



**VIA CFTC Portal**

16 September 2024

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

**Re: LCH SA's Proposed Amendments to Cash and Securities Spreads for Collateral Posted as Margin**

Dear Mr. Kirkpatrick,

Pursuant to Commodity Futures Trading Commission (“**CFTC**”) regulation §40.6(a), LCH SA, a derivatives clearing organization (“**DCO**”) registered with the CFTC, is submitting for self-certification revisions to the fees it charges clearing members for cash and securities collateral posted as initial margin for its clearing services including CDSClear (the “**Proposed Rule Change**”).

The implementation of the Proposed Rule Change is expected to be effective as of October 1, 2024 and will be contingent on LCH SA's receipt of all necessary regulatory approvals. However, in no event will the Proposed Rule Change be implemented earlier than 10 business days after being filed with the CFTC.

The text of the Proposed Rule Change is attached hereto as Appendix A.<sup>1</sup>

**Part I: Explanation and Analysis**

LCH SA currently applies a spread for clearing member cash collateral and charges fees on securities collateral posted to cover initial margin requirements for its CDSClear business. Cash collateral spreads are primarily based on underlying market conditions for a given currency and are subtracted from a reference index to determine a total rate to be applied to CDSClear house and client accounts. Securities collateral fees are primarily based on a combination of factors, including, but not limited to operational costs to manage a specific non-cash collateral type, the liquidation profile and subsequent impact on LCH SA's liquidity coverage ratio of the securities collateral and commercial considerations such as competitive landscape. The securities collateral fees charged to clearing members varies based on the instrument type (*e.g.*, government securities), whether the securities collateral is posted on behalf of the CDSClear house account or on behalf of CDSClear clients and the method of posting the collateral (*i.e.*, full title transfer, pledge or tri-party).

The purpose of the Proposed Rule Change is for LCH SA to amend the cash and securities collateral spreads posted by clearing members to satisfy initial margin requirements.

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<sup>1</sup> All capitalized terms not defined herein shall have the same definition as in the CDS Clearing Rules.



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

### ***Changes to Cash Collateral Spreads***

LCH SA currently accepts EUR, GBP and USD cash to satisfy initial margin requirements for its CDSClear business. Clearing members that post these eligible currencies as margin may receive interest on these balances based on an associated benchmark index and cash collateral spreads applied by LCH SA. The total rate that clearing members and their clients may be eligible for is the difference between the value of the underlying benchmark index and the spread applied by LCH SA. Interest earned on cash collateral is based on daily balances by account and posted monthly to clearing member accounts.

LCH SA currently applies the following cash collateral spreads for CDSClear house and client accounts:

Currency	Unsecured Overnight Index	Cash Collateral Fee/Spread (bps)		
		All Markets	CDSClear Clients	Default Funds
EUR	€STR	21.5	6.5	11.5
GBP	SONIA	35	20	
USD	FEDFUND	30	15	

LCH SA is proposing to decrease the cash collateral spread for EUR, GBP and USD by 2bps. Accordingly, LCH SA will apply a revised spread of 19.5bps, 33bps and 28bps for EUR, GBP and USD cash collateral balances, respectively, posted for initial margin. LCH SA is not proposing any changes to the cash collateral spread for CDSClear clients or with respect to the CDSClear Default Fund.

LCH SA is proposing to reduce the spread for eligible cash collateral balances to encourage CDSClear clearing members to post more cash as initial margin for clearing and to better diversify the mix of collateral posted as initial margin from clearing members. LCH SA believes this will enhance its liquidity risk management processes by ensuring it maintains sufficient liquid resources (*i.e.*, cash) to facilitate the timely settlement of its payment obligations when due. In addition, an increase in cash collateral will support LCH SA's ability to manage the ongoing operational liquidity needs for the purposes of injecting liquidity into the various settlement and payment networks and will further support LCH SA's default management process (*e.g.*, during the liquidation of a member portfolio). LCH SA does not believe any changes are necessary to the cash collateral spreads for CDSClear Clients or with respect to cash posted to satisfy Default Fund requirements. CDSClear Clients will continue to benefit from a larger spread than CDSClear House accounts and the Default Fund cash collateral spread will remain unchanged, as clearing members must continue to meet their Default Fund obligations in cash collateral.

### ***Changes to Securities Collateral Fees***

LCH SA is also proposing to amend the fees it charges clearing members for securities collateral posted as initial margin. Eligible securities collateral currently includes government securities from select countries, select European supranational debt, government agency debt issued by Rentenbank (Germany), Kreditanstalt für Wiederaufbau (Germany) and CADES (France) and select equities listed on the EURO STOXX 50 index. The fees charged on each securities collateral type varies based on the mechanism of how the clearing member posts the collateral. For example, securities collateral may be deposited via Full Title Transfer (FTT) to an



account opened by LCH SA at various central securities depositories (CSDs). Clearing members may also pledge securities collateral directly to LCH SA, whereby it will deposit securities via a Single Pledgor Pledged Account (SPPA) opened by LCH SA at Euroclear Bank. LCH SA also offers a Tri-Party solution whereby LCH SA and a Clearing member may appoint Euroclear Bank and/or Euroclear France as a triparty agent and authorize such triparty agent to enter settlement instructions on their behalf into the securities settlement system to affect movements of securities between a giver account and a taker account opened with the relevant triparty agent on a full title transfer basis for the purposes of transferring Collateral to LCH SA or releasing such collateral.

LCH SA currently applies the following fees for securities collateral for CDSClear house and client accounts:

	Securities	House			Client
		Full Title Transfer	Pledge	Triparty	CDSClear Clients
<b>Government Securities</b>	Australia	13	NA	NA	10
	Austria	11	15	9.5	10
	Belgium	11	15	9.5	10
	Canada	13	NA	NA	10
	Denmark	13	NA	NA	10
	Finland	11	15	9.5	10
	France	11	15	9.5	10
	Germany	11	15	9.5	10
	Italy	11	15	9.5	10
	Japan	13	NA	NA	10
	Netherlands	11	15	9.5	10
	Norway	13	NA	NA	10
	Portugal	11	NA	9.5	10
	Spain	11	15	9.5	10
	Sweden	13	NA	NA	10
	Switzerland	13	NA	NA	10
	UK	11	15	NA	10
USA	11	15	NA	10	
<b>Supranationals</b>	European Financial Stability Facility	13	15	11.5	10
	European Stability Mechanism	13	15	11.5	10
	European Investment Bank	13	15	11.5	10
	European Union	13	15	11.5	10
	Investment Bank for Reconstruction and Development	13	15	11.5	10
<b>Agencies</b>	Rentenbank	13	15	11.5	10
	Kreditanstalt für Wiederaufbau	13	15	11.5	10



	CADES	13	15	NA	10
<b>Equities</b>	All (as listed in Haircut Schedule)	13	NA	NA	NA

LCH SA is proposing to increase the spread for securities collateral posted via FTT or tri-party for clearing members by 1bp and by 10bps for securities collateral posted via pledge. LCH SA is not proposing any changes to the fees charged to CDSClear Clients or for other non-cash collateral types. As previously noted, LCH SA charges different fees depending on the type of securities, the way that such securities are deposited, as well as the type of activity these cover. As a reminder, LCH SA has the capacity to raise euro liquidity by:

- pledging euro securities posted via FTT in the Banque de France 3G Pool; and
- executing cross-currency repo trades to borrow euro cash, collateralized by U.S. Treasuries and GBP Gilts posted via FTT.

However, securities posted by clearing members via pledge cannot be used for liquidity risk management purposes, and as such, are not considered liquid assets. LCH SA believes the increase in the spread for securities collateral and concurrent decrease in the spread for cash collateral will create an additional incentive for clearing members to post cash as initial margin. Consequently, this will strengthen LCH SA's Liquidity Coverage Ratio and further enhance LCH SA's liquidity risk profile.

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

LCH SA reviewed the Proposed Rule Change against the requirements of the Commission's regulations and DCO Core Principles and has concluded that its compliance with all the requirements and standards therein, and in particular with the following Core Principle and Commission's regulations including, but not limited to CFTC Regulation 39.21, would not be adversely affected by the Proposed Rule Change.

**DCO Core Principle L – Public Information.** LCH SA has determined that the Proposed Rule Change is consistent with CFTC Regulation 39.21 to make available publicly each clearing and other fee charged to Clearing Members. The proposed changes to the cash and securities spreads will be publicly available on the LCH website and LCH SA will ensure that sufficient information is provided to market participants so that they can identify and evaluate accurately the fees associated with pledging cash or securities as initial margin. The LCH SA website listing collateral fees will be updated with the proposed changes set out in Appendix A once authorized and effective.<sup>2</sup> As a result, LCH SA believes that the Proposed Rule Change is consistent with the requirements of Core Principle L and CFTC Regulation Rule 39.21.

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<sup>2</sup> LCH SA's current fees on collateral can be found here: <https://www.lch.com/collateral-management/sa-collateral-management/sa-fees-collateral>.



**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: <https://www.lch.com/resources/rulebooks/proposed-rule-changes>.

**Part V: Opposing Views**

There were no opposing views expressed to LCH SA by governing board or committee members, members of LCH SA or market participants that were not incorporated into the Proposed Rule Change.

**Certification**

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

Should you have any questions please contact me.

Best regards,

**Anne Favé**

Interim Chief Compliance Officer

+33 1 70 37 65 97

[Anne.Fave@lseg.com](mailto:Anne.Fave@lseg.com)



**APPENDIX A – Proposed LCH SA Fee Grid change effective as of 1<sup>st</sup> of October 2024\***

**Cash Collateral – Proposed Spreads**

Currency	Unsecured Overnight Index	Cash Collateral Fee/Spread (bps)		
		All Markets	CDS/Clear Clients	Default Funds
EUR	€STR	<del>21.5</del> 19.5	6.5	11.5
GBP	SONIA	<del>35</del> 33	20	
USD	FEDFUND	<del>30</del> 28	15	

(\*) Subject to regulatory review/approval process

**Securities Collateral – Proposed Spreads**

	Securities	House			Client
		Full Title Transfer	Pledge	Triparty	CDS/Clear Clients
<b>Government Securities</b>	Australia	<del>13</del> 14	NA	NA	10
	Austria	<del>11</del> 12	<del>15</del> 25	<del>9.5</del> 10.5	10
	Belgium	<del>11</del> 12	<del>15</del> 25	<del>9.5</del> 10.5	10
	Canada	<del>13</del> 14	NA	NA	10
	Denmark	<del>13</del> 14	NA	NA	10
	Finland	<del>11</del> 12	<del>15</del> 25	<del>9.5</del> 10.5	10
	France	<del>11</del> 12	<del>15</del> 25	<del>9.5</del> 10.5	10
	Germany	<del>11</del> 12	<del>15</del> 25	<del>9.5</del> 10.5	10
	Italy	<del>11</del> 12	<del>15</del> 25	<del>9.5</del> 10.5	10
	Japan	<del>13</del> 14	NA	NA	10
	Netherlands	<del>11</del> 12	<del>15</del> 25	<del>9.5</del> 10.5	10
	Norway	<del>13</del> 14	NA	NA	10
	Portugal	<del>11</del> 12	NA	<del>9.5</del> 10.5	10
	Spain	<del>11</del> 12	<del>15</del> 25	<del>9.5</del> 10.5	10
	Sweden	<del>13</del> 14	NA	NA	10
	Switzerland	<del>13</del> 14	NA	NA	10
	UK	<del>11</del> 12	<del>15</del> 25	NA	10
	USA	<del>11</del> 12	<del>15</del> 25	NA	10
<b>Supranationals</b>	European Financial Stability Facility	<del>13</del> 14	<del>15</del> 25	<del>11.5</del> 12.5	10
	European Stability Mechanism	<del>13</del> 14	<del>15</del> 25	<del>11.5</del> 12.5	10
	European Investment Bank	<del>13</del> 14	<del>15</del> 25	<del>11.5</del> 12.5	10
	European Union	<del>13</del> 14	<del>15</del> 25	<del>11.5</del> 12.5	10
	Investment Bank for Reconstruction and Development	<del>13</del> 14	<del>15</del> 25	<del>11.5</del> 12.5	10
<b>Agencies</b>	Rentenbank	<del>13</del> 14	<del>15</del> 25	<del>11.5</del> 12.5	10



	Kreditanstalt für Wiederaufbau	<del>+314</del>	<del>+525</del>	<del>+1,512.5</del>	10
	CADES	<del>+314</del>	<del>+525</del>	NA	10
<b>Equities</b>	All (as listed in Haircut Schedule)	<del>+314</del>	NA	NA	NA

(\*) Subject to regulatory review/approval process