



SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-90862; File No. SR-LCH SA-2020-007]

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

January 6, 2021.

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 December 31, 2020, 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 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

The proposed rule change is to review and modify the current CDS Clear fee grid applied by LCH SA.

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

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 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 fee changes is for LCH SA CDSClear to revise the (i) fees under the Unlimited Tariff for General Members⁵, (ii) fees for Corporates and Financials Index and Single Name CDS under the Introductory Tariff for both General and Select Members, (iii) fees set up for the Options clearing service for both General and Select Members and Clients as well and introduce (iv) new fee conditions for Affiliates clearing as client.

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

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

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	€ 1,300,000	No Variable Fee				Covers all self-clearing Corporate and Financials 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 1,300,000 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					

Options Tariff including Fee rebate

General Member	Introductory Tariff	Cover only one legal entity (no affiliate coverage) In-year switches are not permitted	
	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>	€ 375k	<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 In-year switches are not permitted	
	<i>Fixed fee (annual)</i>	€ 375k <i>Per calendar year (no pro-rating)</i>	
	<i>Discounted Rates*</i>	€ 150k <i>if notionals cleared strictly above €6bn but equal to or below €13.5bn</i> € 75k <i>if notionals cleared strictly above €13.5bn</i>	
Onboarding Fees <i>(both Introductory & unlimited)</i>	€ 30k	One-off fee per Legal Entity under the Introductory tariff or per Clearing Member Group under Unlimited tariff waived until 30-Apr-2020	
Select Member	Introductory Tariff	Cover only one legal entity (no affiliate coverage) In-year switches are not permitted	
	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>	€ 400k	<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 In-year switches are not permitted	
	<i>Fixed fee (annual)</i>	€ 400k	<i>Per calendar year (no pro-rating)</i>
	<i>Discounted Rates*</i>	€ 150k <i>if notionals cleared strictly above €6bn but equal to or below €13.5bn</i> € 75k <i>if notionals cleared strictly above €13.5bn</i>	
	Onboarding Fees <i>(both Introductory & unlimited)</i>	€ 30k	One-off fee per Legal Entity under the Introductory tariff or per Clearing Member Group under Unlimited tariff waived until 30-Apr-2020
<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) 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 under Exhibit 5 [sic], LCH SA is proposing to amend the CDSClear fee grid from January 1st, 2021.

The proposed fee changes are driven by the evolution of the CDSClear business and arrangements.

- for the Index and Single Names: the fee change reflects a transition to a more matured phase of development of the CDSClear service, and
- for the Options fee grid: the intent is to adjust the fee conditions and rebate to the new competitive environment as well as encourage the development of options clearing by clients,
- for Affiliates clearing as client, the need to take into consideration the evolution of the corporate structure of dealers and the use of multiple legal entities.

1) Change the fees under the Unlimited Tariff for General Members

CDSClear currently offers an Unlimited Tariff for General Members that covers all self-clearing Corporate and Financials CDS Index and Single Names activity for a Financial Group of a Clearing Member for an annual fixed fee of €1,300,000 (no variable fees).

The proposed change consists in increasing the annual fixed fee amount to €1,350,000 per year from January 1, 2021.

2) Change the fees under the Introductory Tariff for both General and Select Members

a) For General Members

As specified in the new LCH SA CDSClear fee grid attached below in Exhibit 5 [sic], from January 1, 2021, the annual fixed fee under the Introductory Tariff will be set for General Members to €200,000 if the total annual gross notional cleared is under €10bn (vs €15bn today) and to €400,000 per year when clearing more than €10bn (vs €15bn today).

LCH SA is also proposing to remove the previous annual cap on total annual fees (fixed + variable) of €1,300,000 under the Introductory Tariff for General Members.

The variable fees remain the same as the current ones.

b) For Select Members

From January 1, 2021, the annual fixed fee under the Introductory Tariff will be set for Select Members to €250,000 if the total annual gross notional cleared is under €20bn (vs €25bn today) and to €450,000 per year for Select Members when clearing more than €20bn (vs €25bn today).

The variable fees remain the same as the current ones.

3) Revise the fees set up for the Options clearing service for both General and Select Members as well as Clients

a) Options Unlimited Tariff for General and Select Members

From January 1, 2021, the annual fixed fee covering all clearing fees for Credit Index Options House activity for all Affiliates of a given Financial Group of a Clearing Member is proposed to change from a two tier discount (the first one if the notional cleared is strictly above €6bn and the second one if the notional cleared is strictly above €13.5bn) to a single discount if the notional cleared is strictly above €15bn. The fixed fee would in the new fee grid then be reduced from €375,000 to €115,000 (no prorating) for General Members and from €400,000 to €115,000 (no prorating) for Select Members compared to €150k and €75k for the two tiers currently.

b) Options Introductory Tariff for General and Select Members

The current Options Introductory Tariff for both General and Select Members covers only the legal entity that is registering to the service.

The Options Introductory Tariff for a General Member is proposed to be based on the annual floor and conditions below:

- Floor of €115,000 for a single entity (vs €150,000 today per entity)
- Floor of €150,000 for 2 entities of the same Financial Group of a Clearing Member
- Floor of €190,000 for 3 or more entities of the same Financial Group of a Clearing Member
- Removal of the annual cap of €375,000 on Options clearing fees
- Reduction of variable fees from €15/\$15 to €8/\$8 per million of option notional cleared.

The Options Introductory Tariff for a Select Member is proposed to be based on the conditions below:

- Reduction of variable fees from €18/\$18 to €10/\$10 per million of option notional cleared
- Removal of the annual cap on Options clearing fees of €400,000

c) Options Clearing Members (General Members under Unlimited or Introductory)

LCH SA is proposing an up to €200,000 fee rebate limited to the total amount of Options clearing fees paid by a Financial Group of a Clearing Member in 2021 for the first two Clearing Members clearing Options for at least one Client by 31 July 2021.

d) Options Clearing Fees for Clients

The Options clearing fee grid for Clients is proposed to include the following changes:

- Clients variable clearing fees for Options decreased from €20/\$20 to €5/\$5 per million of option notional cleared.
- Fee holiday for Clients clearing Options in 2021

4) Introduction of new fee conditions for Affiliates clearing as Client

As specified in the new LCH SA CDSClear options fee grid attached below in Exhibit 5 [sic], LCH SA CDSClear is proposing to offer a full rebate on client clearing variable fees for Affiliates of a Clearing Member that is clearing as client of that Clearing Member under the following conditions:

- The Clearing Member is a General Member under the Unlimited Tariff,
- The Affiliate is a legal entity part of the same Financial Group as the Clearing Member,
- The rebate applies to 1 trade account per Affiliate and for all clearing services for which the Clearing Member is under the Unlimited Tariff (i.e. Index & Single Names and/or Options),
- The rebate cannot apply to any account opened for CCM Indirect Clients, and
- A fixed annual account fee of €100,000 is charged per Affiliate of a Clearing Member onboarded as a Client and benefiting from the full rebate on variable 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.⁶

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 Single Name CDS Unlimited Tariff for General Members, LCH SA has determined in consultation with its clearing members that the slight increase in the annual fixed fee amount 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 the likelihood to onboard new General Members under the Unlimited Tariff is small or even negligible given the structure of the CDS market and the limited number of market makers in this space.

With respect to the Index and Single Names CDS Introductory Tariffs for both General and Select Members, both the annual fixed fee and the variable fees remain the same. The removal of the cap as well as the lowering of the notional thresholds aim at reflecting the fact that market participants are now more familiar with the CDSClear service as well as their own activity in the Credit Derivatives space:

⁶ 15 U.S.C. 78q-1(b)(3)(D).

⁷ 15 U.S.C. 78q-1.

- the removal of the cap which was struck at the level of the fixed fee under the Unlimited Tariff incentivizes Clearing Members to select the most appropriate tariff for them at the start of the year
- the lowering of the notional thresholds would constitute an increase of fees for the Members which have cleared less than the current threshold but more than the new one. No member is in that situation.

The main change in the fee grid of the Options clearing service is the decrease of the variable fees for General and Select Members as well as Clients in order to make clearing of options more attractive for all, and in particular for clients to begin clearing options.

Besides, and after discussing with its Clearing Members, LCH SA has elected to maintain a similar volume-based discount fee structure for its Options Unlimited Tariff for both General and Select Members in which the cost of clearing options decreases as more volumes are cleared. The increase of the notional threshold as well as of the decrease of the discount percentage are reflective of the growth of the Option clearing service over the last year which now is more broadly used by LCH SA Clearing Members and which justifies the increase of total fees paid by the Clearing Members having selected this scheme.

Consequently, the General Member Introductory Tariff has been redesigned to be more appropriate for smaller Options trading members: in particular, the decrease of the annual floor, the introduction of 2 new levels of annual floor depending on the number of legal entities of a given Financial Group of a Clearing Member joining the service as well as the removal of the cap are meant to ease the introduction of new members to the Options clearing service.

Changes following the same principles and rationale have also been made to the Select Members Options fee grid to ensure a consistent access between the 2 membership tiers.

Lastly, and in order to incentivize the development of Options Client clearing, LCH SA is proposing to provide the first 2 Clearing Members clearing options on behalf of at least one of their clients, and before 31 July 2021, with a one-off fee rebate equal to the total amount of Options clearing fees paid in 2021, capped at €200,000, in order to mitigate the cost associated with the systems developments required to enable clients to access the LCH SA Options clearing service. The rationale to limit the number of Clearing Members eligible to this one-off rebate to the first two clearing an option trade on behalf of clients is twofold:

- Further incentivize competition between the Clearing Members which have an interest in building client clearing capabilities for options by offering a rebate substantial enough to cover some of the build costs that will be incurred by the Clearing Members.
- Mitigate financial risk for LCH SA by predefining the maximum amount of rebate it could have to pay back to its Clearing Members as well as the amount of the rebate they would get, thus maintaining the attractiveness of the rebate for them. All clearing members will have the same opportunity to equally benefit from the proposed incentive rebate according to the specified conditions.

Finally, the introduction of a specific fee structure (full variable fee rebate plus fixed account charge) for Affiliates of a given Financial Group of a Clearing Member clearing as Clients of such Clearing Member and under a set of pre-defined conditions aims at offering Financial Groups of Clearing Members under the General Membership

Unlimited Tariff additional, fairly-priced ways for their Affiliates to gain access to LCH SA CDSClear service.

LCH SA CDSClear has thus determined that the proposed new fee structure is more appropriate and takes into account the expected volume of transactions. All the clearing fee conditions remain transparent and equally applicable to any market participant wishing to access the CDSClear clearing service for both Index & Single Names as well as Options.

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 credit index swaptions that remains not mandatory.

Additionally, the proposed volume-based discount scheme for the Options Unlimited Tariff will be available to any Financial Group of a Clearing Member using CDSClear services.

⁸ 15 U.S.C. 78q-1(b)(3)(I).

Similarly, the proposed Index and Single Names Unlimited Tariff will be available to any Financial Group including an entity registered as a General Member of the CDSClear service.

The annual fixed fee increase 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.

The rebate offered on client clearing fees for Affiliates of a General Member under the Unlimited Tariff relies on the fact that should such Affiliate join as a Clearing Member his fees would be covered by the fixed fee of the Unlimited Tariff whereas this wouldn't be the [sic] case for Select Members.

More broadly, none of the proposed changes impacts competition between General and Select Members as they have been designed consistently across both tiers or are more extensions of existing features of the current fee grid.

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 verbal feedback sought from CDSClear members. No comment or question has been received following this consultation. LCH SA will notify the Commission of any subsequent 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 [sic] of the Act and Rule 19b-4(f)(2)10 [sic] 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 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-2020-007 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-2020-007. 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/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-2020-007 and should be submitted on or before **[INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]**.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁹

J. Matthew DeLesDernier,

Assistant Secretary.

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⁹ 17 CFR 200.30-3(a)(12).