

Form 19b-4 Information

Item 1. Text of Proposed Rule Change

(a) Banque Centrale de Compensation, which conducts business under the name LCH SA (“LCH SA”), is proposing to modify its CDS Clearing risk framework by amending the (i) CDSClear Margin Reference Guide (the “**Margin Guide**”) and (ii) CDSClear Default Fund Reference Guide (the “**Stress Guide**”) to realign the model calculations used to size the Default Fund to ensure they remain plausible and also adopt the new common LSEG template (the “**Proposed Rule Change**”).

The text of the Proposed Rule Change has been annexed as Exhibit 5.¹

The implementation of the Proposed Rule Change will be contingent on LCH SA’s receipt of all necessary regulatory approvals.²

(b) Not applicable.

(c) Not applicable.

Item 2. Procedure of the Self-Regulatory Organization

LCH SA has completed all of the required actions to be taken to approve and authorize the Proposed Rule Change. The Proposed Rule Change was approved by the LCH SA Executive Risk Committee (ERCo) on 11th May 2023, and by the LCH SA Risk Committee (RiskCo) on the 23rd May 2023. No further approvals to authorize this Proposed Rule Change are necessary.

¹ All capitalized terms not defined herein have the same definition as in the Rule Book or Procedures, as applicable.

² The Proposed Rule Change was already approved by the French competent authorities and Emir College under EMIR Article 49 (ESMA91-1505572268-4323 Final Report on EMIR 3 RTS model validations, *available at* https://www.esma.europa.eu/sites/default/files/2025-10/ESMA91-1505572268-4323_Final_Report_on_EMIR_3_RTS_model_validations.pdf.) and also rule certified with the CFTC, *available at* <https://www.cftc.gov/sites/default/files/filings/orrules/26/02/rules02252639859.pdf>.

Questions should be addressed to Olivier Courbu, Chief Compliance Officer at olivier.courbu@lseg.com or +33 (0)6 30 79 96 01, or Mohamed Meziane, Senior Regulatory Advisor, Compliance Department, at mohamed.meziane@lseg.com or +33 1 70 37 65 62.

Item 3. Self-Regulatory Organization's Statement of Purpose, and Statutory Basis for, the Proposed Rule Change

(a) Purpose

The Proposed Rule change is being adopted by LCH SA to amend the risk framework of its CDSClear service to address certain LCH SA Model Validation Team recommendations issued originally from an independent regular annual review performed in 2020 related to the lookback period as part of the Spread Margin calculation, in particular a request to introduce a fixed size of the lookback period to avoid dilution risk which may arise in an ever growing lookback period if only mild scenarios are added and the average over an ever growing number of worst case scenarios is progressively trending downwards. LCH SA is also proposing to amend the stress scenario definitions to ensure all scenarios are plausible. This stress scenario change is expected to lead to a significant decrease in the Default Fund as most existing scenarios are shown to exceed the once-in-thirty-year event threshold defined in the LCH SA Financial Risk Adequacy Policy³, therefore leading to a currently overconservative Default Fund. LCH SA will still meet or exceed the 99.7% coverage target for all members and will still be able to withstand the default of the two simultaneous defaults of the largest member groups under extreme but plausible market conditions. To effectuate these changes, LCH SA is proposing to amend its Margin Guide and its Stress Guide to accommodate those proposed changes. LCH

³ See Exchange Act Release No. 104051 (Sept. 25, 2025), 90 FR 47001 (Sept. 30, 2025) (SR-LCH SA-2025-007), which approved the LCH SA Financial Risk Adequacy Policy.

SA is also proposing to restructure and reorganize the contents in each document to conform with a common template adopted by LSEG entities.⁴ This common template aims to make it easier for model validation teams to review all models across LSEG.

Specifically, LCH SA is proposing to modify the Spread Margin calculation to:

- reduce the size of the lookback period;
- reduce the weight given to the current volatility when rescaling historical returns;
- change the risk measure for the spread margin floor to be a VaR;
- consider profit and loss (“P&L”) over five days in each scenario of the spread margin; and
- adjust historical returns from 2007 to make them more relevant to current market regime.

LCH SA is also proposing to modify the stress scenario definitions to ensure all scenarios are plausible.

LCH SA has determined that LCH SA’s CDS Clearing Rules currently appropriately describe the Proposed Rule Change and, therefore, no change in the legal documentation is necessary. However, to accommodate those proposed changes, LCH SA is proposing to amend the Margin Guide and the Stress Guide as follows.

a. The Margin Guide

LCH SA is proposing to amend the Margin Guide to incorporate changes related to the Spread Margin to address the dilution risk mentioned earlier in the document, and replace the ever-growing lookback period by one with a fixed size.

⁴ LCH SA is a wholly owned subsidiary of LCH Group Holdings Limited which is majority owned by London Stock Exchange Group plc (LSEG), and therefore LCH SA is part of the LSEG group.

The lookback will always be composed of a stressed period and a 10-year rolling window. This stressed period is July 2007 to June 2010 in the current proposal but would be reviewed every year as part of the annual model validation. To anticipate the potential disappearance of significant dates, the proposed changes are also accompanied by a new annual test which would assess the impact on the spread margin of removing the oldest year of the 10-year rolling window. LCH SA is proposing to make other clarifying and conforming changes as part of the transfer to the new LSEG template. The proposed changes to the Risk Framework are as follows:

- Section 4.7.4 introduces the concept of a 10-year rolling lookback window, joined with a fixed three-year period also included in the lookback, as well as the treatment applied to historical data from 2007, covering two of the five changes listed above in impacting the Spread Margin, namely reduce the size of the lookback and adjust historical returns from 2007 to make them more relevant to the current market regime. The proposed change in the lookback period would apply to both the scaled and unscaled model, in order to ensure that the sample does not grow over time.
- LCH SA proposes to update the 10-year rolling window daily, with one day from the previous 10 years dropping and the most recent day being added. This addresses the dilution risk originally flagged by the model validation team while recognizing the regime change observed during the period.
- Section 5.2.4.2 replaces the Expected Shortfall measure by a VaR measure for the Spread Margin floor using unscaled returns, as part of the Proposed Rule Change. In other words, the core spread margin calculation that is using volatility scaled returns is still using an Expected Shortfall measure, but the Spread Margin floor is moving from Expected Shortfall to VaR. As

a consequence, the Spread Margin will move from being the max between an Expected Shortfall using volatility scaled returns and an Expected Shortfall using unscaled returns to being the max between an Expected Shortfall using volatility scaled returns and a VaR using unscaled returns. This simplifies the floor, ensures the main model is driving the margin more often, and aligns with general market practice for a regulatory floor.

- Spread margin scenarios currently retain the worst end of day point over the 5-day period of the calculation. Section 5.2.4.1.5 shows a P&L calculated between business date and business date plus five, reflecting the fact that the P&L will now be calculated as at the five-day P&L. This significantly reduces the complexity of the calculations and therefore helps speed up the margin calculations, so that CDSClear can confirm within the regulatory timeframe whether a trade sent for clearing is accepted or rejected, as required by EU MiFIR⁵ and U.S. CFTC⁶ regulations. This change allows us to calculate only one P&L per scenario of the Expected Shortfall, instead of calculating five P&Ls and taking the worst, which cuts down calculation time with a minimal impact on the final margin.
- Section 5.2.4.1.1 replaces the 50% weight given to the current volatility with a 25% weight when rescaling returns before applying them to create simulated spread scenarios, as part of the Proposed Rule Change. This

⁵ See Article 29 of Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments (MiFIR) and amending Regulation (EU) No 648/2012 requiring authorized CCPs to establish effective systems, procedures and arrangements to ensure that cleared derivatives transactions are submitted and accepted for clearing on a straight-through processing (“STP”).

⁶ See 17 CFR 39.12(b)(7)(ii) requiring a DCO to have rules that provide that the DCO will accept or reject for clearing as quickly after execution as would be technologically practicable if fully automated systems were used, all contracts that are listed for clearing by the DCO and are executed competitively on or subject to the rules of a DCM or SEF.

means that after having divided past returns by the volatility observed on that past date to normalize the return, it is now multiplied by a value equal to the sum of 25% of the current volatility and 75% of the volatility on the past date corresponding to the original return, instead of having both weights set to 50%. This feature helps improve the procyclicality risk profile of the Spread Margin as it gives less weight to the most recent volatility and therefore decreases the impact renewed market volatility may have on the margins.

- Section 5.2.4.1.6 amends the logic for applying jump to default calculations ahead of an option exercise date, such that defaults are assumed to happen after the credit spreads have moved and the exercise decision has been taken. This simplification relates to the change towards a five-day P&L, which leads to the short charge calculation now only occurring on day five of each scenario, instead of happening for each day of each scenario.

The remainder of the Risk Framework described in the Margin Guide does not change the calculations. Some sections of the previous version of the document have been copied as is, commented as “No Change” in the Excel chart filed as Exhibit 3 that maps the sections of the previous version of the Margin Guide to the sections of the new version, while others have been rewritten for clarity. In this regard:

- A new Section “Executive Summary” is providing a high-level view of the CDSClear Risk Framework to comply with the LSEG model documentation template requirements.
- A new Section 1 is providing more context on the use and purpose of the model to comply with the LSEG model documentation template requirements.

- A new Section 2 is providing details of the model limitations and compensating controls. Most were already existing and documented elsewhere, and only one new limitation is introduced related to the control put in place to monitor the potential removal of key historical events from the 10Y rolling lookback window used in the spread margin calculations.
- Old Section 3.1 giving a summary of multiple margins has been removed to now separate margins into different sections to comply with the LSEG model documentation template requirements.
- Section 4.7.2 is largely unchanged from the previous Section 2.3.1, with a minor update to incorporate the description of structural and contractual subordination for credit default swaps.
- Section 4.1 is based on the previous Section 2.3.4 but expands to give more details of the market data processing upstream of the margin calculations, in order to satisfy the requirements of the new LSEG template.
- Section 5 introduces margins that were missing from the summary table (Contingency Variation Margin a.k.a. CVM, Legal Entity Identifier margin a.k.a. LEI, Net Capital Ratio, Credit Quality Margin and Default Fund Additional Margin a.k.a. DFAM were missing).
- Section 5.1.4.1 rewrites the presentation of the different combinations of the International Swaps and Derivatives Association (“ISDA”) definitions and seniorities considered in the jump to default scenarios, summarizing them all in a table, without changing the calculation.
- Sections 5.1.4.3 and 5.2.4.3.5 clarify the treatment of jump to default risk close to maturity dates to cover the risk that bought protection via a CDS contract, index or single name, would not be applicable for credit events

happening after the maturity date of the contract, not introducing any change in the calculation.

- Section 5.2.4.1.7.1 replaces the multiple tables of combinations of defaults and recovery rates from the previous section 3.5.1 into a single condensed table to ease the reading, not introducing any change in the calculation.
- Section 5.2.4.3.4 is modifying the split of Spread Margin and Short Charge, without affecting the sum of both margins considered together. Previous Section 3.5.6 was considering Spread Margin as an Expected Shortfall calculation of its own, and the Short Charge as a difference between (a) an Expected Shortfall considering continuous market moves and jump to default risk jointly and (b) the Spread Margin. This makes it difficult to decompose the margins as the worst scenarios selected in (a) are not necessarily the same as the scenarios selected in (b). To remedy this, the new Margin Guide will still consider an Expected Shortfall covering market moves and jump to default risk, but defines the Spread Margin as the part of the P&L attributable to the market moves only, while the Short Charge represents the incremental P&L attributable to jump to default risk within the same Expected Shortfall, on the same worst scenarios. Also, Spread Margin and Short Charge are now described together in one section to better explain the interplay between the credit spread risk and jump to default risk described in this paragraph.
- Section 5.4.4 is merging together the calculation for all types of products instead of separating them into different subsection to emphasize that the calculation logic remains the same.

- Section 5.5.4.1.1 simplifies the presentation of the Wrong Way Risk shock applied and removes the distinction between systemic and non-systemic entities from the definitions as the treatment is the same for both in the margin calculations.
- Section 5.5.4.1.5. clarifies how the correlation used in the wrong way risk calculation and the latest state of implementation of the most recent change to the wrong way risk model in a footnote.
- Sections 5.6.4.1. and 5.6.4.2. give more details about the purpose of each scenario defined in the Vega margin calculation.
- Section 5.7 describes the exact same calculation of Liquidity charge that was previously documented but now adds the clarifying sections required by the LSEG model documentation template such as a model overview and a description of the model inputs and outputs. It also introduces the official name of the relevant credit indices instead of their commonly used names.
- Section 5.8 describes the same calculation of Accrued Coupon Liquidation Risk margin that was previously documented with additional changes needed to accommodate the LSEG model documentation template.
- Section 5.9 describes the same calculation of Credit event margin that was previously documented with additional changes needed to accommodate the LSEG model documentation template.
- Section 5.10, which is based on Section 7 of the previous Margin Guide, clarifies the use case for Contingency Variation Margin (CVM). The margin is meant to cover the risk that Variation Margin (VM) may not be paid at the next VM call, and calls for extra collateral every time the expected VM

call would be potentially larger than a single day of price moves. This can happen:

- For new trades, should the upfront be far from the current market value, the initial VM payment can be large; or
- When payment systems are closed. This is currently only relevant for USD, as LCH SA is open for clearing on days when U.S. banks are closed. In such a case, the VM that would have been expected to be paid in the morning is instead converted in Euros and called as CVM, to be released the next day when the USD VM can settle again.
- Section 5.11 describes the same calculation of Legal Entity Identifier margin that was previously documented with additional changes needed to accommodate the LSEG model documentation template.
- Section 5.12 describes the same calculation of Net Capital Ratio margin that was previously documented with additional changes needed to accommodate the LSEG model documentation template.
- Sections 5.13 and 5.14 introduce margins that were covered in Sections 3.1 and 3.2 of the Stress Guide (respectively Credit Quality Margin and DFAM), without changing the calculations, to make it clear that these are charged as part of the IM like all other margins described in the Margin Guide. Section 5.14 however changes the order in which the calculation steps are presented to enhance readability.
- Section 5.15 is based on previous Section 5 but removes sections on coupon and upfront cashflows which are independent from the risk model.

- Sections 6, 7 and 8 are generic sections introduced to comply with the LSEG template requirements.

b. The Stress Guide

LCH SA is proposing to amend the Stress Guide to reflect the proposed changes to the definition of stress scenarios. Some non-substantive clarifications have also been proposed, at the request of the Model Validation Team or as part of the transfer to the new LSEG template. The proposed changes in the Stress Guide are as follows:

- Currently, the set of stress test scenarios have an assumption of an extended holding period of, at a minimum, five days, but this varies from one scenario to the next. As proposed, the newly renumbered Section 5.1.1.1 would clarify that the holding period considered in the calibration of stress scenarios is set to seven days across all scenarios. LCH SA believes this change is necessary to bring consistency between stress scenarios and make them more comparable to each other.
- Section 5.1.4 is the main change compared to the previous version, as it discards most of the old scenarios and introduces the new ones:
 - Currently, the listed scenarios, such as those calibrated around Lehman Brothers' 2008 collapse or Black Monday, do not satisfy the definition of plausibility as described in the LCH Financial Risk Adequacy Policy because of multipliers applied to the historical shocks. As such, the proposed historical scenarios would be chosen as plausible based on a defined set of consistent criteria across all scenarios such that the worst historical stress can be captured consistently across multiple periods, but without adding arbitrary

multipliers on top of historical moves which would push them beyond the plausibility limit. One criterion is used for directional scenarios and another for decorrelation scenarios, to identify the most significant seven-day periods through history for both kinds of events. This means historical moves such as the ones observed around the default of Lehman Brothers or during the trigger of the Covid crisis are still captured and reflected in the new set of historical scenarios.

- Currently, theoretical scenarios are based on expert judgment, with values which were deemed conservative enough to protect the CCP but without clean quantification of how plausible the scenarios were. As proposed, theoretical scenarios would rely on a multivariate distribution calibrated on historical data to generate extreme but plausible scenarios quantified as once-in-30 years events, in line with LCH policies. The calibrated distribution is used to generate sample joint returns across risk factors, which are then sorted based on criteria representing key trading strategies to identify the most extreme draws in the sample for each risk profile.
- Scenarios for implied volatilities would keep the same calibration but would be considered jointly with spread moves to better capture the cross-effect of both risk factors on the option price.
- Section 5.1.4.2 aligns the handling of option exercise with regular margins, assuming market moves happen first, then exercise decisions are reflected in the calculation, and then the impact of defaulting entities is considered.

The rest of the CDSClear risk framework described in the Stress Guide does not change. Some sections of the previous version of the document have been copied as is, commented as “No Change” in the chart that maps the sections of the previous version of the Stress Guide to the sections of the new version, while others have been rewritten for clarity. In this regard:

- A new section “Executive Summary” is providing a high-level view of the CDSClear Stress Risk Framework to comply with the LSEG model documentation template requirements;
- A new Section 1 is providing more context on the use and purpose of the model to comply with the LSEG model documentation template requirements;
- A new Section 2 is providing information on the model limitations and compensating controls to comply with the LSEG model documentation template requirements;
- A new Section 3 is justifying the modelling approach to comply with the LSEG model documentation template requirements;
- A new Section 4 is describing the modelling data to comply with the LSEG model documentation template requirements;
- Section 5.1.1.2 summarizes the definition of the Default Fund size in a more condensed manner, aligned with the LSEG template, without introducing any change to the calculation.

Section 5.1.4.4 rewrites the logic of the stressed Short Charge in the manner of the Short Charge in the Margin Guide, in particular introducing tables to more clearly summarize the combinations of ISDA definitions and seniorities that can default together and to summarize the recovery rates used in the Net Short Exposure

calculations, leading to the corresponding deletions in Section 5.1.4.2.4 to avoid duplication. This section therefore replaces the old Section 2.4.

Although the proposed changes to the Spread Margin are expected to have a minimal impact, the changes to ensure all stress scenarios used to size the Default Fund are plausible is expected to have a noticeable impact, measured as a 41% decrease on average over the 12 month period leading to March 2026, with the minimum decrease measured at 32% and maximum decrease measured at 44%. As noted previously, this will not prevent LCH SA from being able to withstand the default of the two simultaneous defaults of the largest member groups under extreme but plausible market conditions. In terms of distribution of the impact across clearing members, all clearing members not triggering the default fund contribution floor will see a decrease in their Default Fund Contribution requirement of the same percentage as the allocation key is based on initial margin which is only marginally changing. This means that amongst members not triggering the default fund contribution floor the larger clearing members currently contributing larger euro amounts towards the Default Fund will see a larger euro amount of money credit to them when the changes are implemented, with the largest decrease in euros across the period equal to 605 million euros for the largest member. The smallest members who were subject to a default fund contribution floor set to 10 million euros would still be subject to the same floor, and would therefore not see any change in their contribution amounts. In other words, all members would see the same relative impact on their contribution, except if their contribution is small enough that it is floored to 10 million euros.

(b) Statutory Basis

LCH SA has determined that the Proposed Rule Change is consistent with the requirements of Section 17A of the Act⁷ and regulations thereunder applicable to it, including Commission Rule 17ad-22(e).⁸ In particular, Section 17A(b)(3)(F) of the Act requires, *inter alia*, that the rules of a clearing agency be designed to “promote the prompt and accurate clearance and settlement of . . . derivatives agreements, contracts, and transactions”.⁹ Through the proposed change toward a reduced lookback window and a five-day P&L, LCH SA is simplifying the margin calculations without a significant impact on the margin coverage expecting that this should promote the prompt and accurate clearance and settlement of the CDS Clear instruments in accordance with the requirements of Section 17A(b)(3)(F) of the Act.¹⁰

Rule 17ad-22(e)(6)(i) requires a covered clearing agency to establish, implement, maintain, and enforce written policies and procedures reasonably designed, as applicable, to cover its credit exposures to its participants by establishing a risk-based 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.¹¹ LCH SA believes that the Proposed Rule Change would enhance LCH SA’s risk-based margin system by improving the calculations with a revised volatility scaling which would limit procyclicality and a reduced lookback window decreasing the dilution of stressed periods and continuing to produce margin levels commensurate with the risks as illustrated by the back-testing performed on the

⁷ 15 U.S.C. 78q-1.

⁸ 17 CFR 240.17ad-22.

⁹ 15 U.S.C. 78q-1(b)(3)(F).

¹⁰ *Id.*

¹¹ 17 CFR 240.17ad-22(e)(6)(i).

new proposed model, which is fully consistent with the requirements of Rule 17ad-22(e)(6)(i).¹²

Rule 17ad-22(e)(4)¹³ requires LCH SA 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, among other requirements. LCH SA believes that the proposed changes that would apply with the new risk model would continue to provide sufficient margin requirements to cover its credit exposure to its clearing members from clearing such contracts, consistent with the requirements of Rule 17ad-22(e)(4)¹⁴.

Rule 17ad-22(e)(4)(vi)(B) and (C) requires LCH SA 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 testing the sufficiency of its total financial resources available to meet the minimum financial resource requirements by, among other things, conducting a comprehensive analysis on at least a monthly basis of the existing stress testing scenarios, models, and underlying parameters and assumptions; and conducting a comprehensive analysis of stress testing scenarios, models, and underlying parameters and assumptions more frequently than monthly when the products cleared or markets served display high volatility or become less liquid, or when the size or concentration of positions held by the covered clearing agency's participants increases

¹² *Id.*

¹³ 17 CFR 240.17ad-22(e)(4).

¹⁴ *Id.*

significantly.¹⁵ The Margin Guide and Stress Guide, including the proposed changes, interact with and remain subject to the Financial Resource Adequacy Policy (“FRAP”) that is part of its governance framework.¹⁶ The FRAP contemplates monthly reverse stress testing, and less than monthly under certain conditions, that is consistent with the comprehensive analysis requirement of Rule 17ad-22(e)(4)(vi)(B) and (C).¹⁷

Rule 17ad-22(e)(3)¹⁸ requires LCH SA 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. By adopting the new appropriate LSEG template in accordance with the Group requirements and by also addressing the LCH SA Model Validation Team recommendations for enhancing its risk framework and meeting the relevant quality criteria in accordance with the existing Model Validation Policy and procedure, the Proposed Rule Change remains fully consistent with the requirements of Rule 17ad-22(e)(3)¹⁹.

Rule 17ad-22(b)(3) requires, in relevant part, a clearing agency for security-based swaps to establish, implement, maintain and enforce written policies and procedures reasonably designed to maintain financial resources “sufficient to withstand, at a minimum, a default by the two participant families to which it has the

¹⁵ 17 CFR 240.17ad-22(e)(4)(vi)(B) and (C).

¹⁶ See *supra* note 3.

¹⁷ 17 CFR 240.17ad-22(e)(4)(vi)(B) and (C).

¹⁸ 17 CFR 240.17ad-22(e)(3).

¹⁹ *Id.*

largest exposures in extreme but plausible market conditions.”²⁰ As discussed above, LCH SA is modifying the stress scenarios used to size the default fund to ensure they remain plausible. In particular, the usage of a quantitative approach to build market data shocks targeting the once in 30 years plausibility limit in line with LCH policies provide a clear procedure to maintain financial resources sufficient to withstand defaults in extreme but plausible market conditions. The actual sizing of the Default Fund itself does not change, such that LCH SA is still covering the default of two participant families to which it has the largest exposures.

For all the reasons stated above, LCH SA believes that the Proposed Rule Change is consistent with the requirements of prompt and accurate clearance and settlement of securities transactions in Section 17(A)(b)(3)(F)²¹ of the Act, the requirements of a risk-based margin system in Rule 17ad-22(e)(6)(i)²² and of a sound risk management framework in Rule 17ad-22(e)(3)²³ with also the monitoring and management of the credit exposures to participants in Rule 17ad-22(e)(4),²⁴ as well as with the requirements of 17ad-22(b)(3).²⁵

Item 4. Self-Regulatory Organization’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.²⁶ LCH SA does not believe that the proposed rule change would

²⁰ 17 CFR 240.17ad-22(b)(3).

²¹ 15 U.S.C. 78q-1(b)(3)(F).

²² 17 CFR 240.17ad-22(e)(6)(i).

²³ 17 CFR 240.17ad-22(e)(3).

²⁴ 17 CFR 240.17ad-22(e)(4).

²⁵ 17 CFR 240.17ad-22(b)(3).

²⁶ 15 U.S.C. 78q-1(b)(3)(I).

have any impact, impose burdens on competition that are not necessary or appropriate in furtherance of the purposes of the Act. Indeed, all clearing members would see the same relative decrease in their default fund contribution so that all clearing participants are treated equally, except if their default fund contribution is small enough that it is subject to the 10 million euros floor in which case the decrease could be smaller or even nil. The Proposed Rule Change was discussed with the current Clearing Members and would not affect their ability or of other market participants generally to engage in cleared transactions or to access clearing services. The Proposed Rule Change will have no effect on the open access model maintained by LCH SA.

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.

Item 5. Self-Regulatory Organization'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.

Item 6. Extension of Time Period for Commission Action

LCH SA does not consent to the extension of the time period listed in Section 19(b)(2) of the Securities Exchange Act of 1934 for Commission action.²⁷

Item 7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2) or Section 19(b)(7)(D)

(a) Not applicable.

²⁷ 15 U.S.C. 78s(b)(2).

(b) Not applicable.

(c) Not applicable.

(d) Not applicable.

Item 8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or the Commission

The proposed rule change is not based on the rules of another self-regulatory organization or the Commission.

Item 9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

Item 10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable

Item 11. Exhibits

Exhibit 1 – Not Applicable

Exhibit 1A – Notice of proposed rule change for publication in the Federal Register.

Exhibit 2 – Not Applicable

Exhibit 3 – Excel chart describing the format changes made to the LCH SA

CDSClear methodology documents under the new LSEG template

Omitted and filed separately with the Commission. Confidential treatment pursuant to 17 C.F.R. 240.24b-2 being requested.

Exhibit 4 – Not Applicable

Exhibit 5 – Text of the proposed rule change.

- Exhibit 5.1 – LCH SA CDSClear Margin Reference Guide (Version 3.14 versus new LSEG template)

- Exhibit 5.2 – LCH SA CDSClear Default Fund Reference Guide (Version 1.9 versus new LSEG template)

Omitted and filed separately with the Commission. Confidential treatment pursuant to 17 C.F.R. 240.24b-2 being requested.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Banque Centrale de Compensation has caused this filing to be signed on its behalf by the undersigned hereunto duly authorized.

BANQUE CENTRALE DE COMPENSATION

A handwritten signature in blue ink, appearing to be 'Anne Favé', is written over a horizontal line. The signature is stylized with a large 'A' and a long horizontal stroke.

By: _____
Anne Favé
Head of Legal / Interim Chief Compliance Officer

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION

(Release No. _____; File No. SR-LCH SA-2026-001)

_____, 2026

Self-Regulatory Organizations; LCH SA; Notice of Filing of Proposed Rule Change
Relating to the CDSClear Risk Framework

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“**Act**”),¹ and Rule 19b-4,² notice is hereby given that on _____, 2026, 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, as described in Items I, II and III below, which Items have been prepared by the clearing agency. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

LCH SA is proposing to modify its CDS Clearing risk framework by amending the (i) CDSClear Margin Reference Guide (the “**Margin Guide**”) and (ii) CDSClear Default Fund Reference Guide (the “**Stress Guide**”) to incorporate and accommodate the proposed changes and also adopt the new common LSEG template (the “**Proposed Rule Change**”).

The text of the Proposed Rule Change has been annexed as Exhibit 5.³

¹ 15 U.S.C. 78s(b)(1).

² 17 C.F.R. § 240.19b-4.

³ All capitalized terms not defined herein have the same definition as in the Rule Book or Procedures, as applicable.

The implementation of the Proposed Rule Change will be contingent on LCH SA's receipt of all necessary regulatory approvals⁴.

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 Risk Policies and discussed any comments it received on the Risk Policies. The text of these statements may be examined at the places specified in Item IV below. LCH SA has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The Proposed Rule change is being adopted by LCH SA to amend the risk framework of its CDSClear service to address certain LCH SA Model Validation Team recommendations issued originally from an independent regular annual review performed in 2020 related to the lookback period as part of the Spread Margin calculation, in particular a request to introduce a fixed size of the lookback period to avoid dilution risk which may arise in an ever growing lookback period if only mild scenarios are added and the average over an ever growing number of worst case scenarios is progressively trending downwards. LCH SA is also proposing to amend the stress scenario definitions to ensure all scenarios are plausible. This stress scenario change is expected to lead to a significant decrease in the Default Fund as most existing scenarios are shown to exceed

⁴ The Proposed Rule Change was already approved by the French competent authorities and Emir College under the procedure for EMIR Article 49 ([ESMA91-1505572268-4323 Final Report on EMIR 3 RTS model validations](#)) and also rule certified with the CFTC ([rules02252639859.pdf](#))

the once-in-thirty-year event threshold defined in the LCH SA Financial Risk Adequacy Policy⁵, therefore leading to a currently overconservative Default Fund. LCH SA will still meet or exceed the 99.7% coverage target for all members and will still be able to withstand the default of the two simultaneous defaults of the largest member groups under extreme but plausible market conditions. To effectuate these changes, LCH SA is proposing to amend its Margin Guide and its Stress Guide to accommodate those proposed changes. LCH SA is also proposing to restructure and reorganize the contents in each document to conform with a common template adopted by LSEG entities.⁶ This common template aims to make it easier for model validation teams to review all models across LSEG.

Specifically, LCH SA is proposing to modify the Spread Margin calculation to:

- reduce the size of the lookback period;
- reduce the weight given to the current volatility when rescaling historical returns;
- change the risk measure for the spread margin floor to be a VaR;
- consider profit and loss (“P&L”) over five days in each scenario of the spread margin; and
- adjust historical returns from 2007 to make them more relevant to current market regime.

⁵ See Exchange Act Release No. 104051 (Sept. 25, 2025), 90 FR 47001 (Sept. 30, 2025) (SR-LCH SA-2025-007), which approved the LCH SA Financial Risk Adequacy Policy.

⁶ LCH SA is a wholly owned subsidiary of LCH Group Holdings Limited which is majority owned by London Stock Exchange Group plc (LSEG), and therefore LCH SA is part of the LSEG group.

LCH SA is also proposing to modify the stress scenario definitions to ensure all scenarios are plausible.

LCH SA has determined that LCH SA's CDS Clearing Rules currently appropriately describe the Proposed Rule Change and, therefore, no change in the legal documentation is necessary. However, to accommodate those proposed changes, LCH SA is proposing to amend the Margin Guide and the Stress Guide as follows.

a. The Margin Guide

LCH SA is proposing to amend the Margin Guide to incorporate changes related to the Spread Margin to address the dilution risk mentioned earlier in the document, and replace the ever-growing lookback period by one with a fixed size. The lookback will always be composed of a stressed period and a 10-year rolling window. This stressed period is July 2007 to June 2010 in the current proposal but would be reviewed every year as part of the annual model validation. To anticipate the potential disappearance of significant dates, the proposed changes are also accompanied by a new annual test which would assess the impact on the spread margin of removing the oldest year of the 10-year rolling window. LCH SA is proposing to make other clarifying and conforming changes as part of the transfer to the new LSEG template. The proposed changes to the Risk Framework are as follows:

- Section 4.7.4 introduces the concept of a 10-year rolling lookback window, joined with a fixed three-year period also included in the lookback, as well as the treatment applied to historical data from 2007, covering two of the five changes listed above in impacting the Spread Margin, namely reduce the size of the lookback and adjust historical returns from 2007 to make them more

relevant to the current market regime. The proposed change in the lookback period would apply to both the scaled and unscaled model, in order to ensure that the sample does not grow over time.

- LCH SA proposes to update the 10-year rolling window daily, with one day from the previous 10 years dropping and the most recent day being added. This addresses the dilution risk originally flagged by the model validation team while recognizing the regime change observed during the period.
- Section 5.2.4.2 replaces the Expected Shortfall measure by a VaR measure for the Spread Margin floor using unscaled returns, as part of the Proposed Rule Change. In other words, the core spread margin calculation that is using volatility scaled returns is still using an Expected Shortfall measure, but the Spread Margin floor is moving from Expected Shortfall to VaR. As a consequence, the Spread Margin will move from being the max between an Expected Shortfall using volatility scaled returns and an Expected Shortfall using unscaled returns to being the max between an Expected Shortfall using volatility scaled returns and a VaR using unscaled returns. This simplifies the floor, ensures the main model is driving the margin more often, and aligns with general market practice for a regulatory floor.
- Spread margin scenarios currently retain the worst end of day point over the 5-day period of the calculation. Section 5.2.4.1.5 shows a P&L calculated between business date and business date plus five, reflecting the fact that the P&L will now be calculated as at the five-day P&L. This significantly reduces the complexity of the calculations and therefore helps speed up the

margin calculations, so that CDSClear can confirm within the regulatory timeframe whether a trade sent for clearing is accepted or rejected, as required by EU MiFIR⁷ and U.S. CFTC⁸ regulations. This change allows us to calculate only one P&L per scenario of the Expected Shortfall, instead of calculating five P&Ls and taking the worst, which cuts down calculation time with a minimal impact on the final margin.

- Section 5.2.4.1.1 replaces the 50% weight given to the current volatility with a 25% weight when rescaling returns before applying them to create simulated spread scenarios, as part of the Proposed Rule Change. This means that after having divided past returns by the volatility observed on that past date to normalize the return, it is now multiplied by a value equal to the sum of 25% of the current volatility and 75% of the volatility on the past date corresponding to the original return, instead of having both weights set to 50%. This feature helps improve the procyclicality risk profile of the Spread Margin as it gives less weight to the most recent volatility and therefore decreases the impact renewed market volatility may have on the margins.
- Section 5.2.4.1.6 amends the logic for applying jump to default calculations ahead of an option exercise date, such that defaults are assumed to happen

⁷ See Article 29 of Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments (MiFIR) and amending Regulation (EU) No 648/2012 requiring authorized CCPs to establish effective systems, procedures and arrangements to ensure that cleared derivatives transactions are submitted and accepted for clearing on a straight-through processing (“STP”).

⁸ See 17 CFR 39.12(b)(7)(ii) requiring a DCO to have rules that provide that the DCO will accept or reject for clearing as quickly after execution as would be technologically practicable if fully automated systems were used, all contracts that are listed for clearing by the DCO and are executed competitively on or subject to the rules of a DCM or SEF.

after the credit spreads have moved and the exercise decision has been taken.

This simplification relates to the change towards a five-day P&L, which leads to the short charge calculation now only occurring on day five of each scenario, instead of happening for each day of each scenario.

The remainder of the Risk Framework described in the Margin Guide does not change the calculations. Some sections of the previous version of the document have been copied as is, commented as “No Change” in the Excel chart filed as Exhibit 3 that maps the sections of the previous version of the Margin Guide to the sections of the new version, while others have been rewritten for clarity. In this regard:

- A new Section “Executive Summary” is providing a high-level view of the CDSClear Risk Framework to comply with the LSEG model documentation template requirements.
- A new Section 1 is providing more context on the use and purpose of the model to comply with the LSEG model documentation template requirements.
- A new Section 2 is providing details of the model limitations and compensating controls. Most were already existing and documented elsewhere, and only one new limitation is introduced related to the control put in place to monitor the potential removal of key historical events from the 10Y rolling lookback window used in the spread margin calculations.
- Old Section 3.1 giving a summary of multiple margins has been removed to now separate margins into different sections to comply with the LSEG model documentation template requirements.

- Section 4.7.2 is largely unchanged from the previous Section 2.3.1, with a minor update to incorporate the description of structural and contractual subordination for credit default swaps.
- Section 4.1 is based on the previous Section 2.3.4 but expands to give more details of the market data processing upstream of the margin calculations, in order to satisfy the requirements of the new LSEG template.
- Section 5 introduces margins that were missing from the summary table (Contingency Variation Margin a.k.a. CVM, Legal Entity Identifier margin a.k.a. LEI, Net Capital Ratio, Credit Quality Margin and Default Fund Additional Margin a.k.a. DFAM were missing).
- Section 5.1.4.1 rewrites the presentation of the different combinations of the International Swaps and Derivatives Association (“ISDA”) definitions and seniorities considered in the jump to default scenarios, summarizing them all in a table, without changing the calculation.
- Sections 5.1.4.3 and 5.2.4.3.5 clarify the treatment of jump to default risk close to maturity dates to cover the risk that bought protection via a CDS contract, index or single name, would not be applicable for credit events happening after the maturity date of the contract, not introducing any change in the calculation.
- Section 5.2.4.1.7.1 replaces the multiple tables of combinations of defaults and recovery rates from the previous section 3.5.1 into a single condensed table to ease the reading, not introducing any change in the calculation.

- Section 5.2.4.3.4 is modifying the split of Spread Margin and Short Charge, without affecting the sum of both margins considered together. Previous Section 3.5.6 was considering Spread Margin as an Expected Shortfall calculation of its own, and the Short Charge as a difference between (a) an Expected Shortfall considering continuous market moves and jump to default risk jointly and (b) the Spread Margin. This makes it difficult to decompose the margins as the worst scenarios selected in (a) are not necessarily the same as the scenarios selected in (b). To remedy this, the new Margin Guide will still consider an Expected Shortfall covering market moves and jump to default risk, but defines the Spread Margin as the part of the P&L attributable to the market moves only, while the Short Charge represents the incremental P&L attributable to jump to default risk within the same Expected Shortfall, on the same worst scenarios. Also, Spread Margin and Short Charge are now described together in one section to better explain the interplay between the credit spread risk and jump to default risk described in this paragraph.
- Section 5.4.4 is merging together the calculation for all types of products instead of separating them into different subsection to emphasize that the calculation logic remains the same.
- Section 5.5.4.1.1 simplifies the presentation of the Wrong Way Risk shock applied and removes the distinction between systemic and non-systemic entities from the definitions as the treatment is the same for both in the margin calculations.

- Section 5.5.4.1.5. clarifies how the correlation used in the wrong way risk calculation and the latest state of implementation of the most recent change to the wrong way risk model in a footnote.
- Sections 5.6.4.1. and 5.6.4.2. give more details about the purpose of each scenario defined in the Vega margin calculation.
- Section 5.7 describes the exact same calculation of Liquidity charge that was previously documented but now adds the clarifying sections required by the LSEG model documentation template such as a model overview and a description of the model inputs and outputs. It also introduces the official name of the relevant credit indices instead of their commonly used names.
- Section 5.8 describes the same calculation of Accrued Coupon Liquidation Risk margin that was previously documented with additional changes needed to accommodate the LSEG model documentation template.
- Section 5.9 describes the same calculation of Credit event margin that was previously documented with additional changes needed to accommodate the LSEG model documentation template.
- Section 5.10, which is based on Section 7 of the previous Margin Guide, clarifies the use case for Contingency Variation Margin (CVM). The margin is meant to cover the risk that Variation Margin (VM) may not be paid at the next VM call, and calls for extra collateral every time the expected VM call would be potentially larger than a single day of price moves. This can happen:
 - For new trades, should the upfront be far from the current market value, the initial VM payment can be large; or

- When payment systems are closed. This is currently only relevant for USD, as LCH SA is open for clearing on days when U.S. banks are closed. In such a case, the VM that would have been expected to be paid in the morning is instead converted in Euros and called as CVM, to be released the next day when the USD VM can settle again.
- Section 5.11 describes the same calculation of Legal Entity Identifier margin that was previously documented with additional changes needed to accommodate the LSEG model documentation template.
- Section 5.12 describes the same calculation of Net Capital Ratio margin that was previously documented with additional changes needed to accommodate the LSEG model documentation template.
- Sections 5.13 and 5.14 introduce margins that were covered in Sections 3.1 and 3.2 of the Stress Guide (respectively Credit Quality Margin and DFAM), without changing the calculations, to make it clear that these are charged as part of the IM like all other margins described in the Margin Guide. Section 5.14 however changes the order in which the calculation steps are presented to enhance readability.
- Section 5.15 is based on previous Section 5 but removes sections on coupon and upfront cashflows which are independent from the risk model.
- Sections 6, 7 and 8 are generic sections introduced to comply with the LSEG template requirements.

b. The Stress Guide

LCH SA is proposing to amend the Stress Guide to reflect the proposed changes to the definition of stress scenarios. Some non-substantive clarifications have also been proposed, at the request of the Model Validation Team or as part of the transfer to the new LSEG template. The proposed changes in the Stress Guide are as follows:

- Currently, the set of stress test scenarios have an assumption of an extended holding period of, at a minimum, five days, but this varies from one scenario to the next. As proposed, the newly renumbered Section 5.1.1.1 would clarify that the holding period considered in the calibration of stress scenarios is set to seven days across all scenarios. LCH SA believes this change is necessary to bring consistency between stress scenarios and make them more comparable to each other.
- Section 5.1.4 is the main change compared to the previous version, as it discards most of the old scenarios and introduces the new ones:
 - Currently, the listed scenarios, such as those calibrated around Lehman Brothers' 2008 collapse or Black Monday, do not satisfy the definition of plausibility as described in the LCH Financial Risk Adequacy Policy because of multipliers applied to the historical shocks. As such, the proposed historical scenarios would be chosen as plausible based on a defined set of consistent criteria across all scenarios such that the worst historical stress can be captured consistently across multiple periods, but without adding arbitrary multipliers on top of historical moves which would push them beyond the plausibility limit. One

criterion is used for directional scenarios and another for decorrelation scenarios, to identify the most significant seven-day periods through history for both kinds of events. This means historical moves such as the ones observed around the default of Lehman Brothers or during the trigger of the Covid crisis are still captured and reflected in the new set of historical scenarios.

- Currently, theoretical scenarios are based on expert judgment, with values which were deemed conservative enough to protect the CCP but without clean quantification of how plausible the scenarios were. As proposed, theoretical scenarios would rely on a multivariate distribution calibrated on historical data to generate extreme but plausible scenarios quantified as once-in-30 years events, in line with LCH policies. The calibrated distribution is used to generate sample joint returns across risk factors, which are then sorted based on criteria representing key trading strategies to identify the most extreme draws in the sample for each risk profile.
- Scenarios for implied volatilities would keep the same calibration but would be considered jointly with spread moves to better capture the cross-effect of both risk factors on the option price.
- Section 5.1.4.2 aligns the handling of option exercise with regular margins, assuming market moves happen first, then exercise decisions are reflected in the calculation, and then the impact of defaulting entities is considered.

The rest of the CDSClear risk framework described in the Stress Guide does not change. Some sections of the previous version of the document have been copied as is, commented as “No Change” in the chart that maps the sections of the previous version of the Stress Guide to the sections of the new version, while others have been rewritten for clarity. In this regard:

- A new section “Executive Summary” is providing a high-level view of the CDSClear Stress Risk Framework to comply with the LSEG model documentation template requirements;
- A new Section 1 is providing more context on the use and purpose of the model to comply with the LSEG model documentation template requirements;
- A new Section 2 is providing information on the model limitations and compensating controls to comply with the LSEG model documentation template requirements;
- A new Section 3 is justifying the modelling approach to comply with the LSEG model documentation template requirements;
- A new Section 4 is describing the modelling data to comply with the LSEG model documentation template requirements;
- Section 5.1.1.2 summarizes the definition of the Default Fund size in a more condensed manner, aligned with the LSEG template, without introducing any change to the calculation.

Section 5.1.4.4 rewrites the logic of the stressed Short Charge in the manner of the Short Charge in the Margin Guide, in particular introducing tables to more clearly summarize the combinations of ISDA definitions and seniorities that can default together

and to summarize the recovery rates used in the Net Short Exposure calculations, leading to the corresponding deletions in Section 5.1.4.2.4 to avoid duplication. This section therefore replaces the old Section 2.4.

Although the proposed changes to the Spread Margin are expected to have a minimal impact, the changes to ensure all stress scenarios used to size the Default Fund are plausible is expected to have a noticeable impact, measured as a 41% decrease on average over the 12 month period leading to March 2026, with the minimum decrease measured at 32% and maximum decrease measured at 44%. As noted previously, this will not prevent LCH SA from being able to withstand the default of the two simultaneous defaults of the largest member groups under extreme but plausible market conditions. In terms of distribution of the impact across clearing members, all clearing members not triggering the default fund contribution floor will see a decrease in their Default Fund Contribution requirement of the same percentage as the allocation key is based on initial margin which is only marginally changing. This means that amongst members not triggering the default fund contribution floor the larger clearing members currently contributing larger euro amounts towards the Default Fund will see a larger euro amount of money credit to them when the changes are implemented, with the largest decrease in euros across the period equal to 605 million euros for the largest member. The smallest members who were subject to a default fund contribution floor set to 10 million euros would still be subject to the same floor and would therefore not see any change in their contribution amounts. In other words, all members would see the same relative impact on their contribution, except if their contribution is small enough that it is floored to 10 million euros.

2. Statutory Basis

LCH SA has determined that the Proposed Rule Change is consistent with the requirements of Section 17A of the Act⁹ and regulations thereunder applicable to it, including Commission Rule 17ad-22(e).¹⁰ In particular, Section 17A(b)(3)(F) of the Act requires, *inter alia*, that the rules of a clearing agency be designed to “promote the prompt and accurate clearance and settlement of . . . derivatives agreements, contracts, and transactions”.¹¹ Through the proposed change toward a reduced lookback window and a five-day P&L, LCH SA is simplifying the margin calculations without a significant impact on the margin coverage expecting that this should promote the prompt and accurate clearance and settlement of the CDSClear instruments in accordance with the requirements of Section 17A(b)(3)(F) of the Act.¹²

Rule 17ad-22(e)(6)(i) requires a covered clearing agency to establish, implement, maintain, and enforce written policies and procedures reasonably designed, as applicable, to cover its credit exposures to its participants by establishing a risk-based 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.¹³ LCH SA believes that the Proposed Rule Change would enhance LCH SA’s risk-based margin system by improving the calculations with a revised volatility scaling which would limit procyclicality and a reduced lookback window decreasing the dilution of stressed periods

⁹ 15 U.S.C. 78q-1.

¹⁰ 17 CFR 240.17ad-22.

¹¹ 15 U.S.C. 78q-1(b)(3)(F).

¹² *Id.*

¹³ 17 CFR 240.17ad-22(e)(6)(i).

and continuing to produce margin levels commensurate with the risks as illustrated by the back-testing performed on the new proposed model, which is fully consistent with the requirements of Rule 17ad-22(e)(6)(i).¹⁴

Rule 17ad-22(e)(4)¹⁵ requires LCH SA 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, among other requirements. LCH SA believes that the proposed changes that would apply with the new risk model would continue to provide sufficient margin requirements to cover its credit exposure to its clearing members from clearing such contracts, consistent with the requirements of Rule 17ad-22(e)(4)¹⁶.

Rule 17ad-22(e)(4)(vi)(B) and (C) requires LCH SA 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 testing the sufficiency of its total financial resources available to meet the minimum financial resource requirements by, among other things, conducting a comprehensive analysis on at least a monthly basis of the existing stress testing scenarios, models, and underlying parameters and assumptions; and conducting a comprehensive analysis of stress testing scenarios, models, and underlying parameters and assumptions more frequently than monthly when the products cleared or markets served display high volatility or become less liquid, or when the size or concentration of positions held by the covered clearing agency's

¹⁴ *Id.*

¹⁵ 17 CFR 240.17ad-22(e)(4).

¹⁶ *Id.*

participants increases significantly.¹⁷ The Margin Guide and Stress Guide, including the proposed changes, interact with and remain subject to the Financial Resource Adequacy Policy (“FRAP”) that is part of its governance framework.¹⁸ The FRAP contemplates monthly reverse stress testing, and less than monthly under certain conditions, that is consistent with the comprehensive analysis requirement of Rule 17ad-22(e)(4)(vi)(B) and (C).¹⁹

Rule 17ad-22(e)(3)²⁰ requires LCH SA 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. By adopting the new appropriate LSEG template in accordance with the Group requirements and by also addressing the LCH SA Model Validation Team recommendations for enhancing its risk framework and meeting the relevant quality criteria in accordance with the existing Model Validation Policy and procedure, the Proposed Rule Change remains fully consistent with the requirements of Rule 17ad-22(e)(3)²¹.

Rule 17ad-22(b)(3) requires, in relevant part, a clearing agency for security-based swaps to establish, implement, maintain and enforce written policies and procedures reasonably designed to maintain financial resources “sufficient to withstand, at a minimum, a default by the two participant families to which it has the largest exposures in extreme

¹⁷ 17 CFR 240.17ad-22(e)(4)(vi)(B) and (C).

¹⁸ See *supra* note 3.

¹⁹ 17 CFR 240.17ad-22(e)(4)(vi)(B) and (C).

²⁰ 17 CFR 240.17ad-22(e)(3).

²¹ *Id.*

but plausible market conditions.”²² As discussed above, LCH SA is modifying the stress scenarios used to size the default fund to ensure they remain plausible. In particular, the usage of a quantitative approach to build market data shocks targeting the once in 30 years plausibility limit in line with LCH policies provide a clear procedure to maintain financial resources sufficient to withstand defaults in extreme but plausible market conditions. The actual sizing of the Default Fund itself does not change, such that LCH SA is still covering the default of two participant families to which it has the largest exposures.

For all the reasons stated above, LCH SA believes that the Proposed Rule Change is consistent with the requirements of prompt and accurate clearance and settlement of securities transactions in Section 17(A)(b)(3)(F)²³ of the Act, the requirements of a risk-based margin system in Rule 17ad-22(e)(6)(i)²⁴ and of a sound risk management framework in Rule 17ad-22(e)(3)²⁵ with also the monitoring and management of the credit exposures to participants in Rule 17ad-22(e)(4),²⁶ as well as with the requirements of 17ad-22(b)(3).²⁷

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.²⁸ LCH SA does not believe that the proposed rule change would

²² 17 CFR 240.17ad-22(b)(3).

²³ 15 U.S.C. 78q-1(b)(3)(F).

²⁴ 17 CFR 240.17ad-22(e)(6)(i).

²⁵ 17 CFR 240.17ad-22(e)(3).

²⁶ 17 CFR 240.17ad-22(e)(4).

²⁷ 17 CFR 240.17ad-22(b)(3).

²⁸ 15 U.S.C. 78q-1(b)(3)(I).

have any impact, impose burdens on competition that are not necessary or appropriate in furtherance of the purposes of the Act. Indeed, all clearing members would see the same relative decrease in their default fund contribution so that all clearing participants are treated equally, except if their default fund contribution is small enough that it is subject to the 10 million euros floor in which case the decrease could be smaller or even nil. The Proposed Rule Change was discussed with the current Clearing Members and would not affect their ability or of other market participants generally to engage in cleared transactions or to access clearing services. The Proposed Rule Change will have no effect on the open access model maintained by LCH SA.

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 were not and are not intended to be solicited with respect to the Proposed Rule Change and none have been received by LCH SA.

III. Date of Effectiveness of the Proposed Rule Change

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, security-based swap submission, or advance notice 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 e-mail to rule-comments@sec.gov.

Please include File Number SR-LCH SA-2026-001 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-LCH SA-2026-001. This file number should be included on the subject line if e-mail 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 filing will be available for inspection and copying at the principal office of LCH SA and on LCH SA's website at <http://www.lch.com/resources/rules-and-regulations/proposed-rule-changes-0>. Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold

entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to File Number SR-LCH SA-2026-001 and should be submitted on or before [insert date 21 days from publication in the Federal Register]. For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁹

Secretary

²⁹ 17 C.F.R. § 200.30-3(a)(12).

EXHIBIT 3 – Excel chart describing the format changes made to the LCH SA CDSClear methodology documents under the new LSEG template

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EXHIBIT 5.1 - LCH SA CDSClear Margin Reference Guide (Version 3.14 vs new LSEG Template)

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EXHIBIT 5.2 – LCH SA CDSClear Default Fund Reference Guide (Version 1.9 vs new LSEG Template)

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