

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-93522; File No. SR-LCH SA-2021-003)

November 4, 2021

Self-Regulatory Organizations; LCH SA; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Fees on Extension of Eligible Collateral

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 October 22, 2021, 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 (“**Proposed Rule Change**”) described in Items I, II and III below, which Items have been prepared primarily by LCH SA. LCH SA filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act,³ and Rule 19b-4(f)(2)⁴ thereunder, so that the proposed rule change 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

(a) Banque Centrale de Compensation, which conducts business under the name LCH SA, is proposing to update the current fee grid to be applied by LCH SA for the new scope of eligible securities collateral to be extended to government bonds issued by

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).

the following states and denominated in their domestic currencies: Australia, Canada, Denmark, Japan, Norway, Sweden and Switzerland⁵ (the “**Proposed Rule Change**”).

The text of the Proposed Rule Change has been annexed [sic] hereto as Exhibit 5.

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

1. Purpose

LCH SA charges fees on collateral posted by its clearing members to cover the CCP margin requirements. The level of fees is defined based on a combination of various factors such as operational costs to manage a given type of collateral, ability to generate liquidity from a given type of collateral (and thus the associated impact on the CCP liquidity profile) and commercial considerations such as competitive landscape. The extension of eligible collateral addresses members’ demand for more flexibility and consistency with industry standards and market practices. This extension was designed in coherence with the clearing services offered by LCH SA, the profile of the membership

⁵ Self-Regulatory Organizations; LCH SA; Order Approving Proposed Rule Change Relating to Eligible Collateral and Liquidity Risk Management, Exchange Act Release No. 34-93176 (Sept. 29, 2021); 86 Fed. Reg. 55061 (Oct. 5, 2021). File No. SR-LCH SA-2021-002.

and the risk policies, regulatory constraints and operational capacity LCH SA operates under.

As per CDSClear current collateral fee grid (copied below), LCH SA already charges different fees depending on the type of securities, the way that such securities are deposited at the CCP as well as the type of activity these cover. For instance, for securities deposited under Full Title Transfer (FTT) by a clearing Member to meet the margin liabilities of its House account (self-clearing activity), LCH SA charges an 11bps fee on the notional of government bond securities whereas the charge is 13bps for Agencies and Supranational securities⁶. Similarly, LCH SA charges a 10bps fee for both Government Bonds and Agencies/Supranational securities deposited under FTT by a clearing member covering its Clients' accounts activity.

⁶ Self-Regulatory Organizations; LCH SA; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Amendments to LCH SA's Fee Grid for Non Cash Collateral, Exchange Act Release No. 34-87536 (Nov. 14, 2019); 84 Fed. Reg. 64125 (Nov. 20, 2019) (File No. SR-LCH SA-2019-010).

			House			Client
	Securities	denominated in	Triparty	FTT	Pledge	
Government Securities (as listed in Haircut Schedule)	France	EUR	9.5 bps	11 bps	15 bps	10 bps
	Germany	EUR	9.5 bps	11 bps	15 bps	10 bps
	Belgium	EUR	9.5 bps	11 bps	15 bps	10 bps
	Netherlands	EUR	9.5 bps	11 bps	15 bps	10 bps
	Italy	EUR	9.5 bps	11 bps	15 bps	10 bps
	Portugal	EUR	9.5 bps	11 bps	15 bps	10 bps
	Spain	EUR	9.5 bps	11 bps	15 bps	10 bps
	Austria	EUR	9.5 bps	11 bps	15 bps	10 bps
	Finland	EUR	9.5 bps	11 bps	15 bps	10 bps
	USA	USD	9.5 bps	11 bps	15 bps	10 bps
	UK	GBP	9.5 bps	11 bps	15 bps	10 bps
	Supranationals & Agencies	EFSB	EUR	9.5 bps	13 bps	15 bps
ESM		EUR	9.5 bps	13 bps	15 bps	10 bps
EIB		EUR	9.5 bps	13 bps	15 bps	10 bps
EU		EUR	9.5 bps	13 bps	15 bps	10 bps
IBRD		EUR	9.5 bps	13 bps	15 bps	10 bps
KfW		EUR	9.5 bps	13 bps	15 bps	10 bps
Rentenbank		EUR	9.5 bps	13 bps	15 bps	10 bps
Equities	<i>As listed in Haircut Schedule</i>	EUR	N/A	13 bps	N/A	N/A

From November 1st, 2021, LCH SA is proposing to extend the scope of instruments eligible as collateral to the government bonds issued by the following countries and denominated in their domestic currencies: Australia, Canada, Denmark, Japan, Norway, Sweden and Switzerland.

As such, LCH SA needs to update its existing non-cash collateral fee grid for both House and Client clearing activities. As mentioned before, various factors are taken into consideration when defining the fee to be charged for a given security. For this initiative, LCH SA has considered a combination of elements such as the impossibility to use these securities as collateral with the European Central Bank (**ECB**) for liquidity management purposes, the relative appetite of the membership for this new collateral and the operational costs and constraints that the management of those securities create for the CCP (incl. their impact on LCH SA Liquidity Coverage Ratio).

As specified in the fee grid attached [sic] as Exhibit 5, the purpose of the Proposed Rule Change is to define the fee to be charged for the new scope of eligible collateral (13bps for House and 10 bps for Client clearing activities). The difference between the fee charged for House versus Client collateral is mainly driven by commercial reasons in consultation with CDSClear clearing members. Client clearing of CDS is reasonably recent in Europe. Given the limited scope of CDS instruments and categories of buy-side counterparties included in the scope of the European Clearing Obligation for CDS, LCH SA believes that expanding the list of eligible collateral as well as setting a more attractive collateral fee for Clients of the CDSClear service will incentivise further buy-side firms to clear a bigger share of their Credit Derivatives portfolio.

No amendments to the LCH SA CDS Clearing Rules are required for these changes to become effective.

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.⁷

LCH SA believes that its clearing fee change proposal is consistent with the requirements of Section 17A of the Act⁸ 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.

As explained in our approved filing LCH SA-2021-002⁹, contrary to European government bonds, the new collateral scope is not eligible at the ECB to be used as collateral against cash in Euros, which in turn impacts how LCH SA monitors and manages its liquidity resources. It therefore represents additional operational costs that are amongst other things captured in the pricing difference. That is why, the proposed fee change balances appropriately commercial conditions and the impacts on the liquidity of the CCP induced by additional non-euro denominated securities.

⁷ 15 U.S.C. 78q-1(b)(3)(D).

⁸ 15 U.S.C. 78q-1.

⁹ Self-Regulatory Organizations; LCH SA; Order Approving Proposed Rule Change Relating to Eligible Collateral and Liquidity Risk Management, Exchange Act Release No. 34-93176 (Sept. 29, 2021); 86 Fed. Reg. 55061 (Oct. 5, 2021). File No. SR-LCH SA-2021-002.

The fee charged to clients of LCH SA CDSClear service is unchanged compared to existing securities as LCH SA wanted to preserve consistency in the pricing for clients of LCH SA CDSClear service.

Additionally, today, CDSClear members and their clients mainly post cash collateral currently and LCH SA does not foresee that the proposed fee changes will alter current market practice amongst CDSClear's members and clients or will have any material impact on CDSClear's revenues. Indeed, the initiative is simply widening the list of eligible collateral as well as setting the associated fee for the new securities. It does not make any change to the fees charged on the existing list of eligible collateral and as such won't impact at all any of the current clearing members. Any clearing member wishing to deposit newly added securities as collateral for LCH SA will be able to do so knowing in advance the associated fee. Any clearing member not wishing to use the new range of eligible collateral for whatever reason will remain perfectly free to do so as well.

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 given the costs, expenses and revenues generated to LCH SA in providing these expanded collateral management 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.¹⁰

¹⁰ 15 U.S.C. 78q-1(b)(3)(I).

LCH SA does not believe that the proposed rule change would impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

LCH SA is offering the possibility for CDSClear members and clients to post a greater scope of instruments as eligible margin collateral. Additionally, the proposed fee change will apply equally to all CDSClear clearing members and is not expected to have any potential disparate outcomes on any of them. Finally, the fee rate changes will not adversely affect the ability of such members or other market participants generally to engage in cleared transactions or to access LCH SA's clearing services.

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.

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)¹¹ of the Act and Rule 19b-4(f)(2)¹² 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.

¹¹ 15 U.S.C. 78s(b)(3)(A).

¹² 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-2021-003 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-2021-003. 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 am and 3:00 pm. 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/rulebooks/proposed-rule-changes>. 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-2021-003 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.¹³

J. Matthew DeLesDernier
Assistant Secretary

¹³ 17 CFR 200.30-3(a)(12).