



8011-01P

SECURITIES AND EXCHANGE COMMISSION
[Release No. 34-85763; File No. SR-LCH SA-2019-002]

Self-Regulatory Organizations; LCH SA; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to the Extension of the Onboarding Fee Waiver and Introduction of a Fee Rebate Scheme for CDSClear Index Swaptions Clearing Activities May 2, 2019.

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 April 29, 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 will extend the onboarding fee waiver and introduce a fee rebate scheme for CDSClear Index Swaptions clearing activities to be effective upon filing with the Commission.

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

As specified in the table below, the current CDSClear Index Swaptions fee grid includes an onboarding fee and offers both General Members and Select Members a choice between the Introductory Tariff and the Unlimited Tariff.

The purpose of the proposed rule change is to:

- 1) extend the waiver period for the onboarding fee for both General Members and Select Members that register to the CDSClear Index Swaptions clearing service, and
- 2) introduce a clearing fee rebate applicable to the Index Swaptions Unlimited Tariff for both General Members and Select Members.

As a reminder, under the Unlimited Tariff, Clearing Members pay a fixed amount annually that covers all clearing fees for their Index Swaptions House activity for the activity of all the Affiliates of their Clearing Member group.

Current LCH SA CDS Clear Index Swaptions Clearing Service Fee Grid

General Member	<u>Introductory Tariff</u> Cover only one Clearing Member legal entity (no Affiliate coverage)		
	Clearing fees	\$15	per million of Index Swaptions notional on US Indices*
		€15	per million of Index Swaptions notional on European Indices
	Floor on clearing fees	€150k	Per calendar year (no pro-rating)
	Cap on clearing fees	€600k	Per calendar year (no pro-rating)
	<u>Unlimited Tariff</u> Cover all the Affiliates of a given Clearing Member group Cover all clearing fees for Index Swaptions House activity for both iTraxx and CDX.NA underlying index families		
	Fixed fee (annual)	€375k	Per calendar year (no pro-rating)
Select Member	<u>Introductory Tariff</u> Cover only one Clearing Member legal entity (no Affiliate coverage)		
	Clearing fees	\$18	per million of Index Swaptions notional on US Indices*
		€18	per million of Index Swaptions notional on European Indices
	Cap on Clearing fees	€600k	Per calendar year (no pro-rating)
	<u>Unlimited Tariff</u> Cover all Affiliates of a given Clearing Member group Cover all clearing fees for Index Swaptions House activity for both iTraxx and CDX.NA underlying index families		
	Fixed fee (annual)	€400k	Per calendar year (no pro-rating)
	<u>Onboarding Fees</u> (both Introductory Tariff & Unlimited Tariff)	€30k	One-off fee per Clearing Member legal entity under the Introductory Tariff or per Clearing Member group under the Unlimited Tariff waived until 31-Mar-19
Client	Clearing fees	\$20	per million of Index Swaptions notional on US Indices
		€20	per million of Index Swaptions notional on European Indices

In order to incentivize the Clearing Members to build liquidity in the CDSClear Index Swaptions clearing service, LCH SA has decided to make the following changes to its Index Swaptions fee grid:

- 1) extend the waiver period for the onboarding fee from 31 March 2019 to 20 December 2019 for both General Members and Select Members that register to the CDSClear Index Swaptions clearing service, and
- 2) implement a fee rebate scheme, applicable to the Unlimited Tariff for both General Members and Select Members, in which discounts to the fixed fee will apply depending on the Index Swaptions notional cleared by each Clearing Member group as detailed hereinafter.

The fee rebate scheme will be valid for 2019 only and apply equally to all Clearing Members that register to the CDSClear Index Swaptions clearing service.

In order to determine the relevant discount rate to apply, LCH SA will consider the total Index Swaptions notional cleared in 2019 starting from the date on which the fee rebate is deemed effective in accordance with any relevant regulatory review and approval process.

Revised LCH SA CDSClear Index Swaptions Clearing Service Fee Grid

Index Swaptions clearing service fee rebate scheme*			
General Member	Unlimited Tariff		
	Fixed fee (annual)	€375k	Per calendar year
	Discounted Rates	€50k	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
		€75k	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
		€125k	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
Select Member	Unlimited Tariff		
	Fixed fee (annual)	€400k	Per calendar year
	Discounted Rates	€50k	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
		€75k	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
		€125k	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
Cumulative conditions for the Fee rebate: (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); (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.			
Onboarding fee (for both General Members and Select Members)		€30k	One-off fee per Clearing Member group waived until 20 December 2019 under the Unlimited Tariff

* Subject to regulatory review/approval process

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.⁵

LCH SA has determined that the proposed fees are reasonable and appropriate to offer and grow CDSClear Index Swaptions clearing services.

Regarding the CDClear Index Swaptions service, LCH SA has already rule filed with the SEC the relevant fee grid and believes that the proposed discounts for CDSClear Index Swaptions clearing activities have been set up at an appropriate level given the costs, expenses and revenues to be generated to LCH SA in providing such services.

All clearing members will have the same opportunity to equally benefit from the proposed incentive rebate according to the specified conditions.

LCH SA believes that proposing such clearing fees and rebate are consistent with the requirements of Section 17A of the Act⁶ 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 pay reasonable fees and dues for the services provided by LCH SA, within the meaning of Section 17A(b)(3)(D) of the Act.

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

⁵ 15 U.S.C. 78q-1(b)(3)(D).

⁶ 15 U.S.C. 78q-1.

purposes of the Act.⁷ LCH SA does not believe that the proposed rule change would impose any burden on competition.

As noted above, LCH SA believes that the fees amount and related discounts have been set up at an appropriate level given the costs and expenses to LCH SA in offering and maintaining the relevant CDSClear Index Swaptions clearing services.

Additionally, the fee waiver and rebate will apply equally to all CDSClear Clearing Members and their Affiliates.

Further, 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 as the clearing of Index Swaptions remains not mandatory.

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)⁸ of the Act and Rule 19b-4(f)(2)⁹ thereunder because it establishes a fee or other charge imposed by LCH SA on its Clearing Members. At any time within 60

⁷ 15 U.S.C. 78q-1(b)(3)(I).

⁸ 15 U.S.C. 78s(b)(3)(A).

⁹ 17 CFR 240.19b-4(f)(2).

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:

- 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-2019-002 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-2019-002. 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-2019-002 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.¹⁰

Eduardo A. Aleman,
Deputy Secretary.

¹⁰ 17 CFR 200.30-3(a)(12).

