity needs. The liquidity coverage ratio must be at least 105% on each day during the assessment period. The LRP similarly sets out an overall percentage limit on how much of LCH SA's liquidity resources could be taken up by a clearing member's positions in certain circumstances.¹³ Specifically, no one clearing member may use more than 25% of available liquidity following the default of the member that is the largest liquidity user assuming that the repo market is fully closed.¹⁴

As noted above, the LRP also requires that LCH SA model how the default of the two clearing member groups with the largest liquidity needs would affect its liquidity position, including in extreme but plausible stress scenarios. The LRP sets out general standards for this modeling and the stress scenarios that LCH SA must use when conducting the modeling. Moreover, the LRP requires that LCH SA review the models through reverse stress testing at least monthly, and that it reports its conclusions to various stakeholders, including the CRO, ERCo, and the Risk Committee. Moreover, the LRP requires that the model be subject to an annual validation.

The LRP also sets out the relevant responsibilities of LCH SA personnel. The LCH SA CRO is the owner of the policy. CaLM is responsible for

maintaining a liquidity plan,¹⁵ including testing of that plan and managing daily liquidity. LCH SA's CaLM Risk must monitor and measure the adequacy of LCH SA's cash in light of its operations and report to CaLM when issues arise. Finally, LCH SA's Operations team is given responsibility for operational processes and controls related to intraday liquidity flows.

The LRP requires that the policy itself be reviewed annually by LCH SA's ERCo and Risk Committee and then approved by the Board. Moreover, the model used by LCH SA to consider the impact of the default of the two clearing member groups with the largest liquidity needs is subject to an annual validation by LCH SA's Model Validation team.

D. Settlement, Payment and Custody Risk Policy

The Settlement, Payment and Custody Risk Policy ("CRP") sets standards that LCH SA must meet in for managing risk to LCH SA from using intermediaries for settlement, payment, and custody activities.¹⁶ These risks could be realized from the default or operational failure of an intermediary, which could expose LCH SA and its clearing members to losses and result in delayed access to funds and payments. The standards consist of minimum criteria that intermediaries must satisfy. Moreover, the CRP explains how LCH SA must monitor counterparties for compliance with these criteria. Finally, the CRP sets out the relevant responsibilities of LCH SA personnel and the review cycle of the policy.

The standards for counterparties consist of minimum criteria that all counterparties must satisfy, as well as more specific criteria for certain counterparties. For example, all intermediaries must have an assigned ICS and be subject to due diligence by LCH SA's operations team. The due diligence must provide certainty that the intermediary will segregate, identify, and make available assets belonging to LCH SA or its clearing members. In

¹⁵ The liquidity plan supplements the LRP by setting out the principles and procedures for liquidity management that are specific to LCH SA. See Self-Regulatory Organizations; LCH SA; Notice of Filing of Proposed Rule Change Relating to the Liquidity Risk Model Framework, Exchange Act Release No. 96694 (Jan. 18, 2023), 88 FR 4227, 4228 (Jan. 24, 2023).

¹⁶ The intermediaries covered by the CRP include: (i) central banks; (ii) settlement platforms; (iii) international or domestic central securities depositories (ICSDs and CSDs); (iv) settlement agents; (v) custodians and sub-custodians; (vi) concentration banks; (vii) protected payment system (PPS) banks; and (viii) other intermediaries which give rise to settlement, payment or custody risks.

addition to these general requirements, the CRP sets out more specific requirements for certain intermediaries. For example, payment systems specifically must have controls in place to validate all payment amounts and receipts, which LCH SA must independently test annually.

The CRP requires that LCH SA monitor compliance with these criteria and its exposures to intermediaries. LCH SA must monitor its overnight direct credit exposure to intermediaries resulting from settlement, payment, and custody activities. LCH SA must also monitor its intraday unsecured exposure to commercial concentration banks as a result of concentration and investment activities. An appendix to the CRP contains precise limits on these exposures. With respect to the intraday limit in particular, the CRP provides that intraday limit usage is monitored by LCH SA Collateral Operations team and any breaches must be reported to LCH SA Credit Risk, CaLM, and CaLM Risk immediately. The report should contain details regarding usage, breaches, explanation and remediation.

If an intermediary no longer meets LCH SA's criteria, the CRP sets out procedures and internal escalation, including additional due diligence, to assess its capabilities or prohibit the intermediary from offering services to other clearing members doing business with LCH SA. LCH SA is also required to cease operating with the intermediary, with certain allowances for transition. LCH SA must monitor these limitations, and an escalation protocol exists in the case of breaches, explanations, and remediation.

The CRP establishes the responsibilities within LCH SA for compliance purposes, with LCH SA CaLM, CaLM Risk, Operations, Clearing Services, and Legal all having defined roles and working in conjunction with each other. For example, CaLM Risk is responsible for the ongoing monitoring of compliance with the policy and is regularly updated by Operations as to current liquidity facilities and by LCH SA Clearing Services as to changes to clearing facilities. When necessary, CaLM must also organize and establish investment-related liquidity facilities, sponsor investment-related intermediaries, and LCH SA Legal ensuring that all legal documentation is appropriately accounted for. The CRO is the owner of the policy. Finally, Credit Risk is responsible for assigning and maintaining for each intermediary an ICS.

The CRP requires that the policy itself be reviewed annually by ERCo and the Risk Committee and then approved by

¹³ Notice, 91 FR at 318, n.35.

¹⁴ Notice, 91 FR at 318. To ensure that member cash stay below this threshold, LCH SA requires that members give it advance notice when they want to replace cash with non-cash margin, and LCH SA may limit the return of a member's cash margin. *Id.*

the Board. Changes to the policy require the approval of the Risk Committee and the Board. Changes to the appendix require approval by ERCo, with notification to the Board Risk Committee.

E. Model Governance, Validation and Review Policy

The Model Governance, Validation and Review Policy (“MGVRP”) sets standards that govern LCH SA’s development, maintenance, and validation of its models. The overall goal of the MGVRP is to help mitigate model risk, which is the risk that LCH SA’s models fail, perform inadequately, or are subject to inadequate governance or monitoring. Failure of LCH SA’s models could lead to under-estimation of margin, default fund, and other requirements that LCH SA uses to mitigate risks arising from providing clearing services. The MGVRP applies to models that have certain features, such as reliance on historical data, use of inputs and assumptions, and a methodology or algorithm that turns inputs into estimates.¹⁷

The MGVRP requires that LCH SA maintain certain documentation for its models, including an overall model inventory; follow a set governance process when changing an existing model or establishing a new model; and review the performance of its models, including by conducting an independent model validation. Finally, the MGVRP sets out the relevant responsibilities of LCH SA personnel and the review cycle of the policy.

The MGVRP requires that LCH SA maintain a model framework governing the development, validation, approval and ongoing monitoring of quantitative models used to measure financial risk, in a way that is consistent with regulatory requirements. The MGVRP further requires that LCH SA establish and maintain a model inventory, which will be used to track each model’s owner, classification, and status of the validation process.

The MGVRP requires that LCH SA classify each model as either of high or low importance, based on the expected financial impact if the model is incorrect. Models are classified as high importance if an error in the model could lead to certain outcomes, like a shortfall in total margin requirements

for a class of cleared instruments greater than ten percent, and models are classified as low important if an error would not lead to such outcomes. The MGVRP requires certain risk review when LCH SA creates a new model or materially changes one with high importance. The review includes, among other steps, consultations with members, independent validation, and approval by the ERCo. Models ranked as low importance need only review and approval by the LCH SA Financial Risk Working Group and ERCo. The materiality of a change to a model is determined by the potential effect of the change. For example, a change to a model that would lead to substantial change in outcomes, including a reduction in coverage, would be considered material.¹⁸

In addition to maintaining documentation and setting out a governance process with respect to models, the MGVRP also establishes requirements related to the monitoring of model performance. With respect to margin models, on a daily basis LCH SA must perform backtesting on actual portfolios to determine the performance of the model. Where backtesting shows numerous breaches or a model falling below the target confidence level, LCH SA must take remedial steps, including a further investigation to determine the reason for the model’s underperformance. Results of these investigations could lead LCH SA to take additional steps affecting margin or additional reviews.

Finally, LCH SA must independently validate all models at least annually to determine if the models are performing adequately. The independent validator must have the relevant knowledge and experience to perform this task and will not be involved in any way in the model building and testing process. The model validation must evaluate the conceptual and practical soundness of the models and consider all relevant data, recorded during the validation period, which provides an indication of model performance. Where stress testing is concerned, such validation assesses the framework under extreme but plausible conditions, includes an analysis of risks within the stress testing environment itself, and evaluates the stress testing framework and outcomes, all to ensure that the stress testing is adequately correlated to the appropriate risk factors.

The MGVRP also sets out the relevant responsibilities of LCH SA personnel. While relevant model owners are responsible for the initiation, development, implementation, documentation and maintenance of the respective models, CaLM Risk is responsible for overseeing the design, approval, performance monitoring, and modification of margin and related pricing models. The Head of Market Risk/Credit Risk can delegate monitoring and some oversight responsibilities, particularly those concerning development and change, to an LCH SA model working group. The LCH SA Model Validation team must also validate each model yearly, though this can likewise be outsourced to a qualified independent third party, with the relevant knowledge and experience, and who has not been previously involved in the building and testing of the model subject to validation.

The MGVRP requires that the policy itself be reviewed annually by LCH SA’s ERCo and Risk Committee and then approved by the Board. Changes to the policy require the approval of the Risk Committee and the Board. Changes to the appendix require approval by ERCo, with notification to the Risk Committee.

F. Contract and Market Acceptability Policy (“CMAP”)

The Contract and Market Acceptability Policy (“CMAP”) describes the principles and factors that LCH SA applies when assessing new markets, financial products, and contracts. The CMAP is designed to create a standard, consistent approach to LCH SA’s assessment of new contracts and markets, with the goal of, among other things, identifying and managing any new risks which may be posed by the new contracts and markets. The CMAP sets out certain principles that all new contracts and markets must meet, a governance process for onboarding new contracts and markets, and factors that LCH SA must consider when onboarding new contracts and markets. Finally, the CMAP sets out the relevant responsibilities of LCH SA personnel and the review cycle of the policy.

The CMAP first establishes general principles that apply to all contracts and markets that LCH SA clears. Overall, when determining whether to clear a new contract or market, LCH SA must ensure that it could close out a clearing member’s positions in that contract or market, if that clearing member were to default. Moreover, LCH SA must ensure there is sufficient price discovery to determine a reliable market value for a contract. Finally, LCH SA must ensure

¹⁷ The MGVRP provides examples of the models subject to the policy, and these include, among others: (i) a margin model that estimates market risk under certain conditions or assumptions; (ii) a stress testing framework used for default fund sizing; and (iii) a credit scoring model providing an assessment of the creditworthiness of a CCP’s counterparties. See Notice, 91 FR at 320.

¹⁸ A change also would be classified as material if it affects a key parameter of a model that could lead to a substantial change in outcome, alters the theoretical or empirical underpinning of a model, or leads to modification of a risk policy.

that its risk measures and margin are in line with the risks of a new contract market. The CMAP further requires that markets and products be reviewed on an ongoing basis to ensure they comply with this criteria, with an annual summary and statement presented to the Risk Committee by the CRO.

In addition to these general principles, the CMAP includes a specific governance process to follow when accepting new contracts and markets for clearing and includes factors that LCH SA should consider when determining whether to accept a new contract or market. The governance process is determined by the riskiness of the contract or market. A contract or market that exhibits novel risk features or requires significant changes to existing risk controls must be approved by LCH SA's Risk Committee and the Board, with some exceptions dependent on the type of market and the risk exposure. A contract or market that does not exhibit novel risk features or require significant changes to existing risk controls may be approved by LCH SA's ERCo, with notification to the Board Risk Committee. Moreover, ERCo has delegated to LCH SA's Operations group authority to approve contracts that (i) arise from the normal course of business and that meet the criteria set out in the appendix to the CMAP¹⁹ and (ii) LCH SA has contractually agreed to clear within a pre-determined framework. With respect to the factors to consider when accepting a new contract or market, the CMAP requires that LCH SA consider various potential risks and features, such as (i) membership or counterparty risk; (ii) standardization of products; (iii) pricing; and (iv) product liquidity.

The CMAP also sets out the relevant responsibilities of LCH SA personnel. LCH SA's ERCo is responsible for reviewing and making decisions on the suitability of any new contract and market. The relevant LCH SA business line is responsible for preparing and evaluating requests with respect to clearing new contracts and markets and for ensuring ongoing compliance with the CMAP.

The CMAP requires that the policy itself be reviewed annually by ERCo and the Risk Committee and then approved by the Board.

III. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act requires 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.²⁰ Under the Commission's Rules of Practice, the "burden to demonstrate that a proposed rule change is consistent with the Exchange Act and the rules and regulations issued thereunder . . . is on the self-regulatory organization ['SRO'] that proposed the rule change."²¹

The description of a proposed rule change, its purpose and operation, its effect, and a legal analysis of its consistency with applicable requirements must all be sufficiently detailed and specific to support an affirmative Commission finding,²² and any failure of an SRO to provide this information may result in the Commission not having a sufficient basis to make an affirmative finding that a proposed rule change is consistent with the Exchange Act and the applicable rules and regulations.²³ Moreover, "unquestioning reliance" on an SRO's representations in a proposed rule change is not sufficient to justify Commission approval of a proposed rule change.²⁴

After carefully considering the proposed rule change, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to LCH SA. More specifically, for the reasons given below, the Commission finds that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act,²⁵ and Rules 17ad-22(e)(2)(i), 17ad-22(e)(2)(v), 17ad-22(e)(3)(i), 17ad-22(e)(4)(vii), 17ad-22(e)(7)(i), 17ad-22(e)(13), 17ad-22(e)(16), and 17ad-22(e)(17)(i) thereunder, as described in detail below.²⁶

A. Section 17A(b)(3)(F)

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, as well as to assure the safeguarding of

securities and funds which are in the custody or control of LCH SA or for which it is responsible.²⁷

As discussed above, LCH SA's Risk Policies formally enact the specific risk management requirements that govern its day-to-day operations as a clearing agency. The policies and procedures set forth therein clarify the roles and responsibilities within LCH SA for compliance with the Risk Policies. To that end, LCH SA has identified specific risks areas that may compromise its business operations. Such risk areas include, but are not limited to, default risk, investment risk, liquidity risk, settlement and custodial risk, model risk, and the risks associated with clearing a new contract or market. The corresponding Risk Policies consist of detailed risk management requirements that govern LCH SA's clearing agency operations as they relate to managing, mitigating, and monitoring these risks.

These risks, if not properly managed, could disrupt LCH SA's clearing services and its ability to safeguard funds. Thus, the risks addressed by the Risk Policies, if not managed or mitigated, could prevent LCH SA from promptly and accurately clearing and settling transactions and safeguarding funds. The Risk Policies, in helping LCH SA to manage and mitigate these risks, are therefore consistent with the prompt and accurate clearance and settlement of securities transactions and the safeguarding of securities and funds which are in the custody or control of LCH SA or for which it is responsible.

Accordingly, the Commission finds that the proposed rule change is consistent with the requirements of Section 17A(b)(3)(F) of the Act.²⁸

B. Rules 17ad-22(e)(2)(i) and (v)

Rules 17ad-22(e)(2)(i) and (v) require that each covered clearing agency establish, implement, maintain, and enforce written policies and procedures reasonably designed to provide for governance arrangements that are clear and transparent and specify clear and direct lines of responsibility.²⁹ As discussed in Section II, each of the Risk Policies describe in detail the roles and responsibilities of the various personnel at LCH SA for implementing and ensuring compliance with the policy. For example, the CRO is the owner of the IRP, which itself assigns responsibilities to other units within LCH SA. LCH SA Credit Risk, for instance, assigns and maintains internal credit scores for the counterparties

²⁰ 15 U.S.C. 78s(b)(2)(C).

²¹ Rule 700(b)(3), Commission Rules of Practice, 17 CFR 201.700(b)(3).

²² *Id.*

²³ *Id.*

²⁴ *Susquehanna Int'l Group, LLP v. Securities and Exchange Commission*, 866 F.3d 442, 447 (D.C. Cir. 2017).

²⁵ 15 U.S.C. 78q-1(b)(3)(F).

²⁶ 17 CFR 240.17ad-22(e)(2)(i), (e)(2)(v), (e)(3)(i), (e)(4)(vii), (e)(7)(i), (e)(13), (e)(16), and (e)(17)(i).

²⁷ 15 U.S.C. 78q-1(b)(3)(F).

²⁸ *Id.*

²⁹ 17 CFR 240.17ad-22(e)(2)(i) and (v).

¹⁹ The appendix to the CMAP contains specific acceptance criteria for various products, organized by type of product (such as equity, bond, CDS contract, etc.). Notice, 91 FR at 321-322.

wherein LCH SA places its investments, as well as counterparty limits to manage exposure. The CaLM team, among other responsibilities, oversees investment and monitoring activities, while CaLM Risk assesses and monitors investment exposure, and Compliance and Legal are responsible for regulatory and legal matters, respectively. Each of the Risk Policies likewise detail the relevant responsibilities, including the various team interdependencies and management oversight, in a manner that is transparent, specify unique roles, and mandate clear supervisory notifications and approvals, including, where relevant, those by LCH SA's Board, consistent with the rules.

Accordingly, the Commission finds that the proposed rule change is consistent with the requirements of Rules 17ad-22(e)(2)(i) and (v).³⁰

C. Rule 17ad-22(e)(3)(i)

Rule 17ad-22(e)(3)(i) requires a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to maintain a sound risk management framework for comprehensively managing legal, credit, liquidity, operational, general business, investment, custody, and other risks that arise in or are borne by the covered clearing agency, which includes risk management policies, procedures, and systems designed to identify, measure, monitor, and manage the range of risks that arise in or are borne by the covered clearing agency, that are subject to review on a specified periodic basis and approved by the LCH SA Board annually.³¹

Taken together, the Risk Policies establish a risk management framework responsive to the various risks that LCH SA faces as a covered clearing agency and central counterparty for CDS. As stated above, the Risk Policies identify key risks faced by LCH SA and set out the roles and responsibilities within LCH SA for managing these risks. For example, the CRP was created to address the custody risk that LCH SA assumes when it relies on third parties to hold its cash. As a further example, the IRP sets forth standards for LCH SA to follow when managing its investment risk. Finally, the Risk Policies are subject to review on a specified basis and subject to Board approval, consistent with the rule.

Accordingly, the Commission finds that the proposed rule change is

consistent with the requirements of Rule 17ad-22(e)(3)(i).³²

D. Rule 17ad-22(e)(4)(vii)

Rule 17ad-22(e)(4)(vii) requires a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes, including by, among other things, performing a model validation for its credit risk models not less than annually or more frequently as may be contemplated by the covered clearing agency's risk management framework.³³ As discussed in Section II, the MGVRP requires that LCH independently validate all models at least annually to determine if the models are performing adequately. The MGVRP specifically applies to LCH SA's margin models, which LCH SA uses to manage the credit risk arising from clearing CDS. The LCH SA Validation team, or an external, qualified party with the relevant knowledge and experience and who is not involved in the model building and testing, would perform the independent validation. Thus, the MGVRP establishes the requirement that LCH SA perform a model validation of its credit risk models, consistent with the rule.

Accordingly, the Commission finds that the proposed rule change is consistent with the requirements of Rule 17ad-22(e)(4)(vii).³⁴

E. Rule 17ad-22(e)(7)(i)

Rule 17ad-22(e)(7)(i) requires a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to 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, at a minimum, 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 the covered clearing agency in extreme but plausible market conditions.³⁵

As stated above, the LRP is the policy that LCH SA uses to manage liquidity risk. The LRP describes LCH SA's sources of liquidity and its liquidity needs. The LRP also requires that LCH SA assess its liquidity position, and describes how LCH SA must do so, including by determining on a daily basis its liquidity coverage ratio. It requires that LCH SA measure whether it has enough liquidity, or available cash, both for daily and intraday purposes, including the default of the two member groups with the largest liquidity requirements. These requirements generally would help LCH SA to measure, monitor, and manage the liquidity risk and maintain sufficient liquid resources, consistent with the rule.

Accordingly, the Commission finds that the proposed rule change is consistent with the requirements of Rule 17ad-22(e)(7)(i).³⁶

F. Rule 17ad-22(e)(13)

Rule 17ad-22(e)(13) requires a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to ensure the covered clearing agency has the authority and operational capacity to take timely action to contain losses and liquidity demands and continue to meet its obligations by, at a minimum, requiring the covered clearing agency's participants and, when practicable, other stakeholders to participate in the testing and review of its default procedures, including any close-out procedures, at least annually and following material changes thereto.³⁷

As discussed in Section II, the DMP requires that LCH SA establish Guidelines and Procedures for managing the default of a clearing member. The DMP also requires that the LCH SA CEO establish the DMG, who will be responsible for managing the default. The DMP further sets out standards regarding calling and communicating a default and sets out relevant responsibilities of LCH SA personnel for managing a default. These requirements should help LCH SA to have the authority and operational capacity to take timely action to contain losses and liquidity demands during a default, consistent with the rule.

Accordingly, the Commission finds that the proposed rule change is

³⁰ 17 CFR 240.17ad-22(e)(2)(i) and (v).

³¹ 17 CFR 240.17ad-22(e)(3)(i).

³² 17 CFR 240.17ad-22(e)(3)(i).

³³ 17 CFR 240.17ad-22(e)(4)(vii).

³⁴ 17 CFR 240.17ad-22(e)(4)(vii).

³⁵ 17 CFR 240.17ad-22(e)(7)(i).

³⁶ 17 CFR 240.17ad-22(e)(7)(i).

³⁷ 17 CFR 240.17ad-22(e)(13).

consistent with the requirements of Rule 17ad-22(e)(13).³⁸

G. Rule 17ad-22(e)(16)

Rule 17ad-22(e)(16) requires a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to safeguard the covered clearing agency's own and its participants' assets, minimize the risk of loss and delay in access to these assets, and invest such assets in instruments with minimal credit, market, and liquidity risks.³⁹

As discussed in Section II, the IRP sets out standards that LCH SA must follow to manage investment risk, meaning the risk of loss arising from its investment of cash funds. The IRP includes minimum standards with respect to investment counterparties, issuers, investment transactions, and instruments in which LCH SA may invest. The IRP also sets out limits on investments and a process for monitoring and following these limits. These requirements should help LCH SA to invest its assets in instruments with minimal credit, market, and liquidity risks, consistent with the rule.

Moreover, as discussed in Section II, the CRP sets out standards that LCH SA must follow to manage risks that arise from the intermediaries used for settlement, payment and custody activities. These standards consist of minimum criteria that intermediaries must satisfy. The CRP also requires that LCH SA conduct due diligence on such intermediaries and comply with limits on its exposure to these intermediaries. The CRP further explains how LCH SA must monitor counterparties for compliance with these criteria and limits and sets out the relevant responsibilities of LCH SA personnel with respect to applying these criteria and limits. These requirements should help LCH SA to safeguard its own and its participants' assets, and minimize the risk of loss and delay in access to these assets, by limiting LCH SA's custodians and similar intermediaries to those that are well established, reliable, and demonstrate an ability to segregate, identify, and make available LCH SA's assets, consistent with the rule.

Accordingly, the Commission finds that the proposed rule change is consistent with the requirements of Rule 17ad-22(e)(16).⁴⁰

H. Rule 17ad-22(e)(17)(i)

Rule 17ad-22(e)(17)(i) requires a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to manage the covered clearing agency's operational risks by, among other things, identifying the plausible sources of operational risk, both internal and external, and mitigating their impact through the use of appropriate systems, policies, procedures, and controls.⁴¹

As discussed in Section II, the CMAP sets out a process that LCH SA must follow when accepting a new contract or market for clearing, including certain core principles that any new contract or market must satisfy. Among other things, before accepting any new contract or market for clearing, LCH SA must determine that it could close out a clearing member's positions therein; that there is sufficient price discovery for LCH SA to determine a reliable market price for a contract; and that LCH SA's risk measures and margin are appropriate for the risks presented by the contract. Finally, the CMAP establishes a governance process for accepting new contracts or markets for clearing and assigns authority to relevant LCH SA personnel. In doing so, the CMAP should help LCH SA to identify potential operational risks that could arise from clearing a new contract or market consistent with the rule. The CMAP should also help LCH SA to mitigate those risks by applying its existing risk management system or modifying its risk management system to accommodate the new contract or market, consistent with the rule.

Accordingly, the Commission finds that the proposed rule change is consistent with the requirements of Rule 17ad-22(e)(17)(i).⁴²

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 with Section 17A(b)(3)(F) of the Act,⁴³ and Rules 17ad-22(e)(2)(i), 17ad-22(e)(2)(v), 17ad-22(e)(3)(i), 17ad-22(e)(4)(vii), 17ad-22(e)(7)(i), 17ad-22(e)(13), 17ad-22(e)(16), and 17ad-22(e)(17)(i).⁴⁴

It is therefore ordered pursuant to Section 19(b)(2) of the Act⁴⁵ that the

⁴¹ 17 CFR 240.17ad-22(e)(17)(i).

⁴² 17 CFR 240.17ad-22(e)(17)(i).

⁴³ 15 U.S.C. 78q-1(b)(3)(F).

⁴⁴ 17 CFR 240.17ad-22(e)(2)(i), (e)(2)(v), (e)(3)(i), (e)(4)(vii), (e)(7)(i), (e)(13), (e)(16), and (e)(17)(i).

⁴⁵ 15 U.S.C. 78s(b)(2).

proposed rule change (SR-LCH SA-2025-010) be, and hereby is, approved.⁴⁶

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁴⁷

Sherry R. Haywood,

Assistant Secretary.

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SURFACE TRANSPORTATION BOARD

[Docket No. FD 36501]

**Union Pacific Railroad Company—
Construction & Operation Exemption—
in Maricopa County, Ariz.**

On June 30, 2022, Union Pacific Railroad Company (UP) filed a petition for an exemption under 49 U.S.C. 10502 from the prior approval requirements of 49 U.S.C. 10901 to construct and operate approximately six miles of rail line in connection with the Pecos Industrial Rail Access and Train Extension Project (the PIRATE project) in Maricopa County, Ariz. (the Line). The Line would connect the Pecos Advanced Manufacturing Zone (the PAMZ) to the UP main line west of the project area and provide rail service for Commercial Metals Company (CMC), as well as an alternative mode of freight transportation to future shippers. (Pet. 2.) By decision served on September 28, 2022, the Board instituted a proceeding under 49 U.S.C. 10502(b). No comments opposing the transportation merits of UP's petition were filed.

The Board's Office of Environmental Analysis (OEA) issued a Draft Environmental Assessment (Draft EA) on May 31, 2023, examining the potential environmental and historic impacts of UP's proposal and requesting public comments, pursuant to the National Environmental Policy Act (NEPA), 42 U.S.C. 4321-4370m-11, and the National Historic Preservation Act (NHPA), 54 U.S.C. 300101-307108.

As discussed in more detail below, in August 2023, OEA delayed issuance of a Final Environmental Assessment (Final EA) after discovering that there had been significant ground disturbance and damage to National Register of Historic Places-eligible archaeological resources within the proposed right-of-way. Following briefing on the issue, the Board was unable to reach a majority decision on whether a violation

⁴⁶ 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).

⁴⁷ 17 CFR 200.30-3(a)(12).

³⁸ 17 CFR 240.17ad-22(e)(13).

³⁹ 17 CFR 240.17ad-22(e)(16).

⁴⁰ 17 CFR 240.17ad-22(e)(16).