

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-82076; File No. SR-LCH SA-2017-008)

November 14, 2017

Self-Regulatory Organizations; LCH SA; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Margin Framework and Default Fund Methodology for Options on Index Credit Default Swaps

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder² notice is hereby given that on November 6, 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 prepared primarily by LCH SA. LCH SA filed the proposed rule changes pursuant to Section 19(b)(3)(A)³ of the Act 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

LCH SA is filing the new fee grid in connection with the proposed extension of the CDSClear service to the clearing of options on index credit default swaps (“CDS Options”). The text of the proposed rule change has been annexed 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).

Two separate proposed rule changes have been submitted concurrently (SR-LCH SA-2017-006 and 007) with respect to amendments to (i) LCH SA's rule book and other relevant procedures and to (ii) LCH SA CDS Clear Margin Framework and Default Fund Methodology in order to incorporate terms and to make conforming and clarifying changes to allow CDS Options to be cleared by LCH SA. The launch of clearing CDS Options will be contingent on LCH SA's receipt of all necessary regulatory approvals, including the approval by the Commission of the proposed rule changes described under SR-LCH-SA-2017-006 and 007.

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

The purpose of the proposed rule change is to establish the applicable fee grid in connection with the proposed extension of the CDS Clear service to the clearing of CDS Options.

The proposed rule change introduces a fixed onboarding fee payable by every General and Select member that will join the new clearing service. The onboarding fee

will be waived for any member whose onboarding for such clearing service is duly confirmed by LCH SA on or before 31st March 2018.

In addition to the fixed onboarding fee, the clearing fees are due by each General Member, Select Member or Client in accordance with the amount, currency and volume specified in the fee grid attached in Exhibit 5. Similar to the current Index & Single Names fee grid for General Membership under the Introductory tariff, a floor and a cap on clearing fees have been implemented for General Members opting for the CDS Options clearing service. Select Members opting for the CDS Options clearing service are only subject to capped fees as Select Membership is designed primarily for price takers with a smaller portfolio and a fixed cost (to which a floor amounts to) would deter them from clearing CDS Options.

All members and clients will benefit from a clearing fee holiday until 31st December 2017.

2. Statutory Basis.

LCH SA believes that the proposed rule change in connection with the clearing of CDS Options is consistent with the requirements of Section 17A of the Act and the regulations thereunder, including the standards under Rule 17Ad-22.⁵

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 The proposed fee grid for the new non-mandatory Credit Index Options clearing service has been discussed with CDSClear members and designed with the goal of enabling members to register to this service as well as to incentivize clearing of such non-

⁵ 17 CFR 240.17Ad-22.

⁶ 15 U.S.C. 78q-1(b)(3)(D).

mandated for clearing products while taking into consideration current market trading conditions for options.

As noted above, the proposed fee grid will apply equally to all General members, Select Members and clients that will voluntarily participate in this new CDS Clearing Service and LCH SA believes that it is reasonable and appropriate.

As Select Members have fewer obligations than General Members, variable clearing fees for CDS Options are higher for Select Members than for General Members (similarly to the current Index & Single Names variable fee grid). Clients have no obligation towards the CCP, and hence variable clearing fees for CDS Options are set higher for them than for Members (similarly to the current Index & Single Names variable fee grid). As for Select Members, a fixed cost (floor) being applied to clients could deter them from choosing to clear CDS Options.

Finally, the purpose of the cap is to incentivize participants to provide liquidity into the CDS Options clearing service. Unlike General Members, as clients are not meant to provide such liquidity, LCH SA does not offer capped clearing fees for clients.

LCH SA believes that the proposed rule change is consistent with the requirements of Section 17A of the Act⁷ and regulations thereunder applicable to it, because it provides for the equitable allocation of reasonable fees, dues, and other charges among clearing members and market participants by ensuring that General and Select Members and clients pay reasonable fees and dues for the services that LCH SA provides.

⁷ 15 U.S.C. 78q-1.

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.

Credit Index Options contracts will be available to all LCH SA CDSClear participants for clearing. The clearing of CDS Options contracts by LCH SA CDSClear does not preclude the offering of these financial instruments for clearing by other market participants.

The proposed rule change 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. 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.

⁸ 15 U.S.C. 78q-1(b)(3)(I).

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

Subject to any regulatory review or approval process duly completed, 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.

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 e-mail to rule-comments@sec.gov. Please include File Number SR-LCH SA-2017-008 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, N.E., Washington, D.C. 20549-1090.

⁹ 15 U.S.C. 78s(b)(3)(A).

¹⁰ 17 CFR 240.19b-4(f)(2).

All submissions should refer to File Number SR-LCH SA-2017-008. 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, N.E., Washington, D.C. 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 <http://www.lch.com/asset-classes/cdsclear>.

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-2017-008 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

Eduardo A. Aleman
Assistant Secretary

¹¹ 17 CFR 200.30-3(a)(12).