

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-87886; File No. SR-LCH SA-2019-012)

January 3, 2020

Self-Regulatory Organizations; LCH SA; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to the Amendments of the CDSClear Fee Grid

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 December 27, 2019, 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. 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 is to review and modify the current fee grid applied by LCH SA CDSClear.

The text of the proposed rule change has been annexed [sic] as Exhibit 5.

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).

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 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 fee changes is for LCH SA CDSClear to (1) modify the annual fixed fee amount that covers all Index and Single Name CDS self-clearing activity for a General Clearing Member and its affiliates under the Unlimited Tariff, and (2) revise the CDSClear fee grid set up for the Options clearing service for both General and Select Members.

LCH SA is currently applying the below fee grid for CDSClear members:

Current Self-Clearing Tariff for Corporates and Financials Index and Single Name CDS

Membership	Annual Fixed Fee	Self-Clearing/ Variable Fees				
		EUR Indices	EUR Single Names	USD Indices	USD Single Names	
General Member – Unlimited Tariff	€1,700,000	No Variable Fee				Covers all self-clearing Corporate and Financials CDS Index and Single Name activity for a Clearing Member and its affiliates
General Member – Introductory Tariff	€200,000 if the total annual gross notional cleared is under €15billion	€3.5 Per million gross notional cleared	€10 Per million gross notional cleared	\$4.5 Per million gross notional cleared	\$13 Per million gross notional cleared	Cap on total annual self-clearing fees (fixed + variable) of EUR 1,700,000 after which all further trades cleared in the calendar year are subject to a fee holiday.
	€400,000 if the total annual gross notional cleared is over €15billion	€3.5 Per million gross notional cleared	€10 Per million gross notional cleared	\$4.5 Per million gross notional cleared	\$13 Per million gross notional cleared	
Select Member	€250,000 if the total annual gross notional cleared is under €25billion	€4 Per million gross notional cleared	€10 Per million gross notional cleared	\$5 Per million gross notional cleared	\$13 Per million gross notional cleared	
	€450,000 if the total annual gross notional cleared is over €25billion					

Current Options Tariff including Fee rebate: General Member

General Member	Introductory Tariff	Cover only one legal entity (no affiliate coverage)	
	Clearing Fees	\$ 15	per million of option notional on US Indices
		€ 15	per million of option notional on European Indices
	<i>Floor on clearing fees</i>	€ 150k	<i>Per calendar year (no pro-rating)</i>
	<i>Cap on Clearing fees</i>	€ 600k	<i>Per calendar year (no pro-rating)</i>
	Unlimited Tariff	Cover all affiliates of a given Clearing Member Group Cover all clearing fees for Credit Option House activity for both iTraxx and CDX.NA underlying index families Excludes any potential future EEP usage fees	
	<i>Fixed fee (annual)</i>	€ 375k	<i>Per calendar year (no pro-rating)</i>
	<i>Discounted Rates*</i>	€ 50k	<i>After discount rate of 86.67% applied to the Fixed fee amount if Index Swaptions notional cleared per Clearing Member group strictly above €12 billion</i>
		€ 75k	<i>After discount rate of 80.00% applied to the Fixed fee amount if Index Swaptions notional cleared per Clearing Member group strictly above €6 billion but equal or below €12 billion</i>
		€ 125k	<i>After discount rate of 67.00% applied to the Fixed fee amount if Index Swaptions notional cleared per Clearing Member group strictly above €0 but equal or below €6 billion</i>
Onboarding Fees (both Introductory & Unlimited)	€ 30k	One-off fee per Legal Entity under the Introductory tariff or per Clearing Member Group under Unlimited tariff waived until 20-Dec-19	
<p>*Cumulative conditions for the Fee rebate:</p> <ul style="list-style-type: none"> (i) application to the Unlimited Tariff only; (ii) application to all Clearing Members registering to the Index Swaptions clearing service (registration letter or application file signature date); and (iii) Valid for 2019 only; and (iv) Index Swaptions notional cleared for the determination of the discount rate to be observed from the regulatory effective date of the rebate. 			

Current Options Tariff including Fee rebate: Select Member and Client

Select Member	Introductory Tariff		Cover only one legal entity (no affiliate coverage)
	Clearing Fees	\$ 18	per million of option notional on US Indices
		€ 18	per million of option notional on European Indices
	<i>Cap on Clearing fees</i>	€ 600k	<i>Per calendar year (no pro-rating)</i>
	Unlimited Tariff	Covers all affiliates of a given Clearing Member Group Covers all clearing fees for Credit Option House activity for both iTraxx and CDX.NA underlying index families Excludes any potential future EEP usage fees	
	<i>Fixed fee (annual)</i>	€ 400k	<i>Per calendar year (no pro-rating)</i>
	<i>Discounted Rates*</i>	€50k	<i>After discount rate of 87.50% applied to the Fixed fee amount if Index Swaptions notional cleared per Clearing Member group strictly above €12 billion</i>
		€75k	<i>After discount rate of 81.25% applied to the Fixed fee amount if Index Swaptions notional cleared per Clearing Member group strictly above €6 billion but equal or below €12 billion</i>
€125k		<i>After discount rate of 68.75% applied to the Fixed fee amount if Index Swaptions notional cleared per Clearing Member group per year strictly above €0 but equal or below €6 billion</i>	
Onboarding Fees (both Introductory & Unlimited)	€ 30k	One-off fee per Legal Entity under the Introductory tariff or per Clearing Member Group under Unlimited tariff waived until 20-Dec-19	
*Cumulative conditions for the Fee rebate: (v) application to the Unlimited Tariff only; (vi) application to all Clearing Members registering to the Index Swaptions clearing service (registration letter or application file signature date); and (vii) Valid for 2019 only; and (viii) Index Swaptions notional cleared for the determination of the discount rate to be observed from the regulatory effective date of the rebate.			
Client	Clearing Fees	\$ 20	per million of option notional on US Indices
		€ 20	per million of option notional on European Indices

As specified in the new fee grid attached [sic] under Exhibit 5, LCH SA is proposing to amend the CDSClear fee grid from January 1st, 2020.

The proposed fee changes are driven by the will:

- for the Index and Single Names Unlimited Tariff: to reflect a transition to a more matured phase of development of the CDSClear service, and

- for the Options fee grid: to adjust the discount bands and rates following a beginning of uptake of the options service, and to ensure coherence in the maximum amount of fees payable between the Introductory and the Unlimited Tariffs.

1) Change the Index and Single Names Unlimited Tariff for General Members from €1,700,000 per year to €1,300,000 per year for 2020

CDSClear currently offers an Unlimited Tariff for General Members⁵ that covers all self-clearing Corporate and Financials CDS Index and Single Names activity for a Clearing Member group and its affiliates for an annual fixed fee of €1,700,000 (no variable fees).

The proposed change consists in decreasing the annual fixed fee amount to €1,300,000 per year. This fixed fee will still cover all clearing fees for Corporate and Financials Index and Single Names CDS House activity for all affiliates of a given Clearing Member group.

2) Change the Options Unlimited Tariff for both General and Select Members

As specified in the new LCH CDSClear options fee grid attached [sic] below in Appendix, the annual fixed fee covering all clearing fees for Credit Index Options House activity for all affiliates of a given Clearing Member group remains set in 2020 to €375,000 for General Members and €400,000 for Select Members, but it is proposed to change the discount based notional bands and rates as follows:

⁵ All capitalized terms not defined herein have the same definition as the CDSClearing Rule Book, Supplement or Procedures, as applicable.

General Member Discount Bands and Rates

- Change the bounds on the annual options notional cleared for the lowest band from *strictly above €0bn but equal to or below €6bn* into *strictly above €6bn but equal to or below €13.5bn*, and the corresponding discount rate from 66.67% (equivalent to an annual fixed fee of €125,000) to 60% (equivalent to an annual fixed fee of €150,000);
- Change the bounds on the annual options notional cleared for the middle band from *strictly above €6bn but equal to or below €12bn* into *strictly above €13.5bn*, but keep the corresponding discount rate at 80% (equivalent to an annual fixed fee of €75,000); and
- Remove the highest band from the fee grid.

Select Member Discount Bands and Rates

- Change the bounds on the annual options notional cleared for the lowest band from *strictly above €0bn but equal to or below €6bn* into *strictly above €6bn but equal to or below €13.5bn*, and the corresponding discount rate from 68.75% (equivalent to an annual fixed fee of €125,000) to 62.5% (equivalent to an annual fixed fee of €150,000);
- Change the bounds on the annual options notional cleared for the middle band from *strictly above €6bn but equal to or below €12bn* into *strictly above €13.5bn*, but keep the corresponding discount rate at 81.25% (equivalent to an annual fixed fee of €75,000); and
- Remove the highest band from the fee grid.

3) Change the Options Introductory Tariff for both General and Select Members

The Options Introductory Tariff for both General and Select Members covers only the legal entity that is registering to the service and is based on variable fees with an annual floor (for General Members only) and cap on the total variable fees paid. The only change proposed to this Introductory Tariff is to align the annual cap with the fixed fee in the Unlimited Tariff as follows:

- For General Members, decrease the annual cap on variable fees from €600,000 to €375,000
- For Select Members, decrease the annual cap on variable fees from €600,000 to €400,000.

4) Additional changes to the Options fee grid for both General and Select Members

The following conditions will be applicable for both General and Select Members:

- In-year switches between Introductory and Unlimited Tariff are not permitted, and
- The one-off onboarding fee will remain set to €30,000 but waived until 30 April 2020.

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

⁶ 15 U.S.C. 78q-1(b)(3)(D).

LCH SA believes that its clearing fee change proposal is consistent with the requirements of Section 17A of the Act⁷ and the regulations thereunder applicable to it, and in particular provides for the equitable allocation of reasonable fees, dues, and other charges among clearing members and market participants by ensuring that clearing members and clients pay reasonable fees and dues for the services provided by LCH SA, within the meaning of Section 17A(b)(3)(D) of the Act.

With respect to the change of the Index and CDS Unlimited Tariff for General Members, LCH SA has determined in consultation with its clearing members that the reduction in the annual fixed fee for General Members covering their Index and Single Name CDS self-clearing activity is reasonable and appropriate as the CDSClear business is now reaching a more mature stage in its development and therefore requires a lower investment to develop new functionalities/services than in the past.

Regarding the proposed changes to the Options clearing service fee grid, after consultation with its Clearing Members, LCH SA has determined that both its General and Select Members still needed to be incentivized to further grow their usage of the Options clearing service, and thus to maintain a volume-based discount fee scheme for its Options Unlimited Tariff in which the cost of clearing options decreases as more volumes are cleared. In order to make the link between Unlimited Tariff and Introductory Tariff coherent between the Index & Single Names fee grid on one hand and the Option fee grid on the other hand, LCH SA has also set the cap for its Options Introductory Tariff at the same level than the fixed fee of the Option Unlimited Tariff, and thus decreased it from €600k to respectively €375k for General Members and €400k for Select Members.

⁷ 15 U.S.C. 78q-1.

Additionally, both General and Select Clearing Members will not have the ability to switch from one type of Tariff to the other (Unlimited to Introductory or vice-versa) in-year.

Finally, the one-off Onboarding Fee to the Options clearing service will remain set to €30,000 but the waiving period will be extended until 30 April 2020.

For all the reasons stated above, LCH SA believes that the proposed fee rates are reasonable and have been set up at an appropriate level so that LCH SA can provide the CDSClear services.

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 that are not necessary or appropriate in furtherance of the purposes of the Act because LCH SA is offering the possibility for CDSClear members and clients to get a more attractive access to the clearing services. It does not affect the ability of such Clearing Members or other market participants generally to engage in cleared transactions or to access clearing services especially to the clearing of Index Swaptions that remains not mandatory.

Additionally, the proposed volume based discount scheme for the Options Unlimited Tariff will be available to all CDSClear Clearing Member Groups. Similarly, the proposed Index and Single Names Unlimited Tariff will be available to all General

⁸ 15 U.S.C. 78q-1(b)(3)(I).

Members of the CDSClear service. This annual fixed fee reduction does not impact any competition between General and Select Members as the choice of membership tier made by a Clearing Member is mainly driven by the material differences in the obligations of a General Member versus those of a Select Member (in terms of price contribution and auction bidding notably) which are reflected in the Tariffs available for each tier.

Further, as explained above, LCH SA believes that the fee rates have been set up at an appropriate level given the costs and expenses to LCH SA in offering the relevant 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 but a consultation has been conducted with and feedback sought from CDSClear members. No comment or question has been received following this consultation. 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

⁹ 15 U.S.C. 78s(b)(3)(A).

¹⁰ 17 CFR 240.19b-4(f)(2).

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:

- 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-2019-012 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-2019-012. 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 <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-2019-012 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

J. Matthew DeLesDernier
Assistant Secretary

¹¹ 17 CFR 200.30-3(a)(12).