

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-80114; File No. SR-LCH SA-2017-001)

February 27, 2017

Self-Regulatory Organizations; LCH SA; Notice of Filing and Immediate Effectiveness of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice to Adopt Revised Fee Schedule and Establish Annual Fixed Fee for General Members

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 February 17, 2017, 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 primarily prepared by LCH SA. LCH SA filed the proposal pursuant to Section 19(b)(3)(A) of the Act,³ and Rule 19b-4(f)(2)⁴ thereunder, so that the proposal was effective upon filing with the Commission. 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, Security-Based Swap Submission, or Advance Notice

The proposed rule change will: (1) modify the annual fixed fee that covers all self-clearing activity for a Clearing Member⁵ and its affiliates under the Unlimited Tariff, (2) establish an annual fixed fee for all General Members that participate in the CDS

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(2).

⁵ Capitalized terms not defined herein are defined in LCH SA’s Rulebook, available at <http://www.lch.com/rules-regulations/rulebooks/sa>.

Clearing Services under the Introductory Tariff, and (3) remove the volume-based discounts currently in effect for the client clearing activities of the CDS Clearing Service.

II. Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change, Security-Based Swap Submission, or Advance Notice

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 such statements.

A. Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change, Security-Based Swap Submission, or Advance Notice

1. Purpose

The purpose of the proposed rule change is to: (1) modify the annual fixed fee that covers all self-clearing activity for a Clearing Member and its affiliates under the Unlimited Tariff, (2) establish an annual fixed fee for all General Members that participate in the CDS Clearing Services under the Introductory Tariff, and (3) remove the volume-based discounts currently in effect for the client clearing activities of the CDS Clearing Service.

Unlimited Tariff

The proposed rule change will reduce the annual fixed fee for General Members that covers all self-clearing activity for Clearing Members and their affiliate(s) that have opted for the Unlimited Tariff. Currently, General Members that participate in the CDS Clearing Service can elect to pay an annual fixed fee of €2,250,000 (the "Unlimited Tariff"), which covers all self-clearing fees for the Clearing Member and its affiliates.

Clearing Members that select to pay this fixed fee are not charged any variable fee that would otherwise be assessed with each cleared CDS on their house activity.

General Clearing Members that do not select the Unlimited Tariff fall under the Introductory Tariff and are currently charged a variable volume based self-clearing fee. The fee is calculated and charged per million gross notional cleared (EUR/USD, as applicable) and varies depending on the type of CDS cleared, *i.e.*, European indices, European single names, US indices, US single names. The amount of variable fees paid for trades cleared by the General Clearing Member and its affiliates under the Introductory Tariff annually is currently capped at €2,250,000.

The rule change will reduce the annual fixed fee to be paid by General Members that select the Unlimited Tariff from €2,250,000 to €2,000,000. The cap on annual fees paid by General Members that select the Introductory Tariff will similarly be reduced from €2,250,000 to €2,000,000, and will include the fixed fee along with all variable fees for the Clearing Member and its affiliates.

LCH SA believes that the reduced fee more accurately reflects the proportionate costs and expenses that LCH SA will incur in connection with self-cleared transactions following the introduction of mandatory clearing of OTC derivatives and the anticipated increase in CDS client clearing activities.

Annual Clearing Fee (Introductory Tariff)

In addition, the proposed rule change will establish an annual fixed fee for all General Members that participate in the CDS Clearing Service under the Introductory Tariff. The annual fixed fee is independent from and in addition to the self-clearing and client clearing variable fees currently charged, but will count toward the €2,000,000 cap

described above. Currently, General Members that participate in the CDS Clearing Service pay either the Unlimited Tariff, which covers all self-clearing fees for the Clearing Member and its affiliates, or the Introductory Tariff, which is calculated per million gross notional cleared (EUR/USD, as applicable) and varies depending on the type of CDS cleared, *i.e.*, European indices, European single names, US indices, US single names. Therefore, Clearing Members under the Introductory Tariff with no clearing activity have full access to the CDS Clearing Service resources, are consulted on potential rules, product and service changes, and benefit from unlimited support for training and system training at no cost.

LCH SA believes that all General Members under the Introductory Tariff that have access to, and benefit from, the CDS Clearing Service resources should pay a fixed fee for such access, even if the General Member has no clearing activity. The rule change will require every General Member under the Introductory Tariff to pay an annual fixed fee of €200,000, which will increase to €400,000 for members with more than €15 billion gross notional in clearing activity per year, across self-clearing or clearing for clients. One-twelfth of the fee will be charged each month, and a pro-rata amount will be applied for Clearing Members starting or resigning during the calendar year.

Volume-Based Discount

Lastly, the proposed rule change will remove the volume-based discounts that had been in effect for CDS client clearing activities since early 2014. Currently, clients that participate in the CDS Clearing Service are charged a clearing fee per EUR/USD million gross notional cleared as follows:

European Products	Base Fees
Index (per million)	€4
Single Name (per million)	€12
US Products	Base Fees
Index (per million)	\$5
Single Name (per million)	\$17

In order to encourage client clearing of CDS back in 2014 ahead of the mandatory clearing requirement at the time, LCH SA has been offering volume-based discounts as follows:

Discounts for clients will be implemented as follows: Band	Benefit	Monthly Gross Notional Cleared
Band A	Base Fee	€0 to €2 billion
Band B	16% fee discount	€2 billion to €6 billion
Band C	25% fee discount	€6 billion+

With mandatory clearing of CDS now becoming effective in 2017 in Europe, LCH SA believes it is no longer necessary or appropriate to provide these discounts in light of the costs and expenses that LCH SA will incur in providing the CDS Clearing Service to clients. The rule change, therefore, will remove the volume-based discounts for CDS client clearing activities.

2. Statutory Basis

Section 17A(b)(3)(D) of the Act requires that the rules of a clearing agency provide for the equitable allocation of reasonable dues, fees, and other charges.⁶ With respect to the Unlimited Tariff, LCH SA has determined that the reduction in the Unlimited Tariff fixed fee for General Members with respect to self-clearing activity on

⁶ 15 U.S.C. 78q-1(b)(3)(D).

behalf of the Clearing Member and its affiliates is reasonable and appropriate given the costs and expenses to LCH SA. With CDSClear now reaching a maturity stage in its development and the introduction of mandatory clearing of OTC derivatives in 2017, which will result in an increase in CDS client clearing activities, it is appropriate that the costs and expenses that LCH SA will incur in providing the CDS Clearing Service are shared more broadly among General Members and their clients that participate in the service. For the same reasons, LCH SA has determined that the cap on self-clearing fees, inclusive of the annual fixed fee, applicable to General Members electing the Introductory Tariff, should be lowered to the same amount as the revised Unlimited Tariff.

With respect to the annual fixed fee for General Members under the Introductory Tariff, LCH SA has determined that implementing an annual fixed fee for all General Members that participate in the CDS Clearing Service under the Introductory Tariff (which fee is separate from and in addition to the self-clearing and client clearing variable fees currently assessed), is reasonable and appropriate given the costs and expenses to LCH SA in providing the services to General Members. The fee assures that all General Members that benefit from the CDS Clearing Service pay an appropriate fee for such services, such as being consulted on potential rules, product and service changes, as well as benefiting from unlimited support for product and system training and testing, without regard to whether such General Members engage in CDS clearing activities. The proposed rule changes, therefore, are consistent with the requirements of Section 17A of the Act⁷ and regulations thereunder applicable to it, because they provide for the

⁷ 15 U.S.C. 78q-1.

equitable allocation of reasonable fees, dues, and other charges among clearing members and market participants by ensuring that General Members and their clients pay reasonable fees and dues for the services that LCH SA provides.

With respect to the removal of volume-based discounts, LCH SA has determined that removing the volume-based discounts for CDS client clearing activities is reasonable and appropriate, given the costs and expenses to LCH SA in providing such services. The elimination of volume-based discounts will assure that clients pay an appropriate proportionate share of the costs and expenses that LCH SA will incur in providing the CDS Clearing Service.

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.⁸ LCH SA does not believe that the proposed rule change would impose any burden on competition. As noted above, LCH SA believes that the reduction in the annual Tariffs assessed on General Members with respect to self-clearing activity are reasonable and appropriate, as the Tariffs will apply equally to all General Members that self-clear CDS. Additionally, LCH SA believes that an annual fixed fee for all General Members that participate in the CDS Clearing Service under the Introductory Tariff, which fee is separate from and in addition to the self-clearing and client clearing variable fees currently assessed, is appropriate in light of the expenses incurred by LCH SA in providing its services. Further, LCH SA believes that removing the volume-based

⁸ 15 U.S.C. 78q-1(b)(3)(I).

discounts for CDS client clearing activities is reasonable and appropriate, as the clearing fees will apply equally to all clients that participate in the CDS Clearing Service.

LCH SA does not believe that the proposed rule change would have a burden on competition because it does not adversely affect the ability of such Clearing Members or other market participants generally to engage in cleared transactions or to access clearing services.

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

The foregoing proposed rule change has become effective upon filing pursuant to Section 19(b)(3)(A)⁹ of the Act and Rule 19b-4(f)(2)¹⁰ thereunder because it establishes a fee or other charge imposed by LCH SA on its Clearing Members. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such proposed 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.

⁹ 15 U.S.C. 78s(b)(3)(A).

¹⁰ 17 CFR 240.19b-4(f)(2).

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:

- 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-2017-001 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-2017-001. 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 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 such filings will also be available for inspection and copying at

the principal office of LCH SA and on LCH SA's website at <http://www.lch.com/asset-classes/cdsclear>. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR-LCH SA-2017-001 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.¹¹

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Assistant Secretary

¹¹ 17 CFR 200.30-3(a)(12).