



**8011-01**

**SECURITIES AND EXCHANGE COMMISSION**

(Release No. 34-87536; File No. SR-LCH SA-2019-010)

November 14, 2019

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

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder<sup>2</sup> notice is hereby given that on October 31, 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 proposed rule change pursuant to Section 19(b)(3)(A) of the Act,<sup>3</sup> and Rule 19b-4(f)(2)<sup>4</sup> 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**

Banque Centrale de Compensation, which conducts business under the name LCH SA ("LCH SA"), is proposing to review and modify its current fee grid applied for Non Cash Collateral (NCC) across all clearing services including CDSClear.

---

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

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

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A).

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

The text of the proposed rule change has been annexed as Exhibit 5.<sup>5</sup>

**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

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

<u>Collateral type</u>	<u>FFT</u>		<u>PLEDGE</u>	
	<u>House</u>	<u>Client</u>	<u>House</u>	<u>Client</u>
Government Bonds	10bps	10bps	10bps	10bps
Supranational Bonds	N/A	N/A	N/A	N/A
Agency Bonds	10bps	10bps	10bps	10bps

From November 1<sup>st</sup>, 2019, LCH SA is proposing to extend the scope of instruments eligible to margin collateral to EUR denominated bonds issued by a number of supranational and agency institutions. LCH SA is also proposing to extend the possibility to use the pledge solution in Euroclear Bank for the other LCH SA clearing services (namely RepoClear and EquityClear the “Non US Business”<sup>6</sup>). In this context,

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

<sup>6</sup> See the definition under Order Granting Application for Registration as a Clearing Agency and Request for Exemptive Relief, Order, Securities Exchange Act

LCH SA is moving to apply more differentiation in its collateral fee grid and thus CDSClear has decided to harmonize its existing non-cash collateral fee grid for house collateral with that of the other LCH SA clearing services.

The objective of the proposed fee change is to differentiate the pricing by type of non-cash collateral accepted by LCH SA and deposit facility. These changes will be applicable across all LCH SA clearing services with the exception of CDSClear's client collateral fees that will differ from house fees and remain at their current level for all non-cash securities.

No amendments to the LCH SA CDS Clearing Rules are required to effect these changes.

As specified in the fee grid attached under Exhibit 5, the proposed house collateral fee change is for CDSClear to:

- (i) increase the fee rate from 10 bps to 11 bps for full title transfer of Government issued bonds<sup>7</sup>;
- (ii) introduce a fee rate of 13 bps for full title transfer of Supranational issued bonds;
- (iii) increase the fee rate from 10bps to 13bps for full title transfer of Agency issued bonds;
- (iv) increase the fee rate from 10bps to 15bps for all pledged securities.

---

Release No. 34-79707; File No. 600-36 (Dec. 29, 2016), 82 FR 1398 (Jan. 5, 2017) (available at <https://www.federalregister.gov/documents/2017/01/05/2016-31940/self-regulatory-organizations-lch-sa-order-granting-application-for-registration-as-a-clearing>)

<sup>7</sup> To become effective on April 1<sup>st</sup>, 2020

For CDSClear clients, a fee rate of 10 bps will be introduced for full title transfer of Supranational bonds. No other changes will be made to CDSClear's client collateral fees.

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.<sup>8</sup>

LCH SA believes that its clearing fee change proposal is consistent with the requirements of Section 17A of the Act<sup>9</sup> 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.

The extension of the non-cash eligible securities along with the extension of the pledge facility is an improvement of service that offers all LCH SA's members and clients more choice and therefore more opportunities to better tailor their collateral management to their needs but it also does bear consequences on LCH SA's balance sheet as a whole and therefore on its liquidity ratio management.

Currently the pledge facility is only available to CDSClear members and clients with a very limited use. However, as a result of the broadening of the pledge facility to Non US-Business, the expected overall impact on LCH SA's liquidity ratio now needs to be carefully monitored and managed. Further, in order to offer this enhanced collateral

---

<sup>8</sup> 15 U.S.C. 78q-1(b)(3)(D).

<sup>9</sup> 15 U.S.C. 78q-1.

management service, LCH SA has also invested in the development of a number of additional systems and controls leading to the review and changes of the applicable fee grid.

Additionally, today, CDSClear members mainly post cash collateral and we do not foresee that the fee changes will alter current market practice amongst CDSClear's members and clients.

As an illustration, from January 2018 to September 2019, the percentage of collateral posted in securities was less than 20% on average for house activity, supporting the assessment that these fee changes will not have any material impact on CDSClear's revenues.

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 improved 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.<sup>10</sup>

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.

---

<sup>10</sup> 15 U.S.C. 78q-1(b)(3)(I).

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. 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.

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 rule change has become effective pursuant to Section 19(b)(3)(A) of the Act and paragraph (f) of Rule 19b-4 thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such 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](mailto:rule-comments@sec.gov). Please include File Number SR-LCH SA-2019-010 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-2019-010. 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 the filing also will 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-2019-010 and should be submitted on or before [Commission to insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>11</sup>

Jill M. Peterson  
Assistant Secretary

---

<sup>11</sup> 17 CFR 200.30-3(a)(12).

[FR Doc. 2019-25105 Filed: 11/19/2019 8:45 am; Publication Date: 11/20/2019]