



## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-102905; File No. SR-LCH SA-2025-004]

### Self-Regulatory Organizations; LCH SA; Notice of Filing of Proposed Rule Change Relating to Collateral Concentration Limits

April 22, 2025.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4,<sup>2</sup> notice is hereby given that on April 8, 2025, 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”), as described in Items I, II and III below, which Items have been prepared primarily by the clearing agency. 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 proposing to amend revise the amount of supranational and European agency securities clearing members may post to satisfy initial margin requirements (the “Proposed Rule Change”).<sup>3</sup> The text of the Proposed Rule Change is provided in Exhibit 5 [SIC]. The implementation of the Proposed Rule Change will be contingent on LCH SA's receipt of all necessary regulatory approvals.

#### II. Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

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

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

<sup>3</sup> All capitalized terms not defined herein have the same meaning as in the Rule Book or Procedures, as applicable, in their version as available on LCH SA's website: <https://www.lch.com/resources/rulebooks/lch-sa>.

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. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

LCH SA is proposing to revise the amount of supranational and European agency securities clearing members may post to satisfy initial margin requirements, including by revising the current concentration limit per individual International Securities Identification Number (“**ISIN**”) with respect to the instrument’s total outstanding amount. LCH SA currently allows clearing members to post as collateral for initial margin requirements, supranational and European agency debt securities issued by the following entities: Caisse d’Amortissement de la Dette Sociale (“**CADES**”); European Financial Stability Facility (“**EFSF**”); European Investment Bank (“**EIB**”); European Union (“**EU**”); International Bank for Reconstruction and Development (“**IBRD**”); European Stability Mechanism (“**ESM**”); Landwirtschaftliche Rentenbank (“**Rentenbank**”) and Kreditanstalt für Wiederaufbau (“**KFW**”).<sup>4</sup> Clearing members may currently post no more than the lower of 1) 50% of the value of the clearing member’s initial margin requirement and 2) €500 million for the total amount of supranational and European agency securities. Any remaining initial margin requirements must be satisfied with either cash or other eligible securities.

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<sup>4</sup> LCH SA’s list of eligible securities as collateral and the respective haircuts can be found here: [https://www.lseg.com/content/dam/post-trade/en\\_us/documents/lch/collateral-management/lch-sa/acceptable-collateral-haircuts-lch-sa.pdf](https://www.lseg.com/content/dam/post-trade/en_us/documents/lch/collateral-management/lch-sa/acceptable-collateral-haircuts-lch-sa.pdf).

LCH SA is now proposing to apply individual limits to supranational and European agency securities, rather than applying a single limit across all such issuers. The application of individual limits by the issuer will provide clearing members more flexibility in the composition of securities collateral posted as margin and to allow for LCH SA to apply a targeted approach to establishing limits on such acceptable collateral. LCH SA's Collateral and Liquidity Risk Management team ("CaLM") will establish limits for each security type based on a market analysis of the credit and liquidity risk profile of each issuer. Should market conditions or the credit or liquidity risk profile of the issuer change, CaLM will be afforded more precision in how it may adjust limits and/or concentration thresholds, while continuing to manage the overall collateral risk of all securities lodged to satisfy clearing member margin requirements. The Proposed Rule Change will also further align how LCH SA currently manages the risk for all non-cash collateral and provide consistency with the collateral management practices for non-cash collateral at LCH Limited.

Following an analysis of the risk profile for each supranational and European agency security instrument<sup>5</sup>, LCH SA is proposing to establish the limit of supranational and European agency securities to be the lesser of 50% of the value of the member's initial margin requirement and as follows for each issuer:

- EU €2,000 million;
- EIB €1,250 million;
- EFSF €750 million;
- IBRD €750 million;
- ESM €750 million;

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<sup>5</sup> In accordance with LCH SA's Collateral Risk Management Policy, non-cash collateral limits are established following an analysis of the market, credit, concentration and liquidity risk of each issuer. LCH SA also evaluates wrong-way risk and FX risk, and following this comprehensive analysis of each issuer, will establish a limit commensurate with the risk appetite determined in accordance with LCH SA's Risk Governance Framework.

- KFW €1,250 million;
- Rentenbank €500 million; and
- CADES €500 million.

As part of this revision to the supranational and European agency securities' limits, LCH SA is also proposing to apply a more conservative concentration limit per ISIN of each security type from the current level of 25% to 15%.<sup>6</sup> The proposed concentration limit of 15% acknowledges that SSA issuances are slightly less liquid than core EGBs, which have a 25% concentration limit set, whilst maintaining strong credit quality. The application of a more conservative concentration limit by individual ISIN aligns with LCH SA's current practices of managing concentration risk should LCH SA need to liquidate the collateral in the event of a clearing member default.<sup>7</sup> LCH SA is not proposing the addition of any new non-cash collateral types and the limits established herein are for supranational and European agency securities already acceptable as margin collateral.

To determine the respective limits for each security type, LCH SA assessed the Internal Credit Score ("ICS") of each issuer, the total amount of each issue outstanding and the weighted average of the yield bid-ask spread. LCH SA then assessed the liquidation cost for each issuer's ISIN by working with select investment counterparties to perform a hypothetical liquidation analysis at certain portfolio amounts under stressed

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<sup>6</sup> Information regarding concentration limits per ISIN is available on LCH SA's Knowledge Center, which is only accessible to members. The internal link to access those limits is: [https://lseg.lightning.force.com/lightning/r/Knowledge\\_\\_kav/ka0WT0000002jyjYAA/view](https://lseg.lightning.force.com/lightning/r/Knowledge__kav/ka0WT0000002jyjYAA/view).

<sup>7</sup> Please see Section 3 ("Collateral, Variation Margin and Cash Payment") of LCH SA's CDS Clearing Procedures and LCH SA's list of eligible securities available here: <https://www.lseg.com/en/post-trade/clearing/collateral-management/sa-collateral-management/sa-acceptable-collateral/sa-acceptable-securities>. LCH SA has additional tools to manage concentration and/or liquidity risk for non-cash collateral. This includes applying a concentration/liquidity charge added on top of the issuer's base haircut, establishing a hard cap per individual ISIN and establishing a mid- to bid-price adjustment on the security. Notwithstanding the foregoing, any concentration limit breaches will be escalated and managed in accordance with LCH SA's Collateral Risk Management Policy.

market conditions. The results of this analysis were used to validate the proposed individual limits and for purposes of evaluating the associated haircuts. Following this exercise, LCH SA determined the limits reflected in the Proposed Rule Change adequately incorporate the liquidity profile of the issue, the credit risk profile of the issuer and have appropriately conservative haircuts that covers both the bid price variation and the additional liquidation costs (related to the increased concentration) associated with each security type under stressed market conditions. Notwithstanding the foregoing, LCH SA will monitor the limits and calibrate the associated haircuts as part of its ongoing collateral risk management processes.

## 2. Statutory Basis

LCH SA believes that the Proposed Rule Change is consistent with the requirements of Section 17A of the Exchange Act<sup>8</sup> and the regulations thereunder, including the clearing agency standards under Exchange Act Rule 17Ad-22.<sup>9</sup> Section 17A(b)(3)(F) of the Exchange Act<sup>10</sup> requires, among other things, that rules of the clearing agency are designed to . . . assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.

LCH SA is proposing to revise the amount of supranational and European agency securities clearing members may post to satisfy initial margin requirements by establishing individual limits per issuer, rather than a single limit across all issuers. LCH SA currently allows clearing members to post as collateral for initial margin requirements, supranational and European agency debt securities and is not proposing to expand the composition of eligible collateral. Instead, LCH SA is proposing to establish individual limits for each supranational and European agency security type following an

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<sup>8</sup> 15 U.S.C. 78q-1.

<sup>9</sup> 17 CFR 240.17ad-22.

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

analysis of each issuer's market, credit, concentration, liquidity, wrong-way and FX risk in accordance with its Collateral Risk Management Policy. The resulting proposed limits will therefore incorporate the credit and liquidity risk profile for each issuer and will be reviewed on an ongoing basis as part of LCH SA's established collateral risk management practices. Based on the foregoing, LCH SA believes that the Proposed Rule Change is consistent with the requirements of Section 17A of the Exchange Act<sup>11</sup>, and in particular with respect to assuring it can adequately safeguard the securities in its custody for which it is responsible. Specifically, the proposed limits per issuer and concentration limit per ISIN, will further ensure LCH SA manages the risk of collateral in its custody for purposes of facilitating its clearing and settlement responsibilities in accordance with the Act.

LCH SA also believes that the Proposed Rule Change is consistent with the requirements of Exchange Act Rule 17Ad-22(e)(5)<sup>12</sup>. Rule 17Ad-22(e)(5) provides, *inter alia*, that a covered clearing agency limit the assets it accepts as collateral to those with low credit, liquidity, and market risks, and set and enforce appropriately conservative haircuts and concentration limits if the covered clearing agency requires collateral to manage its or its participants' credit exposure; and require a review of the sufficiency of its collateral haircuts and concentration limits to be performed not less than annually.<sup>13</sup> LCH SA believes that the Proposed Rule Change is consistent with Rule 17Ad-22(e)(5)<sup>14</sup>. LCH SA currently only accepts non-cash collateral with minimal credit, liquidity and market risks, including select supranational and European agency securities, and has established conservative haircuts and concentration limits for these securities. LCH SA is proposing a more targeted approach to managing the composition of non-cash securities

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<sup>11</sup> Id.

<sup>12</sup> 17 CFR 240.17ad-22(e)(5).

<sup>13</sup> Id.

<sup>14</sup> Id.

collateral by establishing individual limits by issuer and applying a more conservative concentration limit by ISIN. As per existing collateral management practices, LCH SA would re-evaluate and potentially revise these limits should market conditions or the credit or liquidity risk profile of the issuer change. In doing so, LCH SA will be able to continue to manage the overall collateral risk of all securities lodged to satisfy clearing member margin requirements and provide consistency with the collateral management practices for non-cash collateral at LCH Limited. Therefore, LCH SA believes that the Proposed Rule Change is consistent with Rule 17Ad-22(e)(5)<sup>15</sup>.

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>16</sup> LCH SA does not believe the Proposed Rule Change would have any impact, or impose any burden, on competition. The Proposed Rule Change does not address any competitive issue or have any impact on the competition among central counterparties. LCH SA operates an open access model, and the Proposed Rule Change will have no effect on this model.

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**

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds

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<sup>15</sup> Id.

<sup>16</sup> 15 U.S.C. 78q-1(b)(3)(I).

such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve or disapprove such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

#### **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 (<https://www.sec.gov/rules-regulations/self-regulatory-organization-rulemaking>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include file number SR-LCH SA-2025-004 on the subject line.

##### Paper Comments:

- Send paper comments in triplicate to Vanessa Countryman, Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549.

All submissions should refer to file number SR-LCH SA-2025-004. This file number should be included on the subject line if email 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 (<https://www.sec.gov/rules-regulations/self-regulatory-organization-rulemaking>). 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 am and 3 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>. Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to file number SR-LCH SA-2025-004 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.<sup>17</sup>

**Sherry R. Haywood,**

*Assistant Secretary.*

[FR Doc. 2025-07218 Filed: 4/25/2025 8:45 am; Publication Date: 4/28/2025]

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