

# SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-103242; File No. SR-LCH SA-2025-004]

## Self-Regulatory Organizations; LCH SA; Order Approving Proposed Rule Change Relating to Collateral Concentration Limits

June 12, 2025.

### I. *Introduction*

On April 8, 2025, Banque Centrale de Compensation, which conducts business under the name LCH SA (“LCH SA”), filed with the Securities and Exchange Commission (the “Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to change its collateral concentration limits. The proposed rule change was published for comment in the *Federal Register* on April 28, 2025.<sup>3</sup> The Commission did not receive comments regarding the proposed rule change. For the reasons discussed below, the Commission is approving the proposed rule change.

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

LCH SA is a clearing agency registered with the Commission. Through its CDSClear business unit, LCH SA provides central counterparty services for security-based swaps, including credit default swaps and options on credit default swaps. LCH SA is an affiliate of LCH Ltd, through common ownership by LCH Group. LCH SA’s ultimate parent company is London Stock Exchange Group.

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

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

<sup>3</sup> Securities Exchange Act Release No. 102905 (Apr. 22, 2025), 90 FR 17662 (Apr. 28, 2025) (File No. SR-LCH SA-2025-004) (“Notice”).

LCH SA is proposing to revise the amount of supranational and European agency securities that clearing members may post to satisfy initial margin requirements. According to LCH SA, it is proposing these changes to respond to its members' need for increased collateral concentration limits, as clearing members seek less constrained collateral limits for high-quality collateral. LCH SA also is proposing to revise the current concentration limit per individual International Securities Identification Number ("ISIN") with respect to the instrument's total outstanding amount.<sup>4</sup>

LCH SA currently allows clearing members to post, as collateral for initial margin requirements, supranational and European agency debt securities issued by the following entities:

- Caisse d'Amortissement de la Dette Sociale ("CADES");
- European Financial Stability Facility ("EFSF");
- European Investment Bank ("EIB");
- European Stability Mechanism ("ESM");
- European Union ("EU");
- International Bank for Reconstruction and Development ("IBRD");
- Kreditanstalt für Wiederaufbau ("KFW"); and
- Landwirtschaftliche Rentenbank ("Rentenbank").

LCH SA currently applies a single concentration limit calculation across all clearing members, which is no more than the lower of (i) 50% of the value of the clearing member's initial margin requirement and (ii) €500 million for the total amount of supranational and

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<sup>4</sup> Capitalized terms not otherwise defined herein have the meanings assigned to them in the LCH SA CDS Clearing Rule Book or CDS Clearing Procedures, as applicable.

European agency securities from these issuers. Any remaining initial margin requirements must be satisfied with either cash or other eligible securities.

Rather than apply the same concentration limit calculation across all issuers, LCH SA proposes to apply individual limits to the above issuers of supranational and European agency securities. LCH SA's Collateral and Liquidity Risk Management team ("CaLM") will establish limits for each issuer based on a market analysis of the credit and liquidity risk profile of each issuer. LCH SA is proposing to establish the limit as the lower of (i) 50% of the value of the member's initial margin requirement and (ii) the following for each issuer:

- CADES €500 million.
- EFSF €750 million;
- EIB €1,250 million;
- ESM €750 million;
- EU €2,000 million;
- IBRD €750 million;
- KFW €1,250 million; and
- Rentenbank €500 million.

As part of this revision to the supranational and European agency securities' limits, LCH SA is also proposing to apply a more conservative concentration limit per ISIN of each security type from the above issuers, from the current level of 25% to 15%. LCH SA is making this change to the concentration limit through an update to the LCH SA Knowledge Center, which is a portion of its website only accessible to its Clearing Members.<sup>5</sup>

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<sup>5</sup> 90 FR 17663, FN 6

LCH SA uses collateral posted by a member to cover losses and liquidity needs in case of that member's default. Concentration of margin collateral in a particular issuer or security could jeopardize LCH SA's ability to use collateral for that purpose, if the issuer or security declines in value, or otherwise becomes difficult to liquidate, following a member default. To determine the respective limits for each security type, LCH SA assessed the Internal Credit Score ("ICS") of each issuer, the total amount of each issue outstanding, and the weighted average of the yield bid-ask spread. LCH SA then assessed the liquidation cost for each issuer's ISIN by working with select investment counterparties to perform a hypothetical liquidation analysis at certain portfolio amounts under stressed market conditions. The results of this analysis were used to validate the proposed individual limits and evaluate the associated haircuts. Following this exercise, LCH SA determined that the limits reflected in the proposed rule change adequately incorporate the liquidity profile of the issue and the credit risk profile of the issuer, and that the proposed concentration limits have appropriately conservative haircuts that cover both the bid price variation and the additional liquidation costs (related to the increased concentration) associated with each security type under stressed market conditions.

### III. *Discussion and Commission Findings*

Section 19(b)(2)(C) of the Act requires the Commission to approve a proposed rule change of a self-regulatory organization if it finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to the organization.<sup>6</sup> Under the Commission's Rules of Practice, the "burden to demonstrate that a

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<sup>6</sup> 15 U.S.C. 78s(b)(2)(C).

proposed rule change is consistent with the Exchange Act and the rules and regulations issued thereunder . . . is on the self-regulatory organization [‘SRO’] that proposed the rule change.”<sup>7</sup>

The description of a proposed rule change, its purpose and operation, its effect, and a legal analysis of its consistency with applicable requirements must all be sufficiently detailed and specific to support an affirmative Commission finding,<sup>8</sup> and any failure of an SRO to provide this information may result in the Commission not having a sufficient basis to make an affirmative finding that a proposed rule change is consistent with the Exchange Act and the applicable rules and regulations.<sup>9</sup> Moreover, “unquestioning reliance” on an SRO’s representations in a proposed rule change is not sufficient to justify Commission approval of a proposed rule change.<sup>10</sup>

After carefully considering the proposed rule change, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to LCH SA. More specifically, for the reasons given below, the Commission finds that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act,<sup>11</sup> and Rule 17Ad-22(e)(5).<sup>12</sup>

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

Section 17A(b)(3)(F) of the Act requires, among other things, that the rules of LCH SA be designed to promote the prompt and accurate clearance and settlement of securities

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<sup>7</sup> Rule 700(b)(3), Commission Rules of Practice, 17 CFR 201.700(b)(3).

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

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

<sup>10</sup> *Susquehanna Int’l Group, LLP v. Securities and Exchange Commission*, 866 F.3d 442, 447 (D.C. Cir. 2017).

<sup>11</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>12</sup> 17 CFR 240.17Ad-22(e)(5).

transactions and, to the extent applicable, derivative agreements, contracts, and transactions, as well as to assure the safeguarding of securities and funds which are in the custody or control of LCH SA or for which it is responsible.<sup>13</sup>

As discussed above, LCH SA is proposing to establish collateral concentration limits for supranational and European agency securities from the issuers listed above. The revised limits are the lesser of (i) 50% of the value of the member's initial margin requirement and (ii) a specific overall amount for each issuer. LCH SA based its decision, in part, on the liquidation cost for each issuer in certain stressed market conditions. These changes would help maintain sufficient liquidity and should help to ensure that LCH SA is able to continue clearing and settling securities transactions and safeguarding securities and funds in the face of stressed market conditions.

As noted above, the limits LCH SA is proposing to establish will help ensure that collateral posted by a member is not overly concentrated in an issuer or security. LCH SA uses collateral posted by a member to cover losses and liquidity needs in case of that member's default. Concentration of margin collateral in a particular issuer or security could jeopardize LCH SA's ability to use collateral for that purpose, if the issuer or security declines in value, or otherwise becomes difficult to liquidate, following a member default. Because losses and liquidity demands can hinder LCH SA's ability to clear and settle transactions, the proposed collateral concentration limits described above would reduce concentration risk to margin collateral, which would help ensure the prompt and accurate clearance and settlement of transactions at LCH SA. Moreover, decreasing the likelihood that the value of a defaulting clearing member's margin collateral is affected by concentration risk helps assure the

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

safeguarding of non-defaulting clearing members' assets by reducing the likelihood that LCH SA would be forced to charge losses to its default fund, which would then be mutualized among clearing members.

Accordingly, the proposed rule change promotes the prompt and accurate clearance and settlement of transactions at LCH SA, and assures the safeguarding of securities and funds which are in the custody or control of LCH SA or for which it is responsible, consistent with Section 17A(b)(3)(F) of the Act.<sup>14</sup>

B. *Consistency with Rule 17Ad-22(e)(5)*

Rule 17Ad-22(e)(5) requires that LCH SA establish, implement, maintain, and enforce written policies and procedures reasonably designed to, among other things, set and enforce appropriately conservative haircuts and concentration limits for the collateral it collects to manage its credit risk.<sup>15</sup> LCH SA is proposing to revise its concentration limits for the amount of supranational and European agency securities clearing members may post to satisfy initial margin requirements by establishing individual concentration limits per issuer, rather than a single concentration limit across all issuers. LCH SA is also revising the concentration limit that applies to each ISIN of the above issuers, from the current level of 25% to 15%.

LCH SA currently allows clearing members to post supranational and European agency debt securities as collateral for initial margin requirements. The current concentration limit for these issuers is the lower of (i) 50% of a clearing member's initial margin requirement and (ii) €500 million. Going forward, it will be the lower of (i) 50% of a clearing member's initial margin requirement and (ii) an upper limit, ranging from €500 million to €2 billion. Because the

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<sup>14</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>15</sup> 17 CFR 240.17Ad-22(e)(5).

limit is the lower of the two, a clearing member's initial margin requirement will determine the limit available to that clearing member. A clearing member can only post more than the current limit (€500 million) if a clearing member's initial margin requirement is large enough that 50% of that amount is greater than €500 million. For example, under the proposed rule change, clearing member A can post €501 million of EFSF only if clearing member A's initial margin requirement is over €1 billion; otherwise, 50% of the initial margin requirement is the lower of the two amounts.

LCH SA has determined to enhance its clearing members' ability to post such non-cash collateral, because the members have sought increased collateral concentration limits for high-quality collateral. The Commission has reviewed the confidential materials<sup>16</sup> provided by LCH SA and the proposed rule change, and has determined that, given the limits will continue to be based on 50% of a clearing member's initial margin requirement, only a small number of clearing members would have an initial margin requirement large enough to use the new, higher collateral limits.

As such, setting collateral concentration limits based on individual securities – with a lower limit based on the initial margin requirement -- will help LCH SA establish appropriately conservative concentration limits, while at the same time meeting the needs of clearing members that seek less constrained collateral limits for high-quality collateral. Accordingly, rather than expand the composition of eligible collateral that clearing members may post, LCH SA is proposing to establish individual limits for each supranational and European agency security type following an analysis in accordance with its Collateral Risk Management Policy. As noted

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<sup>16</sup> As confidential exhibits to the filing, LCH SA provided responses to the Commission's request for information (Exhibit 3.1), and a quantitative analysis of the margin collateral limit increases (Exhibit 3.2).



above, this approach will generally increase the amount of supranational and European agency securities that clearing members may post as collateral, but also will allow LCH SA to tailor limits per individual issuer rather than applying the same limit calculation to all the above issuers. Doing so should enable LCH SA to establish appropriately conservative concentration limits on an individual basis per issuer, while still providing less constrained collateral limits for clearing members with high-quality collateral. At the same time, establishing a lower per ISIN concentration limit of 15% helps ensure an overall conservative concentration limit for each security of the issuer.

Accordingly, the proposed rule change is consistent with Rule 17Ad-22(e)(5).<sup>17</sup>

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<sup>17</sup> 17 CFR 240.17Ad-22(e)(5).

#### IV. *Conclusion*

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act, and in particular, with the requirements of Section 17A(b)(3)(F) of the Act,<sup>18</sup> and Rule 17Ad-22(e)(5),<sup>19</sup> thereunder.

IT IS THEREFORE ORDERED pursuant to Section 19(b)(2) of the Act<sup>20</sup> that the proposed rule change (SR-LCH SA-2025-004) be, and hereby is, approved.<sup>21</sup>

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>22</sup>

**Vanessa A. Countryman,**

*Secretary.*

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

<sup>19</sup> 17 CFR 240.17Ad-22(e)(5).

<sup>20</sup> 15 U.S.C. 78s(b)(2).

<sup>21</sup> In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>22</sup> 17 CFR 200.30-3(a)(12).