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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act [17] and paragraph (f) of Rule 19b–4 thereunder.[18] At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

## IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

*Electronic Comments*

- Use the Commission's internet comment form (*http://www.sec.gov/rules/sro.shtml*); or
- Send an email to *rule-comments@sec.gov*. Please include File Number SR–CboeEDGX–2018–036 on the subject line.

*Paper Comments*

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

All submissions should refer to File Number SR–CboeEDGX–2018–036. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's internet website (*http://www.sec.gov/rules/sro.shtml*). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of this filing will also be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR–CboeEDGX–2018–036 and should be submitted on or before September 26, 2018.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[19]

**Eduardo A. Aleman,**

*Assistant Secretary.*

[FR Doc. 2018–19238 Filed 9–4–18; 8:45 am]

**BILLING CODE 8011–01–P**

[17] 15 U.S.C. 78s(b)(3)(A).

[18] 17 CFR 240.19b–4(f).

[19] 17 CFR 200.30–3(a)(12).

## SECURITIES AND EXCHANGE COMMISSION

**[Release No. 34–83983; File No. SR–LCH SA–2018–004]**

## Self-Regulatory Organizations; LCH SA; Notice of Filing of Proposed Rule Change Relating to Implementation of Electronic Exercise Platform

August 29, 2018.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'') [1] and Rule 19b–4 thereunder [2] notice is hereby given that on August 24, 2018, Banque Centrale de Compensation, which conducts business under the name LCH SA (''LCH SA''), filed with the Securities and Exchange Commission (''Commission'') the proposed rule change described in Items I, II and III below, which Items have been prepared primarily by LCH SA. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

Banque Centrale de Compensation, which conducts business under the name LCH SA (''LCH SA''), is proposing to amend its (i) CDS Clearing Rule Book (''Rule Book''), (ii) CDS Clearing Supplement (''Supplement'') and (iii) CDS Clearing Procedures (''Procedures'') to incorporate new terms and to make conforming, clarifying and clean-up changes to implement a new electronic exercise platform (''EEP'') for the exercise of options by Clearing Members and their Clients. The text of the proposed rule change has been annexed as Exhibit 5.[3]

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

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

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

1. Purpose

LCH SA is proposing to create an EEP for credit index options or swaptions to capture and support swaption exercise decisions by Clearing Members and Clients. Currently, the exercise of swaptions is effected through a manual bilateral notification process. The swaption exercise decisions are communicated bilaterally via email from the swaption buyer to the swaption seller of a matched pair transaction created by LCH SA for the purpose of the exercise or abandonment of the swaption transaction. The swaption buyer must then inform LCH SA that the exercise notice has been successfully delivered. LCH SA then manually effects the exercise decisions accordingly and updates its risk system.

The proposed EEP will provide Clearing Members and their Clients with an electronic process that will reduce the operational risk caused by manual exercise and provide an effective system to monitor and manage the exercise of swaptions. The proposed rule change will require Clearing Members and Clients to use the EEP system to initiate the exercise of swaptions and will enable Clients to directly exercise swaptions through delegation by Clearing Members and receive reports. The EEP system will capture the exercise decisions in real time and notify the relevant swaptions sellers in real time. In addition, the EEP system will provide validation checks and exercise decision-making assistance and support, and will facilitate and support an anonymous exercise decision process

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.

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

that the current manual process is not able to achieve.

In connection with the launch of the EEP, LCH SA proposes to modify its Rule Book, Supplement and Procedures to implement the EEP and manage the operational risk arising from the EEP while improving the clarity of the Rulebook, Supplement and Procedures.

(i) CDS Clearing Rule Book

The Rule Book will be amended by adding new defined terms and provisions to account for the ability of Clients to directly exercise swaptions utilizing the EEP through delegation by Clearing Members. The details of the mechanism for Clients to exercise swaptions via delegation by Clearing Members will be implemented through amendments to the Supplement and Procedures as described below. With respect to the Rule Book, LCH SA proposes to amend Article 1.2.10.3 with respect to the liability of LCH SA to account for the ability of Clients to exercise swaptions utilizing the EEP as an Exercise Delegation Beneficiary. Article 1.2.10.3 will be amended to add new clause (xxii) to the effect that LCH SA will not be liable for any Damage claimed by a clearing Member based on the failure of an Exercise Delegation Beneficiary to perform its obligations in relation to a delegation by a Clearing Member of the power to Exercise or Abandon Exercise Cleared Transactions or in connection with or arising from the Exercise or Abandonment (or attempt thereof) of an Exercise Cleared Transaction by such exercise Delegation Beneficiary. In addition, new clause (xxiii) will be added to Article 1.2.10.3 to provide that LCH SA will not be liable for any improper use or disclosure by a third party, including a Client, of information made available on a Client Portal Account further to a defined process of requesting LCH SA to make certain information available on the Client Portal Account in accordance with the Procedures (such process is referred to as ''Feeding Request'' in the Procedures).

Further, LCH SA proposes to add new provisions to Title V CDS CCM Client Clearing Services and Title VI CDS FCM Client Clearing to provide for exercise of swaptions by Clients. Article 5.1.1.2(vii) and Article 6.1.1.2(vii) will be added to require a CCM or an FCM to ensure that a CCM Client or FCM Client, as applicable, has duly created a Client Portal Account before granting an Exercise Delegation to such CCM Client or FCM Client. Article 5.1.1.3(xx) and 6.1.1.3(xvii) will be added to require a CCM or an FCM to delegate sufficient powers to a CCM Client or a FCM Client, as applicable, in order for the CCM Client or FCM Client, as applicable, to be duly authorized to Exercise or Abandon Exercise Cleared Transactions; in addition, a CCM Client or a FCM Client, as applicable, delegated and designated by a Clearing Member as being entitled to Exercise and Abandon Exercise Cleared Transactions on its behalf is required to Exercise or Abandon only through the relevant Client Portal Account unless there is an EEP Failure Event (as described below).

In connection with the above, LCH SA also proposes to add new provisions to Title I General Provisions & Legal Framework of the Rule Book. First, new defined terms ''Abandon'', ''Abandonment'', ''Client Portal Account'', ''Delegating Clearing Member'', ''Exercise Delegation'', ''Exercise Delegation Beneficiary'', and ''Feeding Request'' will be added and cross-reference the meanings given to these terms in Part C of the Supplement or Section 5 of the Procedures, as applicable.

The amendments to the CDS Clearing Rule Book also contain typographical corrections and similar technical corrections and clarifications as well as various conforming references to the new or revised defined terms. Finally, corresponding changes to provision numbering throughout the CDS Clearing Rule Book have been made as necessary.

(ii) CDS Clearing Supplement

LCH SA also proposes to modify the Supplement to incorporate terms for implementing the new EEP, to remove inapplicable provisions after implementation of the EEP, and to make certain conforming and clean-up changes to improve clarity of the Supplement.

Section 1 General Provisions of the Supplement will be amended to add certain defined terms and new provisions to implement the EEP and to make certain clean-up changes. Section 1.2 will be amended by adding the following new defined terms.

The terms ''Abandon'' and ''Abandonment'' will be added to refer to the abandonment of an Exercise Cleared Transaction and the delivery of a valid Abandonment Notice by a Swaption Buyer (including delivery by a Client designated by the related Clearing Member as being entitled to Exercise and Abandon Exercise Cleared Transactions on its behalf) in respect of the Exercise Cleared Transactions of an Exercise Matched Pair.

The term ''CCM Client Communications Failure Event'' will be added to cross reference the definition of CCM Client Communications Failure Event set out in the Mandatory Provisions in Appendix VIII to the Supplement.

The term ''Clearing Member Communications Failure Event'' will be added to cross reference the definition of Clearing Member Communications Failure Event set out at Section 6.10 of the Supplement.

The existing term ''Clearing Member Notice'' will be amended to include a Swaption Clearing Member Notice or a Swaption Restructuring Clearing Member Notice.

The term ''Clearing Member Portal Account'' will be added to refer to the account of a Clearing Member established in the LCH Portal for the purposes of, among other things, the Exercise and Abandon of Exercise Cleared Transactions.

The term ''Client Portal Account'' and ''Client Portal Account Number'' will be added to refer to the account of a Client established in the LCH Portal for the purposes of, among other things, the Exercise and Abandonment of Exercise Cleared Transactions, and to refer to the unique account number assigned by LCH SA to a Client Portal Account.

The term ''EEP Controls'' will be added to cross reference the definition of EEP Controls set out at Section 6.3 of the Supplement.

The terms ''EEP Failure Event'', ''EEP Failure Event Time'' and ''EEP Resolution Time'' and ''Electronic Exercise Platform'' or ''EEP'' will be added to refer to the occurrence of LCH SA becoming aware that the EEP is or will be unavailable for the submission or receipt of Option Intents, the time at which the relevant EEP Failure Event occurred, the time at which the relevant EEP Failure Event is deemed to have been resolved, and the platform made available by LCH SA for the Exercise and Abandon of Exercise Cleared Transaction through the submission of Option Intents.

The term ''Exercise'' will be amended by making conforming changes to include deemed delivery of a valid Exercise Notice pursuant to new Section 6.3 (Exercise and Abandonment by way of EEP) or new Section 6.4 (Delegation by Clearing Members to Client).

The term ''Exercise Cleared Transaction'' and ''Swaption Restructuring Cleared Transaction'' will be amended by making a clean-up change to replace the word ''Clause'' with the word ''Section''.

The term ''Exercise Delegation Beneficiary'' will be added to refer to the Client of a Clearing Member designated by such Clearing Member as being entitled to Exercise and Abandon

Exercise Cleared Transactions on such Clearing Member's behalf.

The term ''Force Submission'' will be added to cross reference the definition of Force Submission set out at Section 5.19.2 of the Procedures.

The term ''LCH Portal'' will be added to cross reference the definition of LCH Portal set out at Section 5.3 of the Procedures.

The term ''Option Intent'' will be added to refer to the election of Matched Buyer (or its Exercise Delegation Beneficiary as applicable) in the EEP to Exercise or Abandon an Exercise Cleared Transaction.

The term ''Protected Exercise Matched Pair Report'' will be added to cross reference the definition of Protected Exercise Matched Pair Report set out at Section 6.1 of the Supplement.

The term ''Submission Time'' will be added to cross reference the definition of Submission Time set out at Section 6.3 of the Supplement.

The terms ''Swaption CCM Client Notice'' and ''Swaption CCM Client Notice Deadline'' will be added to cross reference the notice and the deadline described in Mandatory Provision Section 5.5 regarding the duty to deliver a Swaption CCM Client Notice by the Swaption CCM Client Notice Deadline.

The terms ''Swaption Clearing Member Notice'' and ''Swaption Clearing Member Notice Deadline'' will be added to cross reference the notice and the deadline described in new Section 6.5(c) as a consequence of an EEP Failure Event.

The term ''Swaption Notice'' will be added to refer to either an Exercise Notice or an Abandonment Notice.

The terms ''Swaption Restructuring Clearing Member Notice'' and ''Swaption Restructuring Clearing member Notice Deadline'' will be added to cross reference the notice required to be delivered by a Clearing Member to LCH SA with respect to its delivery or receipt of any Credit Event Notice or Notice to Exercise Movement Option and the deadline described in new Section 5.7.

Finally, a new paragraph (c) will be added to Section 1.7 to provide that, notwithstanding an FCM Clearing Member acting as agent for the account of an FCM Client with respect to Index Swaption Cleared Transactions, an FCM Clearing member shall designate its FCM Client to Exercise or Abandon Exercise Cleared Transactions on its behalf as its Exercise Delegation Beneficiary in accordance with the terms of the Supplement.

Section 5 Restructuring will be amended to add new provisions to implement the EEP and to make certain clean-up and conforming changes that are not related to the implementation of EEP. Specifically, Section 5.1 will be amended to provide that if a CEN Triggering Period for a Subsequent Restructuring commences prior to the Expiration Date, any Swaption Restructuring Matched Pairs in respect of the First Restructuring shall also be Swaption Restructuring Matched Pairs in respect of the Subsequent Restructuring in order to better clarify this concept. Section 5.1(a) will be amended to add the word ''contact'' to clarify the term email address.

New Section 5.6 will be added to reinstate certain provisions that will be deleted from Section 8 of the Supplement that provide for the requirements of delivery of Credit Event Notices and Notices to Exercise Movement Option with respect to Restructuring Cleared Transactions in order to group provisions relating to restructuring that are unrelated to the implementation of EEP within the same section. Specifically, Section 5.6 reinstates that Credit Event Notices and Notices to Exercise Movement Option shall be delivered between Matched Buyer and Matched Seller of a Swaption Restructuring Matched Pair in accordance with the general rules relating to notices in the Supplement and the terms of the Swaption Restructuring Cleared Transaction. Such notices will be delivered in the delivering party's own name and as designee of LCH SA in respect of the other Swaption restructuring Cleared Transaction of the Swaption Restructuring Matched Pair.

New Section 5.7 will be added to reinstate certain provisions that will be deleted from Section 8 of the Supplement so that provisions regarding delivery and receipt of Swaption Restructuring Clearing Member Notices are addressed in the section governing restructuring. The moved provisions require each Clearing Member to notify LCH SA or provide a copy to LCH SA of any notices delivered or received by such Clearing Member consisting of a Swaption Restructuring Matched Pair, including any Credit Event Notices and Notices to Exercise Movement Option by no later than 5 p.m. on the last date on which such notice could validly be delivered. Such notices and deadline will be defined as ''Swaption Restructuring Clearing Member Notice'' and ''Swaption Restructuring Clearing Member Notice Deadline''. If LCH SA does not receive a Swaption Restructuring Clearing Member Notice on or prior to the relevant Swaption Restructuring Clearing Member Notice Deadline, LCH SA will not take any action in respect of the relevant Swaption Restructuring Matched Pair in respect of a Credit Event or Exercise Movement Option. Notwithstanding the fact that no Credit Event Notice or Notice to Exercise Movement Option has been received by LCH SA by the relevant Swaption Restructuring Clearing Member Notice Deadline, if LCH SA determines in its sole discretion that, such notice was in fact delivered or received directly by a Clearing Member and would have been effective, LCH SA shall use commercially reasonable efforts to give effect to the terms of such Credit Event Notice or Notice to Exercise Movement Option, as applicable. If LCH SA determines that it is not possible to give effect to the terms of any such Credit Event Notice or Notice to Exercise Movement Option, then Section 5.7 provides an amount payable between the Clearing Members and how such amount will be determined.

Section 6 Exercise Matched Pairs will be amended to add new provisions to implement the EEP and to make certain clean-up and conforming changes. Specifically, Section 6.1 will be amended to remove the requirement of LCH SA to notify the relevant Matched Buyer and Matched Seller comprised within each Exercise Matched Pair of the identity of each other; instead, the identity and the contact information of the Clearing Members within an Exercise Matched Pair will be provided by LCH SA to the relevant Matched Buyer and Matched Seller (and any Exercise Delegation Beneficiary thereof) in a report (defined as ''Protected Exercise Matched Pair Report''), the access to which will be restricted and the Clearing Members within an Exercise Matched Pair (and any applicable Exercise Delegation Beneficiaries) would be given access to the information in the report only upon occurrence of an EEP Failure Event. Section 6.2 will be amended by making conforming changes to delete the language regarding notification of relevant Clearing Members of Exercise Matched Pairs to account for the new process effected by EEP.

New Section 6.3 entitled Exercise and Abandonment by way of EEP will be added to provide for the manner of Exercise or Abandonment of Exercise Cleared Transactions. Specifically, Section 6.3 will provide that an Option Intent submitted by Matched Buyer (or its Exercise Delegation Beneficiary on its behalf, as applicable) through the EEP will constitute the delivery of a valid Exercise Notice or Abandonment Notice for the purposes of the Exercise Cleared Transactions if (a) the

Submission Time for such Option Intent is prior to 4:00 p.m. (London time) and (b) LCH SA has completed those steps necessary to make such Option Intent available for viewing in the EEP, including validation of the EEP Controls. ''Submission Time'' for an Option Intent will be the time, as recorded by LCH SA, as of which such Option Intent is submitted via the EEP by the relevant matched Buyer (or its Exercise Delegation Beneficiary on its behalf, if applicable) and ''EEP Controls'' will mean the controls specified in Section 5 of the Procedures with respect to the Option Intent. An Option Intent will become irrevocable by the Swaption Buyer as from the Submission Time.

New Section 6.4 entitled Delegation by Clearing Members to Clients will be added to provide for delegation of Exercise or Abandonment by Clearing Members to their Clients. Specifically, Section 6.4 will provide that, with respect to the Exercise and Abandonment of the Exercise Cleared Transactions of an Exercise Matched Pair which are Client Cleared Transactions, Clearing Members shall designate its relevant Client to act on its behalf and such designation will take effect as soon as reasonably practicable (but no later than five Business Days) following receipt by LCH SA of a duly completed and signed Exercise Delegation Form. The Client so designated will be the Exercise Delegation Beneficiary. The designation or delegation cannot be revoked. Where a Clearing Member designates its Client in accordance with new Section 6.4, any Option Intent submitted by the designated Client via its Client Portal Account in the EEP prior to 4:00 p.m. (London Time) on the Expiration Date will be deemed to constitute the delivery by Matched Buyer of a valid Exercise Notice or Abandonment Notice. Similarly, any Swaption Notices delivered by a designated Client will be interpreted as delivery by a Clearing Member.

New Section 6.5 entitled EEP failure and resolution will be added to address the circumstances where there is an EEP failure and subsequent resolution of such failure. Specifically, Section 6.5 will require LCH SA to notify Clearing Members and Exercise Delegation Beneficiaries of an EEP Failure Event (*i.e.,* the EEP is or will be unavailable for the submission or receipt of Option Intents) as soon as reasonably practicable and in any case within one hour after the occurrence of the EEP Failure Event. Following the occurrence of an EEP Failure Event, Clearing Members or their Exercise Delegation Beneficiaries, as applicable, will be authorized to access the information contained in the Protected Exercise Matched Pair Report in order to obtain the identity and contact information of the other Clearing Member or its Exercise Delegation Beneficiary within an Exercise Matched Pair. If the EEP Failure Event has been resolved and is no longer in effect, LCH SA is required to notify Clearing Members of such resolution and the time at which the EEP Failure Event is deemed to have been resolved (the ''EEP Resolution Time''), so submission of Option Intents may resume on the EEP.

Section 6.5 will further provide that, if an EEP Failure Event has occurred and is continuing, delivery of Swaption Notices will fall back to the existing manual delivery process and if a Clearing Member that is a Matched Buyer has designated its Client as its Exercise Delegation Beneficiary, the Client will be entitled to send a Swaption Notice to the Matched Seller, using the notices details provided by LCH SA in the Protected Exercise Matched Pair Report. Similarly, if a Clearing Member that is a Matched Seller has designated its Client as its Exercise Delegation Beneficiary, then Swaption Notices will be sent by the Matched Buyer (or its Client as its Exercise Delegation Beneficiary, as applicable) to the Client of the Clearing Member who is the Matched Seller.

In addition, Section 6.5 will provide for oral, including telephonic, delivery of Abandonment Notices, followed by written confirmation from the Matched Buyer (or its Exercise Delegation Beneficiary, as applicable) to the Matched Seller (or its Exercise Delegation Beneficiary, as applicable) within one Transaction Business Day. For the avoidance of doubt, Section 6.5 will clarify that, any Swaption Notices delivered via the EEP prior the EEP Failure Event Time will be valid and not be affected by the EEP Failure Event; and any Swaption Notice delivered or purported to be delivered via the EEP at or following the EEP Failure Event Time but prior to the EEP Resolution Time will not be valid or effective.

Finally, Section 6.5 will provide that, as the case in today's manual exercise process, each Clearing Member is required to notify LCH SA or deliver a copy to LCH SA of any Swaption Notices delivered by such Clearing Member to another Clearing Member in an Exercise Matched Pair during an EEP Failure Event by no later than 5 p.m. (CET) on the Expiration Date. Such notice of delivery of such copy to LCH SA will be defined as a Swaption Clearing Member Notice. If a Clearing Member has designated its Client as its Exercise Delegation Beneficiary, then the Client may notify LCH SA or deliver a copy to LCH SA of any Swaption Notices delivered by such Client to another Clearing Member (or its Exercise Delegation Beneficiary, as applicable) in an Exercise Matched Pair while an EEP Failure Event is continuing.

New Section 6.6 entitled Abandonment of Exercise Cleared Transactions will be added to address Abandonment of Exercise Cleared Transactions. It will restate the first part of the existing Section 6.4 of the Supplement with certain adjustment to reflect that Abandonment of Exercise Cleared Transaction will not be done on the EEP and the Swaption Buyer will not deliver Abandonment Notices bilaterally to the Swaption Seller. If, on the Expiration Date, the Swaption Buyer elects to abandon the Exercise Cleared Transactions of the Exercise matched Pair, each Exercise Cleared Transaction shall be terminated in whole.

New Section 6.7 entitled Termination of Exercise Cleared Transactions will be added to address the circumstances under which Exercise Cleared Transactions will be terminated taking into account implementation of the EEP. Specifically, it will provide that LCH SA will terminate the Exercise Cleared Transactions of the relevant Exercised Matched Pair if no Option Intent is submitted using the EEP or, if there is an EEP Failure Event, LCH SA does not receive a Swaption Clearing Member Notice (or Swaption CCM Client Notice) from a Clearing Member or its Exercise Delegation Beneficiary on or prior to the deadline specified in Section 6.5 described above.

New Section 6.8 entitled Consequences of no Swaption Clearing Member Notice or Swaption CCM Client Notice being received by LCH SA will be added to address the consequences of no Swaption Clearing Member Notice being received by LCH SA by the Swaption Clearing Member Notice Deadline (or, in the case of a CCM Client Cleared Transaction, that no Swaption CCM Client Notice has been received by LCH SA in respect of an Exercise Notice by the Swaption CCM Client Notice Deadline). If there is an EEP Failure Event and such event is continuing, if LCH SA determines in its sole discretion that an Exercise Notice was in fact delivered by a Clearing Member (or its Client as the Exercise Delegation Beneficiary, as applicable) and would have been effective for the purposes of the Supplement, then LCH SA will use commercially reasonable efforts to give effect to the terms of the Exercise Notice

and the effect would be as though LCH SA had received a Swaption Clearing Member Notice by the Swaption Clearing Member Notice Deadline (or, in the case of a CCM Client Cleared Transaction, as though a Swaption CCM Client Notice has been received by LCH SA in respect of an Exercise Notice by the Swaption CCM Client Notice Deadline). If LCH SA determines that it is not possible to give effect to the terms of any such Exercise Notice, then the relevant Clearing Members (or their Exercise Delegation Beneficiaries, as applicable) will have rights against each other for settlement payment due two Transaction Business Days following the delivery of a notice that such amount is due and payable, as though they were a party to a bilateral credit default swap transaction on the terms of the relevant Underlying Index Transaction. LCH SA will not have any liability for any payment in respect of the Exercise Clearing Transactions or the ensuing bilateral credit default swap transaction.

New Section 6.10 entitled Clearing Member Communications Failure Event and CCM Client Communications Failure Event will be added to address Clearing Member and CCM Client communications failures. Specifically, new Section 6.10 will provide that, if a Clearing member or its Exercise Delegation Beneficiary experiences significant communications or information technology failure resulting in it being impossible or impracticable to use EEP (a ''Clearing Member Communications Failure Event''), such Clearing Member or its Exercise Delegation Beneficiary shall use the existing manual exercise process to delivery or receive any Exercise Notice or Abandonment Notice to and from LCH SA in accordance with the general provision regarding delivery of notices in Section 8 of the Supplement and not through the EEP. Similarly, if a CCM Client experiences a significant communications or information technology failure resulting in it being impossible or impracticable to use EEP (a ''CCM Client Communications Failure Event''), such CCM Client will, under Mandatory Provision 5.7, have the right to use the existing manual exercise process to deliver or receive any Exercise Notice or Abandonment Notice to and from LCH SA in accordance with the general provision regarding delivery of notices in Section 8 of the Supplement and not through the EEP.

If the Clearing Member (or Exercise Delegation Beneficiary, as applicable) affected by a Clearing Member Communications Failure Event is a Matched Buyer, upon receipt of a Swaption Notice delivered by such Clearing Member or its Exercise Delegation Beneficiary, as applicable, LCH SA shall submit an Option Intent in the EEP system on behalf of such Clearing Member or its Exercise Delegation Beneficiary. Provided that (a) the Submission Time for such Option Intent is prior to 4:00 p.m. (London time) and (b) LCH SA has completed those steps necessary to make such Option Intent available for viewing in the EEP, including validation of the EEP Controls, then such Option Intent shall be deemed to constitute the delivery of a valid Exercise Notice or Abandonment Notice. With respect to a Swaption Notice delivered pursuant to the preceding paragraph (or, in the case of a CCM Client Cleared Transaction pursuant to Mandatory Provision 5.7), LCH SA may determine in its sole discretion that it is not able to submit the relevant Option Intent in the system prior to the exercise deadline, in which case the affected Clearing Member or Exercise Delegation Beneficiary will be deemed not to have submitted an Option Intent and the relevant Exercise Cleared Transactions will be terminated. LCH SA may, in its sole discretion, elect to register the Exercise or Abandonment of an Exercise Cleared Transaction in an alternative internal system of LCH SA. If the Clearing Member (or Exercise Delegation Beneficiary, as applicable) affected by a Clearing Member Communications Failure Event or CCM Client Communications Failure Event is a Matched Seller, so long as such Clearing Member or Exercise Delegation Beneficiary notified LCH SA of occurrence of a Clearing Member Communications Failure Event or a CCM Client Communications Failure Event, then any Swaption Notices shall be delivered by LCH SA to such Clearing Member or Exercise Delegation Beneficiary (or, in respect of a CCM Client Cleared Transaction a Swaption Notice delivered by a CCM Client in accordance with Mandatory Provision 5.7), as soon as reasonably practicable in accordance with the general notice provision in Section 8 of the Supplement.

New Section 6.10 will further require a Clearing Member or Exercise Delegation Beneficiary affected by a Clearing Member Communications Failure Event (or, in respect of a CCM Client as Exercise Delegation Beneficiary, a CCM Client Communications Failure Event) to notify LCH SA of the occurrence of such event in the form set out in the Appendix of the Supplement and LCH SA will notify all Clearing Members and Exercise Delegation Beneficiaries accordingly. Similarly, a Clearing Member affected by a Clearing Member Communications Failure Event (or, in respect of a CCM Client as Exercise Delegation Beneficiary, a CCM Client Communications Failure Event) will be required to notify LCH SA as soon as reasonably practicable upon its ceasing to be subject to the Clearing Member Communications Failure Event (or, in respect of a CCM Client as Exercise Delegation Beneficiary, a CCM Client Communications Failure Event). After the notice of ceasing to be subject to a Clearing Member Communications Failure Event (or with respect to a CCM Client, a CCM Client Communications Failure Event), the requirement to effect Exercise or Abandonment through EEP will resume and apply and any Swaption Notice delivered or purported to be delivered thereafter by such Clearing Member or its Exercise Delegation Beneficiary (or CCM Client, as applicable) not via the EEP will not be valid or effective.

Finally, new Section 6.10(e) will require a Clearing Member subject to a Clearing Member Communications Failure Event (or, in respect of a CCM Client as Exercise Delegation Beneficiary, a CCM Client Communications Failure Event in accordance with Mandatory Provision 5.7) to use reasonable efforts to mitigate the operational impact on other Clearing Members and LCH SA of any Clearing Member Communications Failure Event (or, in respect of a CCM Client as Exercise Delegation Beneficiary, a CCM Client Communications Failure Event) and to cure such Clearing Member Communications Failure Event (or, in respect of a CCM Client as Exercise Delegation Beneficiary, a CCM Client Communications Failure Event) as soon as reasonably practicable and ensure that the circumstances giving rise to the relevant Clearing Member Communications Failure Event do not recur.

Section 7 Settlement will be amended to make certain clean-up and conforming changes in order to ensure consistency. Specifically, Section 7.2 will be amended to change the term ''Auction Settlement Date'' to ''Auction Final Price Determination Date'' in order to correct an inaccurate reference in the current version of the Supplement. The Auction Final Price Determination Date refers to the date on which the Auction is held to determine the Auction Final Price used to compute the Auction Settlement in respect of an Initial Single Name Cleared Transaction and is defined in the 2014 ISDA Credit Derivatives Definitions, which are incorporated by reference pursuant to

Section 1.1 of the Supplement. Since Section 7.2 is designed to provide for creation of an Initial Single Named Cleared Transactions for settlement purposes in respect of a Credit Event other than an M(M)R Restructuring in circumstances where the ISDA would have held the Auction to determine the Auction Final Price prior to the Expiration Date, therefore the initial reference to ''Auction Settlement Date'' should have been ''Auction Final Price Determination Date''. Additionally, Section 7.2(b)(ii) will be amended to state that the Auction Settlement Date in respect of an Initial Single Name Cleared Transaction shall be the later of (a) the Auction Settlement Date that would be determined in accordance with Section 6.3 of the 2014 ISDA Credit Derivatives Definitions and (b) the first Transaction Business Day following the Expiration Date. Additionally, Section 7.3(b)(ii) will be amended to clarify that a valid Credit Event Notice must be delivered or deemed to be delivered in respect of a Restructuring Cleared Transaction for subsections (x) and (y) of Section 7.3(b)(ii) to apply. Finally, changes will be made in Sections 7.3 and 7.4(a) to correct typographical errors without affecting the meanings of Sections 7.3 and 7.4.

Section 8 Delivery of Notices will be amended to add new provisions to implement the EEP, to remove inapplicable provisions, and to make certain clean-up and conforming changes. Specifically, Section 8.1(a) will be amended to conform to other new provisions added to Section 6 to account for the implementation of EEP, specifically, to specify the time at which a communication in respect of any Cleared Transaction will be recorded and deemed effective in EEP. Section 8.1(b) will be amended to implement certain conforming changes regarding notices from or to LCH SA in EEP including with respect to the occurrence of an EEP Failure Event. Section 8.1(c) will be amended to account for electronic notification through EEP between Clearing Members or their respective Exercise Delegation Beneficiaries.

Further, certain subsections of Section 8 will be deleted, amended and/or renumbered. The existing Section 8.2, Oral Notices, will be moved and renumbered as a new Section 8.3 and the existing Section 8.3, Delivery of Exercise Notices, Abandonment Notices, Credit Event Notices and Notices to Exercise Movement Options, and the existing Section 8.4, Clearing Member Notices, will each be removed as these sections will no longer be applicable after the implementation of EEP. The existing Section 8.5 will be renumbered as a new Section 8.2 and certain conforming changes will be made in this Section to account for the delivery of the Protected Exercise Matched Pair Report and to describe the procedure with respect to a failure to notify Matched Pairs based on the occurrence of an EEP Failure Event. If LCH SA does not notify the relevant Clearing Members of Swaption Restructuring Matched Pairs and related information by the SRMP Notification Deadline or provide the Protected Exercise Matched Pair Report by the EMP Notification Deadline as a result of the occurrence of an EEP Failure, then the relevant Clearing Members or Exercise Delegation Beneficiary may deliver Swaption Notices to LCH SA and *vice versa.* The existing Section 8.6 will be renumbered as a new Section 8.4 and certain section references will be updated.

Section 9, Matched Pair Designations, will be amended to update certain section references based on changes made to other sections of the Supplement. Specifically, in Section 9.1(e)(i) and (ii), the references to Section 8.1 will be updated to Section 9.1 and the reference to Section 7.7(a) in Section 9.6 will be updated to reference Section 5.7(a) and Section 6.5(c). Additionally, Sections 9.1(c) and (d) will be deleted to remove the requirement that, to the extent possible, each Swaption Restructuring Matched Pair and each Exercise Matched Pair will have an aggregate applicable Matched Pair amount which is an integral multiple of Euro 1,000,000 subject to a maximum of Euro 100,000,000. This change, which is unrelated to the implementation of EEP, is made to reflect that this condition with respect to the aggregate applicable Matched Pair amount is no longer required by LCH SA.

Section 10, Mandatory Provisions for CCM Client Transactions, will be amended to replace the reference to Appendix VI with a reference to Appendix VIII based on changes to the numbering of the appendices to the Supplement.

Section 12, Forms of Notices, will be amended to replace the reference to Section 7.11 with a reference to Section 8.4.

Section 13 Exclusion of Liability will be amended to add a new Section 13(b) which will provide that LCH SA will have no liability to a Clearing Member which has delegated to an Exercise Delegation Beneficiary its power to Exercise or Abandon Exercise Cleared Transactions for any loss, cost or expense arising out of any failure of such Exercise Delegation beneficiary to perform its obligations in relation with such delegation or in connection with or arising from the Exercise or Abandonment of an Exercise Cleared Transaction by the Exercise Delegation Beneficiary of the Clearing Member. Additionally, Section 13(d) will be amended to provide that LCH SA will have no responsibility to verify the contents of any notice received by it from any Clearing Member or from an Exercise Delegation Beneficiary of a Clearing Member under the terms of any Cleared Transaction.

Appendix V: Form of Notice of Dispute Relating to Any Swaption Restructuring/Exercise Matched Pair will be amended to update each current reference to Section 7.11 to Section 8.4.

A new Appendix VI: Form of Notice of Clearing Member Communications Failure Event Pursuant to Section 6.10 (Clearing Member Communications Failure Event) or CCM Client Communications Failure Event Pursuant to Mandatory Provision 5.7 (CCM Client Communications Failure Event) will be added after existing Appendix V which will serve as the form to be used by a Clearing Member to notify LCH SA of a Clearing Member Communications Failure Event if required by Section 6.10 of the Supplement or a CCM Client to notify LCH SA of a CCM Client Communications Failure Event in accordance with Mandatory Provision 5.7(b).

A new Appendix VII: Form of Notice for Ceasing to be Subject to a Clearing Member Communications Failure Event Pursuant to Section 6.10 (Clearing Member Communications Failure Event) or CCM Client Communications Failure Event Pursuant to Mandatory Provision 5.7 (CCM Client Communications Failure Event) will be added after the new Appendix VI described in the preceding paragraph which will serve as the form to be used by a Clearing Member to notify LCH SA that such Clearing Member is no longer subject to a Clearing Member Communications Failure Event or for a CCM Client to notify LCH SA that such CCM Client is no longer subject to a CCM Client Communications Failure Event.

The current Appendix VI: CCM Client Transaction Requirements will be renumbered to create a new Appendix VIII. Certain section references within such new Appendix VIII will be updated to conform with changes to the body of the Supplement and correct certain section references. Additionally, a new Section 5 to Appendix VIII entitled Designation of CCM Client by CCM for Exercise or Abandonment of

Exercise Cleared Transactions will be added after the current Section 4, Validity of Notices, to address the procedures for the Exercise or Abandonment of Exercise Cleared Transactions in the EEP.

A new Section 5 to Appendix VIII entitled Designation of CCM Client by CCM for Exercise or Abandonment of Exercise Cleared Transactions will be added to address the procedures for designation by a CCM of the right to Exercise or Abandon an Exercise Cleared Transaction to a CCM Client. A new Section 5.1 entitled Designation by CCM will be added providing that CCM and CCM Client will agree that a CCM may designate the CCM Client as its Exercise Delegation Beneficiary with respect to a specific CCM Client Cleared Transaction for purposes of the Exercise or Abandonment of the CCM Client Cleared Transactions and receipt of Swaption Notices on its behalf.

A new Section 5.2 to Appendix VIII entitled Exercise Notices and Abandonment Notices delivered in respect of CCM Client Cleared Transaction will be added which will provide that neither CCM nor CCM Client may deliver Swaption Notices in relation to the CCM Client Transaction corresponding to a CCM Client Cleared Transaction in respect of which CCM Client has been designated by CCM as its Exercise Delegation Beneficiary. Instead, if CCM Client as Exercise Delegation Beneficiary of the CCM delivers or receives a valid Swaption Notice in respect of the CCM Client Cleared Transaction corresponding to such CCM Client Transaction, such notice will also be deemed to be a valid Swaption Notice for the purposes of such CCM Client Transaction.

A new Section 5.3 to Appendix VIII entitled Exercise and Abandonment by way of EEP will be added which will provide that any submission of an Option Intent by a CCM Client in respect of a CCM Client Cleared Transaction in respect of which such CCM Client has been designated as Exercise Delegation Beneficiary will be made via its Client Portal Account in the EEP. If (a) the CCM Client submits an Option Intent via its Client Portal Account, (b) the Option Intent is submitted by a CCM Client prior to 4.00 p.m. (London time) on the Expiration Date and (c) LCH SA has completed those steps necessary to make such Option Intent available for viewing in the EEP, such submission will be deemed to constitute delivery by the CCM of a valid Exercise Notice or Abandonment Notice in respect of the CCM Client Cleared Transactions. The deemed time of delivery of such Swaption Notice will be the time specified by the EEP and the registration will be irrevocable.

A new Section 5.4 to Appendix VIII entitled Consequences of EEP Failure will be added to address the procedures in the event that an EEP Failure Event occurs from (and including) the EEP Failure Event Time to (but excluding) the EEP Resolution Time. A new Section 5.4(a) will be added to provide that a CCM Client will deliver Swaption Notices directly to the matched Seller or its relevant Exercise Delegation Beneficiary (with a copy to the Matched Seller) using the notice details provided by LCH SA instead of delivering the Swaption Notice via EEP. A new Section 5.4(b) will be added to specify that, if LCH SA does not provide the Protected Exercise Matched Pair Report by the EMP Notification Deadline or, where an EEP Failure Event occurs after the EMP Notification Deadline, from the time of such EEP Failure Event until such time as LCH provides the Protected Exercise Matched Pair Report, CCM Client will deliver Swaption Notices to LCH SA on behalf of the CCM instead of to the Matched Seller (or its Exercise Delegation Beneficiary). A new Section 5.4(c) will be added which will provide that any notice delivered via the EEP prior to the EEP Failure Event Time will be valid and will not be affected by such EEP Failure Event. Finally, a new Section 5.4(d) will be added to specify that any notice delivered or purported to be delivered via the EEP at or following the EEP Failure Event Time but prior to the EEP Resolution Time will not be valid and effective.

A new Section 5.5 to Appendix VIII entitled Duty to Deliver Swaption CCM Client Notice will be added to specify that the CCM Client must notify LCH SA and its CCM of any Swaption Notice delivered by it in accordance with new Section 5.4 which such CCM Client asserts was effective by no later than 5.00 p.m. on the Expiration Date (the ''Swaption CCM Client Notice Deadline''). If no such notice is delivered by CCM Client or the CCM prior to the Swaption CCM Client Notice Deadline, any Exercise Notice sent by CCM Client pursuant to new Section 5.4 will be deemed to be invalid. However, if LCH SA elects to give effect to an Exercise Notice in respect of a Swaption CCM Client Notice that it determines has been delivered pursuant to Section 6.8 of the Supplement, then such provisions shall apply as if LCH SA had received a Swaption CCM Client Notice in respect of the relevant Exercise Notice by the Swaption CCM Client Notice Deadline, and, if LCH SA determines that it is not possible to give effect to the terms of any such Exercise Notice then the relevant Clearing Members or their Exercise Delegation Beneficiaries will acquire rights as against each other as though party to a bilateral credit default swap transaction on the terms of the Underlying Index Transaction. The Settlement Payment will be due and payable two Transaction Business Days following the giving of a notice that such amount is due and payable and the relevant Clearing Members or their Exercise Delegation Beneficiaries will have enforcement rights as against each other pursuant to the Contracts (Rights of Third Parties) Act 1999 in respect of any resulting payments and deliveries; LCH SA shall have no liability in respect thereof.

A new Section 5.6 to Appendix VIII entitled Delivery of Notices to and from LCH SA in Case of EEP Failure Event will be added to specify that upon the occurrence of an EEP Failure Event, notices and communications given by LCH SA to the CCM Client or vice versa will be given to the address or number provided by the CCM Client to LCH SA and vice versa upon registration or any other address or number duly notified thereafter.

A new Section 5.7 to Appendix VIII entitled Communications Failure Event will be added to address the procedure for notifying LCH SA of a Communications Failure Event, the procedures for delivery of Notices following such Communications Failure Event and the procedures for notifying LCH SA of a resolution of such Communications Failure Event. Subsection (a) of new Section 5.7 will permit a CCM Client affected by a Communications Failure Event to deliver Swaption Notices manually with a Submission Time prior to 4:00 p.m. (London time). However, LCH SA may determine in its sole discretion that it is not able to submit the relevant Option Intent in the relevant system with a Submission Time prior to 4:00 p.m. (London time) on the Expiration Date in which case LCH SA will inform the CCM Client and, subject to Mandatory Provision 5.5, such CCM Client will be deemed not to have submitted an Option Intent in respect of the relevant Exercise Cleared Transaction. Subsection (b) of new Section 5.7 will require the CCM Client to provide written notice (or notice by telephone if CCM Client is unable to deliver written notice) to LCH SA certifying that it is affected by a Communications Failure Event. Subsection (c) of new Section 5.7 will require CCM Client to notify LCH SA upon the resolution of any Communications Failure Event.

Additionally, pursuant to subsection (d) of new Section 5.7, the CCM Client that is subject to a Communications Failure Event must use reasonable endeavors to mitigate the operational impact of any Communications Failure Event, to cure such Communications Failure Event as soon as reasonably practicable and to ensure that the events giving rise thereto do not recur.

A new Section 5.8 to Appendix VIII entitled Confidentiality Waiver will be added stating that the CCM Client consents to the disclosure of its address, fax number, telephone number, contact email address (and any other applicable notice details provided by it) by CCM to LCH SA and by LCH SA in any Protected Exercise Matched Pair Report.

The current Section 5, Determination of Credit Events and Succession Events, will be renumbered as a new Section 6.

The current Section 6, Timings for the Delivery of Notices for CCM Client Transactions, will be renumbered as a new Section 7. The current Section 7, Timings for the Delivery of Exercise Notices for CCM Client Transactions, will be deleted as it has been replaced with the new Section 5 described in the preceding paragraphs.

The amendments to the CDS Clearing Supplement also contain typographical corrections and similar technical corrections and clarifications as well as various conforming references to the new or revised defined terms. Finally, corresponding changes to provision numbering throughout the CDS Clearing Supplement have been made as necessary.

(iii) CDS Clearing Procedures

LCH SA also proposes to modify Section 5 of the Procedures to incorporate terms for implementing the new EEP, to remove inapplicable provisions after implementation of the EEP, and to make certain conforming and clean-up changes to improve clarity of the Supplement.

Specifically, a definition of ''LCH Portal'' will be added to Section 5.3(f) to define the LCH Portal as a single sign-on solution for various LCH SA applications to which Clearing Members may have access over secured internet. Further Section 5.16 will be revised to add a new paragraph entitling a Clearing Member to request that all or part of the reports provided under Section 5.16 be made available on the Client Portal Account. This new paragraph will additionally define the Client Portal Account as the account created by a Client on the LCH Portal. Section 5.16(a)(i)(J) will be amended to replace all references to ''Cleared Transaction Exercise Report'' with ''Protected Exercise Matched Pairs Report'' to reflect the new reporting structure in EEP, and to specify that the timing for the Protected Exercise Matched Pairs Report to be prepared will be three Business Days prior to the Exercise Date and such report will only be made accessible following the occurrence of an EEP Failure Event. The current Section 5.16(c)(ii), Open Interest Report, will be deleted as it no longer applies. Current Section 5.16(c)(iii) will be renumbered as a new Section 5.16(c)(ii) and current Section 5.16(c)(iv) will be renumbered as a new Section 5.16(c)(iii).

A new Section 5.19 entitled Delegation of Exercise of Exercise Cleared Transactions and Electronic Exercise Platform will be added after the current Section 5.18 to address the procedures for delegation of the Exercise or Abandonment of Index Swaption Cleared Transactions and the Electronic Exercise Platform. A new Section 5.19.1 entitled Delegation of Exercise or Abandonment of Exercise Cleared Transactions will be added to provide that any Clearing Member which has delegated to a Client the power to Exercise and/or Abandon all or part of its Exercise Cleared Transactions will notify such delegation to LCH SA by sending a completed and signed notification form to LCH SA via email. Upon receipt, LCH SA will ensure that only such delegate is authorized to Exercise or Abandon the Exercise Cleared Transactions identified in such form. Any withdraw of an exercise Delegation shall be notified to LCH SA by sending a copy of an updated and signed Exercise Delegation form by email to LCH SA. LCH SA will process Exercise Delegations and Exercise Delegation Withdrawals as soon as reasonably practicable.

A new Section 5.19.2 entitled Electronic Exercise of Exercise Cleared Transactions will be added to describe the process for the electronic Exercise of Exercise Cleared Transactions. Upon a submission of an Option Intent in the EEP, LCH SA will carry out logicality controls in respect of such Option Intent in order to help Clearing Members and Exercise Delegation Beneficiaries identify an Option Intent which could have been submitted in the EEP in error based on the relative position or the price of Exercise compared to reference prices provided in the EEP. Any Option Intent which does not pass such logicality controls will not be registered in the EEP and LCH SA will inform the applicable Clearing Member. The Clearing Member and its Exercise Beneficiaries may elect to bypass the logicality controls by specifying ''Confirm'' or ''Force'' in relation to the Option Intent when submitting such Option Intent (''Force Submission''). LCH SA will inform the applicable Clearing Member or Exercise Delegation Beneficiary if an Option Intent is deemed illogical and the Clearing Member or Exercise Delegation Beneficiary may then choose to re-submit such Option Intent and Force Submission. LCH SA will not carry out logicality controls on such Option Intent. Before registering any Option Intent LCH SA will ensure that such Option Intent (i) is submitted by a user who (a) is connected with the proper user ID and password and (b) based on such ID and password, is duly authorized to Exercise or Abandon, as applicable, the relevant Exercise Cleared Transactions; (ii) has not already been submitted in the EEP in respect of the relevant Exercise Cleared Transaction (other than a partial Exercise); and (iii) passes the logicality controls or the relevant Clearing Member or Exercise Delegation Beneficiary has Forced Submission as described earlier in this new Section 5.19.2. LCH SA will not be required to carry out any further control.

The amendments to the CDS Clearing Procedures also contain typographical corrections and similar technical corrections and clarifications as well as various conforming references to the new or revised defined terms. Finally, corresponding changes to provision numbering throughout the CDS Clearing Procedures have been made as necessary.

2. Statutory Basis

LCH SA believes that the proposed rule change in connection with the launch of EEP is consistent with the requirements of Section 17A of the Securities Exchange Act of 1934 [4] (the ''Act'') and the regulations thereunder, including the standards under Rule 17Ad–22.[5] Section 17(A)(b)(3)(F) [6] of the Act requires, among other things, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions and derivative agreements, contracts, and transactions and to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible. As noted above, the proposed rule change is designed to implement an automated electronic platform to facilitate the transmission and execution of exercise decisions by Clearing Members and

[4] 15 U.S.C. 78q–1.

[5] 17 CFR 240.17Ad–22.

[6] 15 U.S.C. 78q–1(b)(3)(F).

their Clients, which will replace the existing manual notification process and reduce operational risk arising from the current process. Specifically, the EEP will enable Clearing Members and Clients to capture in real time their option exercise decisions, and EEP will notify the relevant option sellers in real time, thereby promoting prompt and accurate option exercise process including the clearing and settlement of the ensuing index credit default swap transactions and the termination of the index option transactions.

Further, LCH SA believes that the proposed changes to the Rule Book, Supplement and Procedures are consistent with requirements of Rule 17Ad–22(e)(17).[7] Rule 17Ad–22(e)(17) requires a covered clearing agency to manage operational risks by (i) 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; (ii) ensuring that systems have a high degree of security, resiliency, operational reliability, and adequate, scalable capacity; and (iii) establishing and maintaining a business continuity plan that addresses events posing a significant risk of disrupting operations.[8]

As described above, the proposed rule change will enable LCH SA to more effectively manage the operational risks associated with the option exercise process by providing a safe, secure and resilient technological solution. Specifically, the current manual bilateral notification process creates plausible operational risks if LCH SA is not notified or provided a copy of the notification. To address the limitations of the manual bilateral notification process, the proposed rule change is designed to implement the EEP which captures option exercise decisions in real time while ensuring that LCH SA is not exposed to any principal risk upon the transmission of an exercise intent decision, or upon a related technical failure. As described above, acceptance of timely Option Intent from an option buyer will be conditioned within the EEP upon EEP's successful validation checks. If the Option Intent did not pass the validation checks, the EEP will reject the initial Option Intent submitted by the option buyer on a timely basis so the option buyer will be able to either resubmit the option exercise intent through EEP or rely on the existing manual exercise process, thereby ensuring that the option buyer can exercise its trade in time. On the other hand, if the Option Intent is delivered before the exercise deadline and passes the EEP validation checks, the swaption notice will be deemed legally delivered by LCH SA to the option seller on a real time basis with respect to the seller side of the transaction. Therefore, in no event would LCH SA be deemed as not having exercised the option with the Matched Seller if the Matched Buyer timely delivers its Option Intent and such Option Intent is validated by the EEP. This structural design and workflow mirrors what currently exists regarding the delivery of restructuring credit event notices. Further, as described above, LCH SA will implement validation checks on received Option Intents, including illogical intent checks to limit 'fat-finger' errors, before applying and registering the intents in the system. The new option exercise process using EEP will preserve the counterparty anonymity. In addition, recognizing the criticality of the exercise/expiry process, LCH SA will have well defined contingency procedures in place to address any EEP failure or any Clearing Member technological issues resulting in Clearing Members' communications failures. The existing manual process remains a fallback in the event of an EEP failure or a Clearing Member communications failure in order to ensure that the entire option exercise systems have a high degree of security, resiliency, operational reliability, and adequate, scalable capacity.

Finally, the EEP will be an integral part of the clearing systems with respect to swaptions cleared by LCH SA and therefore, an SCI system within the meaning of Regulation SCI.[9] Rule 1001(a) requires an SCI entity, which includes a registered clearing agency, to establish, maintain, and enforce written policies and procedures reasonably designed to ensure that its SCI systems and, for purposes of security standards, indirect SCI systems, have levels of capacity, integrity, resiliency, availability, and security, adequate to maintain the SCI entity's operational capability and promote the maintenance of fair and orderly markets.[10] Rule 1001(b) require an SCI entity, which includes a registered clearing agency, to establish, maintain, and enforce written policies and procedures reasonably designed to ensure that its SCI systems operate in a manner that complies with the Act and the rules and regulations thereunder and the SCI entity's rules and governing documents, as applicable.[11]

LCH SA believes that the proposed rule change is consistent with the requirements of Regulation SCI. First, the proposed rule change does not amend the existing policies and procedures reasonably designed to comply with the Regulation SCI requirements, including the requirements in Rule 1001(a) and (b).[12] LCH SA will include the EEP in its SCI systems and administer the EEP in accordance with and consistent with the existing policies and procedures designed to comply with Regulation SCI. For example, LCH SA currently has its Business Continuity Management program in place to enable CDSClear to provide continuity and timely recovery of business operations in the event of a major incident or crisis, which impacts or has the potential to impact business functions. The proposed rule change does not amend any details of LCH SA's ability to recover its technical infrastructure in its Disaster Recovery Plan. However, recognizing the use of EEP as the principal form of option exercise mechanism, the proposed rule change, as described above, will include fallback processes in the event of an EEP Failure Event or a Clearing Member Communications Failure Event and will clearly specify when such failure ceases to exist and the requirement to resume the usage of EEP. As detailed above, in the event of the EEP failing, the option exercise process would revert to the existing bilateral notification process via email or messaging. Accordingly, LCH SA believes that the proposed rule change, when implemented with the existing policies and procedures designed to comply with Regulation SCI, is appropriately designed to ensure the EEP will have levels of capacity, integrity, resiliency, availability, and security, adequate to maintain CDSClear's operational capability for option exercise and to ensure that the EEP will operate in a manner that complies with the Act and the rules and regulations thereunder, as well as LCH SA's rules and governing documents.

For the reasons stated above, LCH SA believes that the proposed rule change with respect to the Rule Book, Supplement and Procedures in connection with the launch of the EEP are consistent with the requirements of prompt and accurate clearance and settlement of securities transactions in Section 17(A)(b)(3)(F)[13] of the Act, the

[7] 17 CFR 240.17Ad–22(e)(17).

[8] 17 CFR 240.17Ad–22(e)(17).

[9] 17 CFR 242.1000–1007.

[10] 17 CFR 242.1001(a).

[11] 17 CFR 242.1001(b).

[12] 17 CFR 242.1001(a)–(b).

[13] 15 U.S.C. 78q–1(b)(3)(F).

requirements of operational risk management in Rule 17Ad–22(e)(17) [14] and the requirements of Regulation SCI.[15]

*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.[16] LCH SA does not believe that the proposed rule change would impose burdens on competition that are not necessary or appropriate in furtherance of the purposes of the Act. Specifically, the proposed changes to the Rule Book, Supplement and Procedures would apply equally to all Clearing Members and their Clients are Matched Buyers and Matched Sellers. All Clearing Members and their designated Clients who are Exercise Delegation Beneficiaries will be required to use EEP to exercise Exercise Cleared Transactions. The proposed rule change and implementation of EEP will require Clearing Members and their Clients to connect to LCH SA's systems through opening a portal account and therefore, may impose burdens on Clearing Members and their Clients but such burdens would be necessary and appropriate to manage LCH SA's operational risks and to implement an automated electronic system to capture all exercises of Option Intents. Therefore, LCH SA does not believe that the proposed rule change would impose a burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

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

Written comments relating to the proposed rule change have not been solicited or received. LCH SA will notify the Commission of any written comments received by LCH SA.

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

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

(A) By order approve or disapprove such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

**IV. Solicitation of Comments**

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

*Electronic Comments*

- Use the Commission's internet comment form (*http://www.sec.gov/rules/sro.shtml*); or
- Send an email to *rule-comments@sec.gov.* Please include File Number SR–LCH SA–2018–004 on the subject line.

*Paper Comments*

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

All submissions should refer to File Number SR–LCH SA–2018–004. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's internet website (*http://www.sec.gov/rules/sro.shtml*). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of LCH SA and on LCH SA's website at: *https://www.lch.com/resources/rules-and-regulations/proposed-rule-changes-0.* All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR–LCH SA–2018–004 and should be submitted on or before September 26, 2018.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[17]

**Eduardo A. Aleman,**

*Assistant Secretary.*

[FR Doc. 2018–19147 Filed 9–4–18; 8:45 am]

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[14] 17 CFR 240.17Ad–22(e)(17).

[15] 17 CFR 242.1000–1007.

[16] 15 U.S.C. 78q–1(b)(3)(I).

[17] 17 CFR 200.30–3(a)(12).

## SECURITIES AND EXCHANGE COMMISSION

### Sunshine Act Meetings

**TIME AND DATE:** 2:00 p.m. on Thursday, September 6, 2018.

**PLACE:** Closed Commission Hearing Room 10800.

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

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

The General Counsel of the Commission, or his designee, has certified that, in his opinion, one or more of the exemptions set forth in 5 U.S.C. 552b(c)(3), (5), (6), (7), (8), 9(B) and (10) and 17 CFR 200.402(a)(3), (a)(5), (a)(6), (a)(7), (a)(8), (a)(9)(ii) and (a)(10), permit consideration of the scheduled matters at the closed meeting.

Commissioner Jackson, as duty officer, voted to consider the items listed for the closed meeting in closed session.

The subject matters of the closed meeting will be:

Institution and settlement of injunctive actions;

Institution and settlement of administrative proceedings;

Resolution of litigation claims; and

Other matters relating to enforcement proceedings.

At times, changes in Commission priorities require alterations in the scheduling of meeting items.

**CONTACT PERSON FOR MORE INFORMATION:** For further information and to ascertain what, if any, matters have been added, deleted or postponed; please contact Brent J. Fields from the Office of the Secretary at (202) 551–5400.