

Via CFTC Portal

17 October 2019

**Mr Christopher J. Kirkpatrick**  
**Office of the Secretariat**  
**Commodity Futures Trading Commission**  
**Three Lafayette Centre**  
**1155 21<sup>st</sup> Street NW**  
**Washington, DC 20581**

**Re:** Proposed LCH SA Extension of Eligible Collateral and New Fee Grid

Dear Mr. Kirkpatrick,

Pursuant to CFTC regulation §40.6(a), LCH SA (“**LCH SA**”), a derivatives clearing organization (“**DCO**”) registered with the Commodity Futures Trading Commission (the “**CFTC**”), is submitting for self-certification the amendments to its Liquidity Risk Modelling Framework in order to extend the scope of instruments eligible to margin collateral to EUR bonds issued by a number of Supranational and Agency entities.

LCH SA is also taking this opportunity to make a number of changes in the non cash collateral fee grid.

The extension of the scope of eligible collateral with the new fee grid applicable to CDSClear members are expected to be effective as of 1 November 2019 however, in no event, will either be implemented earlier than 10 business days after the proposed changes are filed with the CFTC.

**Part I: Explanation and Analysis**

LCH SA initially provided clearing services only with respect to French sovereign debt. The Fixed Income Clearing service has since extended its offering to several other European sovereign and Supranational issuers. Within this context LCH SA initiated a process to enhance its non-cash collateral management offering.

The enhancements include the extension of eligible non-cash securities to include Supranational issued debt and the extension of the pledge functionality to LCH SA RepoClear and EquityClear services only, as it is already offered to LCH SA CDSClear members.

Supranational issued debt is already eligible as investment collateral to LCH SA.

The objective is to extend the scope of instruments eligible to margin collateral to EUR bonds only issued by the following supranational and agency institutions:

- European Financial Stability Facility (EFSF)
- European Stability Mechanism (ESM)
- European Investment Bank (EIB)
- European Union (EU)
- Investment Bank for Reconstruction and Development (IBRD)
- RentenBank (RENTEN)

The extension of the Pledge functionality to all LCH SA clearing services has led to the need for LCH SA to apply greater sophistication to its collateral management mechanisms and for CDSClear to harmonize its existing non-cash collateral fee grid for House activities with the rest of LCH SA.

### **Part II: Description of Rule Changes**

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

LCH SA has revised its Liquidity Risk Modelling Framework in order to (i) identify the relevant central securities depository (“CSD”) through which transactions in the sovereign debt of the different jurisdictions may settle, (ii) describe the manner by which LCH SA injects liquidity into each settlement platform, in particular, Euroclear Bank and Clearstream Luxembourg and (iii) modify the limits by settlement platform based the main liquidity drivers (*i.e.*, cash injected into the platforms, auto-collateralization and gross fails).

In parallel, the objective of the proposed fee change is to adapt the pricing of the different types of non-cash collateral accepted by LCH SA. These changes will be applicable across all LCH SA business lines with the exception of CDSClear Client fees that will remain different to House activity and at their current level for all securities.

As specified in Appendix A, the proposed fee change is for CDSClear (House activities):

- (i) to increase the fee rate from 10 bps to 11 bps for Government issued bonds
- (ii) to introduce a fee rate at 13 bps for Supranational issued bonds
- (iii) to increase the fee rate from 10bps to 13bps for Agency issued bonds
- (iv) to increase the fee rate to 15bps for pledged securities

Supranational issued bonds will be charged at 10 bps for CDSClear Clients.

### **Part III: Core Principle Compliance**

LCH SA will continue to comply with all Core Principles following the introduction of this change and has concluded that its compliance with the Core Principles would not be adversely affected by this change.

### **Part IV: Public Information**

LCH SA has posted a notice of pending certifications with the CFTC and a copy of the submission on LCH’s website at: <http://www.lch.com/rules-regulations/proposed-rules-changes>

**Part V: Opposing Views**

There were no opposing views expressed to LCH SA by governing board or committee members, members of LCH SA that were not incorporated into the rule.

**Certification**

LCH SA hereby certifies to the CFTC, pursuant to the procedures set forth in the Commission regulation § 40.6, that attached changes submission complies with the Commodity Exchange Act, as amended, and the regulations promulgated there under.

Should you have any questions please contact me at: [françois.faure@lch.com](mailto:françois.faure@lch.com)

A handwritten signature in blue ink, appearing to read 'Faure', is written over a horizontal line.

**Francois Faure**  
Chief Compliance Officer  
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**APPENDIX A**

**Current Collateral fee grid\* applied by LCH SA to CDSClear members**

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

**Proposed LCH SA Collateral Fee Grid applicable to CDSClear members effective as of 1 November 2019\***

Collateral type	FFT		PLEDGE	
	House	Client	House	Client
Government Bonds	11bps**	10bps	15bps	10bps
Supranational Bonds	13bps	10bps	15bps	10bps
Agency Bonds	13bps	10bps	15bps	10bps

\* Subject to regulatory review/approval process

\*\* This fee increase will only be applicable in a second phase (Q1 2020)