

VIA CFTC PORTAL

10 March 2017

Mr Christopher Kirkpatrick  
Commodity Futures Trading Commission  
115 21<sup>st</sup> Street NW  
Three Lafayette Centre  
Washington DC 20581

**LCH Limited Self Certification: Rule Changes on Bulk Events and Duo Compression for the SwapClear service**

Dear Mr Kirkpatrick

Pursuant to CFTC regulation §40.6(a), LCH Limited ("LCH"), a derivatives clearing organization registered with the Commodity Futures Trading Commission (the "CFTC"), is submitting for self-certification changes to its rules enabling the SwapClear service to i) operationally combine the processing of individual events to create a "Multiple Bulk Event" process; and ii) enhance the Duo Compression offering for Clearing Members.

**Part I: Explanation and Analysis**

*Multiple Bulk Events*

Currently, SwapClear offers a number of services which require scheduling to ensure they can process in sequence, without interfering with each other. These services include Backloads, Compression and Portfolio Transfers. SwapClear is now proposing to implement an operational enhancement that will allow the clearing service to process individual events in parallel (Multiple Bulk Event process), increasing efficiency and streamlining the day-to-day operational processes.

For all services that have passed the individual event checks, one call per portfolio will be determined for all of the services at a specific time before the Market data Refresh (MDR). The calls will be made to pre-collateralise the affected accounts (whether Proprietary and Client accounts) to avoid potentially significant calls on Clearing Members. The collateral received will not be used to register new trades, but instead reserved for the multiple bulk events cycle. As per today, LCH maintains the discretion of rolling back individual bulk events and proceed with the rest of the cycle without interrupting the trade registration and intra-day call processes. However, the entire cycle will be cancelled in the case where LCH makes a risk assessment on an individual bulk event and decides to remove it from the cycle once the collateral has been called and reserved.

Duo Compression enhancements

Duo Compression enables a Clearing Member to offset linked positions with another Clearing Member, within the applicable risk tolerances. In particular, a Clearing Member selects a counterparty and determines with them which trades to compress; Clearing Members can also choose to add in risk replacement trades. Duo compression is currently being performed by Clearing Members with the help of SwapClear, which delivers a report of offsetting opportunities based on trade references the Clearing Members submit. SwapClear will now introduce a new operationally efficient Duo Compression service enabling Clearing Members to build and execute compression proposals. While currently Clearing Members determine what trades they would like to compress, going forward SwapClear will suggest what trades could be compressed for Clearing Members to consider.

This service would only be offered to Clearing Members which have formally opted in. It is not available to Clients and therefore the change does not impact the parts of the Rulebook applicable to FCMs.

The rule changes will go live on, or after, March 27, 2017.

**Part II: Description of Rule Changes**

Multiple Bulk Events

The General Regulations have been amended to include new references to the terms "Bulk Event" and "Bulk Event Cycle" in the definitions. The Multiple Bulk Event process is described in a new paragraph, under Regulation 60 (f). Equivalent changes have been made in the FCM Regulations under the definitions and Regulation 46 (f).

The text of the changes to General Regulations is attached hereto as **Appendix I** and the text of the changes to the FCM Regulations is attached hereto as **Appendix II**.

Duo Compression enhancements

The General Regulations have been amended in Regulation 56 (Compression) in paragraphs d) and e) to add references to Compression Clearing Member/s, which will be making a Compression proposal to LCH, in accordance with the Procedures Section 2C.

The Procedures Section 2C has been amended in section 1.17 which now details the requirements for participating Clearing Members and the role played by LCH in the enhanced Duo Compression service.

The text of the changes to General Regulations is attached hereto as **Appendix III** and the text of the changes to the Procedures Section 2C is attached hereto as **Appendix IV**.

**Part III: Core Principle Compliance**

LCH has reviewed the changes to its rules against the Core Principles and concluded that compliance with all the requirements and standards therein will not be adversely affected by these changes.

**Part IV: Public Information**

LCH has posted a notice of pending certification 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 by governing board or committee members, members of LCH or market participants that were not incorporated into the rule.

**Certification**

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

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

Yours sincerely



Julian Oliver  
Chief Compliance Officer  
LCH Limited

**Appendix I**  
General Regulations



**GENERAL REGULATIONS OF  
LCH.CLEARNET LIMITED**

|  |   |
|--|---|
| <b>"Backloaded Registration Trade"</b> | has the meaning assigned to it in the Procedures  |
| <b>"Block IRS Trade"</b>               | Means a trade the notional amount of which is at or above the minimum block size established by the CFTC pursuant to CTFC Regulation 43.6 for the interest rate asset class and in effect as of the date of submission of such trade to the Clearing House for registration   |
| <b>"Board"</b>                         | means the board of directors or other governing body (whether called a board, a committee or otherwise) of an Exchange  |
| <b>"Bond Trade"</b>                    | means a trading activity in which a RepoClear Participant offers to sell RepoClear Eligible Securities, and another RepoClear Participant offers to purchase those RepoClear Eligible Securities, and a trade subsequently ensues   |
| <b><u>"Bulk Event"</u></b>             | <a href="#"><u>has the meaning as described in Regulation 60(f)</u></a>   |
| <b><u>"Bulk Event Cycle"</u></b>       | <a href="#"><u>has the meaning as described in Regulation 60(f)</u></a>   |
| <b>"Bulk Threshold"</b>                | means the threshold (defined as a given number of SwapClear Contracts) established from time to time by the Clearing House in its sole and absolute discretion to distinguish Intra-Day Bulk Transfers from Intra-Day Non-Bulk Transfers and notified to SwapClear Clearing Members   |
| <b>"Business"</b>                      | means any transactions, liabilities or obligations arising out of any contract and includes, in relation to the relevant Services, Commodities Business, Equities Business, ForexClear Business, RepoClear Business and Rates Service Business.   |
| <b>"business day"</b>                  | means in respect of a Cleared Exchange Contract, an OTC Contract (except where specified otherwise in the relevant OTC Contract Terms), an LCH EnClear Contract (except where specified otherwise in the LCH EnClear Contract Terms), an EquityClear Contract, and a Listed Interest Rates Contract (except where specified otherwise in the Listed Interest Rates Contract Terms) a day on which the Clearing House is open for business |

## **REGULATION 60 TRANSFER; BULK EVENTS**

- (a) Other than in the event that a SwapClear Clearing Member is a Defaulter, any Permitted Transfer of one or more Transferring SwapClear Contracts from the Transfer Account of an Eligible Transferor to the Transfer Account of an Eligible Transferee (including, where relevant, the transfer of an Associated Collateral Balance), may only be done pursuant to this Regulation 60 and in accordance with the Procedures.
- (b) Further to the satisfaction of the conditions set out in the Procedures, and **provided that** the Clearing House does not determine, in its sole discretion, that (x) a Permitted Transfer cannot be effected under these Regulations, the Procedures or otherwise under Applicable Law and/or (y) where applicable, the additional conditions as set out in Regulation 46(p) of the FCM Regulations need to be and have not been complied with, the Clearing House shall transfer the Transferring SwapClear Contract(s) into the Transfer Account of the Receiving Clearing Member as follows:
- (i) in the case of a Permitted Transfer where the Receiving Clearing Member is the same entity as the Eligible Transferor, the Transferring SwapClear Contracts (and, if applicable, the Associated Collateral Balance) shall be transferred to the Proprietary Account of the Receiving Clearing Member;
  - (ii) in the case of a Permitted Transfer where the Carrying Clearing Member is not an FCM Clearing Member and the Receiving Clearing Member is an FCM Clearing Member, the Transferring SwapClear Contracts (and, if applicable, the Associated Collateral Balance) shall be transferred to the relevant Transfer Account of the relevant Receiving Clearing Member and all of the SwapClear Contracts to be transferred (which are subject to the Rulebook) shall, upon transfer, be converted to FCM SwapClear Contracts subject to the FCM Regulations and the FCM Procedures but shall otherwise remain on the same contract terms;
  - (iii) in the case of a Permitted Transfer where the Carrying Clearing Member is an FCM Clearing Member and the Receiving Clearing Member is not an FCM Clearing Member, the FCM SwapClear Contracts (and, if applicable, the Associated Collateral Balance) shall be transferred to the relevant Transfer Account of the relevant Receiving Clearing Member and all of the FCM SwapClear Contracts to be transferred (which are subject to the FCM Rulebook) shall, upon transfer, be converted to SwapClear Contracts subject to the Rulebook but shall otherwise remain on the same contract terms; or
  - (iv) in all other cases, the Transferring SwapClear Contracts (and, if applicable, the Associated Collateral Balance(s)) shall be transferred to the Transfer Account of the Receiving Clearing Member.

The Transfer of the Transferring SwapClear Contracts shall occur by novation of all of the Carrying Clearing Member's rights and obligations in respect of such Transferring SwapClear Contracts to the Receiving Clearing Member as provided in Regulation 12(b).

- (c) A SwapClear Clearing Member may only assign the rights under, or transfer, a SwapClear Contract entered into by such SwapClear Clearing Member in respect of SwapClear Client Clearing Business, in accordance with the Rulebook or with the prior written consent of the Clearing House. Any purported assignment, or any purported transfer, of a SwapClear Contract entered into by a SwapClear Clearing Member in respect of SwapClear Client Clearing Business that is not in compliance with this Regulation 60(c) shall be void.
- (d) If a SwapClear Clearing Member is a Defaulter, the Clearing House shall take such actions, subject to and in accordance with the Default Rules in relation to SwapClear Contracts carried by such SwapClear Clearing Member on behalf of SwapClear Clearing Clients, **provided always that** the Clearing House shall take such actions as are required to meet the Clearing House's continuing regulatory obligations including those applicable to it as a Recognised Clearing House and a Derivatives Clearing Organization.
- (e) The Carrying Clearing Member agrees to indemnify the Clearing House in respect of all liabilities, costs, loss, fees, damages or expenses suffered or incurred by the Clearing House (howsoever arising or occurring) by reason of a proposed transfer being rejected by the Carrying Clearing Member other than in compliance with the grounds set out in the Procedures.
- (f) Each of the following processes constitutes a “Bulk Event” and will be processed together by the Clearing House in one individual bulk event cycle (each, a “Bulk Event Cycle”) at such times as determined by the Clearing House in its sole discretion:
- (i) Multilateral Compression Cycle;
  - (ii) Backload Registration Cycle; and
  - (iii) Intra-Day Bulk Transfer.

The Clearing House may call for additional Collateral in respect of initial and/or variation margin to be deposited in such amounts and at such times as the Clearing House, in its sole discretion, requires prior to processing a given Bulk Event Cycle. Any Collateral so called and deposited shall be reserved and made available solely in connection with the relevant Bulk Event Cycle. In the event the Clearing House calls and reserves additional Collateral for a given Bulk Event Cycle and, subsequently, one or more Bulk Events in that given Bulk Event Cycle is cancelled by the Clearing House, in its sole and absolute discretion, all Bulk Events in that given Bulk Event Cycle shall be cancelled. The Clearing House reserves the right to cancel any Bulk Event and/or Bulk Event Cycle in its sole and absolute discretion. The Clearing House shall publish the Bulk Event Cycle schedule on its website, as amended from time to time.



**Appendix II**  
FCM Regulations

**FCM REGULATIONS OF  
THE CLEARING HOUSE  
LCH.CLEARNET LIMITED**

|  |   |
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| <b>"Block IRS Trade"</b>                   | means a trade the notional amount of which is at or above the minimum block size established by the CFTC pursuant to CFTC Regulation 43.6 for the interest rate asset class and in effect as of the date of submission of such trade to the Clearing House for registration.  |
| <b><u>"Bulk Event"</u></b>                 | <a href="#"><u>has the meaning assigned to it in FCM Regulation 46(f).</u></a>  |
| <b><u>"Bulk Event Cycle"</u></b>           | <a href="#"><u>has the meaning assigned to it in FCM Regulation 46(f).</u></a>  |
| <b>"Business Category of FCM Contract"</b> | means a category of one or more Products which the Clearing House treats as separate from other Products for purposes of calculating the amount of Margin required to be furnished by an FCM Clearing Member (as set forth in the FCM Procedures) in respect of the FCM Contracts in each such category and, except to the extent otherwise set forth in the FCM Procedures, such separate margin categories consist of: (1) FCM SwapClear Contracts (referred to in the FCM Rulebook as the <b>"SwapClear Business Category"</b> ), (2) FCM ForexClear Contracts (referred to in the FCM Rulebook as the <b>"ForexClear Business Category"</b> ) and (3) FCM Nodal Contracts (referred to in the FCM Rulebook as the <b>"Nodal Business Category"</b> ). |
| <b>"Business Day"</b>                      | means, in respect of an FCM Contract (except where specified otherwise in the relevant FCM SwapClear Contract Terms, FCM ForexClear Contract Terms or FCM Nodal Contract Terms, as applicable), a day on which the Clearing House is open for business as set forth in the FCM Procedures.  |
| <b>"Buyer"</b>                             | means an FCM Clearing Member (or the Clearing House where the context so requires) who is a buyer under the terms of an FCM Exchange Contract.  |
| <b>"Carrying Clearing Member"</b>          | Means (i) an FCM Clearing Member that carries a Transfer Account from which Transferring SwapClear Contracts and the relevant Associated Collateral Balance(s) may be transferred to the Transfer Account of a Receiving Clearing Member (capitalized terms used in this sub-paragraph (i) having the meanings set out in the UK General Regulations, as modified by FCM Regulation 46(p)) or (ii) in respect of a transfer as described in sub-paragraph (b) of the definition of "Receiving Clearing Member", a Clearing Member (as defined in the UK General Regulations, and being an entity other than an FCM Clearing Member)(and, for the avoidance of doubt, a Carrying Clearing Member may be a Receiving Clearing Member, and vice versa).      |
| <b>"Cash-Settled FCM"</b>                  | means an FCM Exchange Contract which is to be settled by  |

Member with the Clearing House, the portion of such Margin held in respect of the Clearing House's initial margin requirements (as published from time to time by the Clearing House) in respect of the relevant FCM Contracts attributable to such account or accounts.

**“Intra-Day Bulk Transfer”**

has the meaning assigned to it in the UK General Regulations

**“IRS FCM SwapClear Contract”**

means an FCM SwapClear Contract identified as being an IRS FCM SwapClear Contract in the FCM Product Specific Contract Terms and Eligibility Criteria Manual

**“LCH.Clearnet Group”**

means the group of undertakings consisting of LCH.Clearnet Limited, LCH.Clearnet Group Limited, LCH.Clearnet LLC, LCH.Clearnet (Luxembourg) S.a.r.l., LCH.Clearnet Service Company Limited and Banque Centrale de Compensation S.A. trading as LCH.Clearnet SA. (any reference to a “**member**” of LCH.Clearnet Group Limited within these FCM Regulations is to be construed accordingly).

**“LCH Approved Outsourcing Agent”**

means a person, designated as such by the Clearing House, as may be provided for in the FCM Procedures.

**“LCH Futures Client Segregated Depository Account”**

means the omnibus account (which will consist of one or more accounts at one or more Permitted Depositories which are commingled for purposes of, and in accordance with, the applicable provisions of the CEA and the CFTC Regulations) maintained by the Clearing House for the benefit of FCM Clients of its FCM Clearing Members with a Permitted Depository, which is segregated in accordance with the CEA and the CFTC Regulations, which is part of the Futures Account Class and which contains the Collateral deposited by such FCM Clearing Members on behalf of their FCM Clients solely in connection with Futures Products cleared for such FCM Clients by such FCM Clearing Members.

**“LCH Swaps Client Segregated Depository Account”**

means the omnibus account (which will consist of one or more accounts at one or more Permitted Depositories which are commingled for purposes of, and in accordance with, the applicable provisions of the CEA and the CFTC Regulations) maintained by the Clearing House for the benefit of FCM Clients of its FCM Clearing Members with a Permitted Depository, which is segregated in accordance with the CEA and the CFTC Regulations, which is a Cleared Swaps Customer Account that is part of the Cleared Swaps Account Class and which contains the Collateral deposited by such FCM Clearing Members on behalf of their FCM Clients solely in connection with Swaps Products cleared for

## CHAPTER XII - FCM SWAPCLEAR REGULATIONS

### REGULATION 46 REGISTRATION OF FCM SWAPCLEAR CONTRACTS; NOVATION AND POST-NOVATION COMPRESSION; SWAPCLEAR ACCOUNTS; PORTFOLIO TRANSFERS; BULK EVENTS

- (a) In order for an FCM to register an FCM SwapClear Contract in respect of the registration of an FCM SwapClear Transaction, the FCM must be currently approved as an FCM Clearing Member pursuant to these FCM Regulations. The Executing Parties to such FCM SwapClear Transaction shall be responsible for any give-up or other agreement mutually agreed to among the parties with respect to such transactions, as applicable. An FCM Clearing Member must submit the particulars of an FCM SwapClear Transaction for registration as two FCM SwapClear Contracts or one FCM SwapClear Contract and one Non-FCM SwapClear Contract (as the case may be) in accordance with these FCM Regulations. Each FCM SwapClear Transaction involving an FCM Client shall be presented to the Clearing House for registration on behalf of such FCM Client by its FCM Clearing Member.
- (b) Where an Executing Party enters into an FCM SwapClear Transaction and such FCM SwapClear Transaction is to be cleared through an FCM Clearing Member, the Clearing House shall (only where such FCM SwapClear Transaction is not an FCM US Trading Venue Transaction) notify the FCM Clearing Member of such FCM SwapClear Transaction and request acceptance for registration in accordance with the FCM Procedures. Upon (i) receipt of acceptance for registration by the Clearing House from the FCM Clearing Member (where such FCM SwapClear Transaction is not an FCM US Trading Venue Transaction), and (ii) receipt of the FCM SwapClear Transaction details by the Clearing House in accordance with the FCM Procedures (where such FCM SwapClear Transaction is an FCM US Trading Venue Transaction), the FCM Clearing Member shall be deemed to have presented the FCM SwapClear Transaction to the Clearing House (and such presentation may not be withdrawn by the FCM Clearing Member unless otherwise provided in the FCM Rulebook) and the Clearing House shall register the FCM SwapClear Transaction subject to, and in accordance, with these FCM Regulations and the FCM Procedures.
- (c) Without prejudice to the Clearing House's rights under paragraph (g) of this FCM Regulation 46, an FCM Clearing Member shall be bound by an FCM SwapClear Contract registered in its name on behalf of an FCM Client.
- (d) The Clearing House shall register or reject the registration of an FCM SwapClear Contract in respect of an FCM SwapClear Transaction presented for registration subject to, and in accordance with, these FCM Regulations and the FCM Procedures as quickly as would be technologically practicable if fully automated systems were used (the standard required in Part 39 of the CFTC Regulations), **provided that:**
- (i) both sides of the relevant FCM SwapClear Transaction have been properly presented and submitted for clearing by (or on behalf of) the Executing Parties;
  - (ii) the relevant FCM SwapClear Transaction meets the FCM SwapClear Product Eligibility Criteria prescribed in the FCM Product Specific Contract Terms and Eligibility Criteria Manual at the time the particulars of the FCM

- (iii) in respect of any Permitted Transfer where an FCM Clearing Member is the Carrying Clearing Member and that involves the transfer of an Associated Collateral Balance, the provisions of FCM Regulation 13(c)(ii) shall apply to the exclusion of Section 1.15.8(a)-(f) of UK SwapClear Procedure 2C;
- (iv) in respect of any Permitted Transfer from one FCM Client Sub-Account to another FCM Client Sub-Account of the same FCM Clearing Member, the FCM Clearing Member acknowledges and agrees that the Clearing House may debit or credit the FCM Clearing Member's accounts at the Clearing House with any obligations, liabilities or otherwise as appropriate and permissible under Applicable Law;
- (v) an FCM Clearing Member, acting for its own account or for the account of an FCM Client, may not effect Permitted Transfers in accordance with paragraphs (d) of (e) of Section 1.15.2 of UK SwapClear Procedure 2C;
- (vi) for the avoidance of doubt:
  - (A) any Permitted Transfers effected pursuant to this paragraph (p) remain subject to the provisions of: (I) FCM Regulation 13(g), (h) and (i); and (II) the CEA, the FCM Procedures and the CFTC Regulations regarding segregation of assets; and
  - (B) any Permitted Transfer from the Proprietary Account of a Carrying Clearing Member that is an FCM Clearing Member to the Proprietary Account of a Receiving Clearing Member that is an FCM Clearing Member may only occur where both FCM Clearing Members are Affiliates of each other.

(q) **Bulk Events.** Each of the following processes constitutes a “Bulk Event” and will be processed together by the Clearing House in one individual bulk event cycle (each, a “Bulk Event Cycle”) at such times as determined by the Clearing House in its sole discretion:

- (i) ACSP Compression Cycle;
- (ii) Backload Registration Cycle; and
- (iii) Intra-Day Bulk Transfer.

The Clearing House may call for additional Collateral in respect of initial and/or variation margin to be deposited in such amounts and at such times as the Clearing House, in its sole discretion, requires prior to processing a given Bulk Event Cycle. Any Collateral so called and deposited shall be reserved and made available solely in connection with the relevant Bulk Event Cycle. In the event the Clearing House calls and reserves additional Collateral for a given Bulk Event Cycle and, subsequently, one or more Bulk Events in that given Bulk Event Cycle is cancelled by the Clearing House, in its sole and absolute discretion, all Bulk Events in that given Bulk Event Cycle shall be cancelled. The Clearing House reserves the right to cancel any Bulk Event and/or Bulk Event Cycle in its sole and absolute discretion. The Clearing House

shall publish the Bulk Event Cycle schedule on its website, as amended from time to time.

**Appendix III**  
General Regulations





**GENERAL REGULATIONS OF  
LCH.CLEARNET LIMITED**

## REGULATION 56 COMPRESSION

- (a) Notwithstanding any other provision of these Regulations if:
- (i) one or more SwapClear Contracts registered by a SwapClear Clearing Member in accordance with the Rulebook has substantially the same Economic Terms as one or more other SwapClear Contracts registered for the account of such SwapClear Clearing Member, and
  - (ii) all such SwapClear Contracts are either (a) registered on the SwapClear Clearing Member's own behalf or (b) registered on behalf of the same SwapClear Clearing Client,

then, to the extent permitted in the Procedures and this Regulation 56, the SwapClear Clearing Member may request that the Clearing House compress and combine all such SwapClear Contracts by terminating the relevant existing SwapClear Contracts and in some instances, compressing them into one or more SwapClear Contracts having a net future cash flow equal to the net future cash flow of such original SwapClear Contracts (including, for the purposes of determining the net future cash flow of a SwapClear STM Contract, the payment obligations of the SwapClear Clearing Member and the Clearing House under the SwapClear STM Terms applicable to such SwapClear STM Contract). For the avoidance of doubt, in no circumstances can a SwapClear Contract registered in the Proprietary Account of a SwapClear Clearing Member be compressed pursuant to this Regulation 56 with a SwapClear Contract registered in the Client Account of that SwapClear Clearing Member.

- (b) For purposes of paragraph (a) above, two or more SwapClear Contracts may be deemed by the Clearing House to have "substantially the same Economic Terms" if they are based on the same underlying currencies and the Clearing House considers them, in its sole discretion, to have substantially the same fundamental economic attributes which influence the amount, value date and direction of all coupon cash flows. For the avoidance of doubt, the Clearing House may determine that two or more SwapClear Contracts have "substantially the same Economic Terms" even if (i) they have differing fixed rates or (ii) they include at least one each of a SwapClear CTM Contract and a SwapClear STM Contract. Two or more SwapClear Contracts that are compressed under the terms of this paragraph and paragraph (a) above shall be aggregated if the position of the SwapClear Clearing Member is in the same direction on each such SwapClear Contract (i.e., obligations to make payment aggregated and rights to receive payment aggregated), such that the SwapClear Contract that replaces the compressed SwapClear Contracts shall have a notional amount equal to the total notional amount of the compressed SwapClear Contracts. Two or more SwapClear Contracts that are compressed under the terms of this paragraph and paragraph (a) above shall be netted if the position of the SwapClear Clearing Member is in the opposite direction on two or more of each such SwapClear Contracts (i.e., obligations to make payment netted against rights to receive payment). In most such cases the SwapClear Contract (if any) that replaces the compressed SwapClear Contracts shall have a notional amount equal to the net notional amount of the compressed SwapClear Contracts, however, in some cases the replacement SwapClear Contracts will have an aggregate notional amount that is greater than the net notional amount of the compressed SwapClear Contracts **provided that** in no

event will the aggregate notional amounts of the replacement SwapClear Contracts be greater than the aggregate notional amounts of the compressed SwapClear Contracts, and **provided further** that in the event that the net notional amount and net future cash flows are equal to zero such compression shall result in no replacement SwapClear Contracts. The Clearing House shall determine (in its sole discretion) whether SwapClear Contracts that are the subject of a request for compression from the SwapClear Clearing Member may be compressed and, if such SwapClear Contracts are compressed, the Clearing House shall determine the resulting terms of the SwapClear Contract(s) (if any) that replaces the compressed SwapClear Contracts, and such determination shall be binding on the SwapClear Clearing Member, absent manifest error. It is a condition for compression of SwapClear Contracts that the amount of Collateral that the Clearing House requires in respect of the original SwapClear Contracts is equal to that which is required by the Clearing House in respect of the replacement SwapClear Contract(s).

- (c) If:
- (i) the SwapClear Contracts that are the subject of a SwapClear Clearing Member's compression request pursuant to (a) above comprise only SwapClear CTM Contracts, then the one or more SwapClear Contracts that come into existence immediately following, and as a result of, the compression shall all be SwapClear CTM Contracts;
  - (ii) the SwapClear Contracts that are the subject of a SwapClear Clearing Member's compression request pursuant to (a) above comprise only SwapClear STM Contracts, then the one or more SwapClear Contracts that come into existence immediately following, and as a result of, the compression shall all be SwapClear STM Contracts; and
  - (iii) the SwapClear Contracts that are the subject of a SwapClear Clearing Member's compression request pursuant to (a) above comprise both SwapClear CTM Contracts and SwapClear STM Contracts, then:
    - (A) the SwapClear Clearing Member's compression request pursuant to (a) above shall be deemed to be a STM Conversion Request in respect of those SwapClear Contracts that are SwapClear CTM Contracts, and accordingly Regulation 57A(m)-(p) (inclusive) shall apply; and
    - (B) it shall be a condition precedent to the occurrence of the compression requested under this Regulation 56 that the SwapClear CTM Contracts that are the subject of the SwapClear Clearing Member's compression request have been converted into SwapClear STM Contracts in accordance with Regulation 57A
- (d) In addition, the Clearing House may, from time to time in its absolute discretion, make available in accordance with this Regulation 56 and/or the Procedures, Multilateral Compression on the basis of a Multilateral Compression Cycle which is either:

- (i) an ACSP Compression Cycle, available to SwapClear Clearing Members and/or applicable FCM Clearing Members ~~(each a “Compression Clearing Member”)~~; or
  - (ii) a Member Compression Cycle, where so requested by two ~~or more~~ Compression Clearing Members and agreed to by the Clearing House, ~~(each such SwapClear Clearing Member, a “Compression Clearing Member”).~~
- (e) In participating in any Multilateral Compression Cycle, a Compression Clearing Member:
- (i) must be party to relevant Compression Documentation with the Clearing House and/or any nominated ACSP at such time as is contemplated in the Compression Documentation and from such time up to and including the Compression Time for that Multilateral Compression Cycle and at all relevant times must be accepted by the Clearing House and/or any nominated ACSP as an entity eligible to participate in such Multilateral Compression Cycle;
  - (ii) in relation to an ACSP Compression Cycle, shall nominate those SwapClear Contracts (which may be SwapClear CTM Contracts, SwapClear STM Contracts or a combination of the same) that it wishes to make available for Multilateral Compression in accordance with the relevant Compression Documentation;
  - (iii) in relation to a Member Compression Cycle, the relevant Compression Clearing Members shall provide to the Clearing House a Compression Proposal, determined in accordance with the Procedures;
  - ~~(iii) shall together with the other requesting Compression Clearing Member(s) provide to the Clearing House details of the proposed Terminating SwapClear Contracts (which may be SwapClear CTM Contracts, SwapClear STM Contracts or a combination of the same) and, where the Member Compression Cycle also includes the registration of Post Multilateral Compression Contracts, details of those SwapClear Contracts (in such form as the Clearing House may require from time to time) which shall, subject to the Clearing House’s confirmation, constitute the Compression Proposal;~~
  - (iv) agrees and acknowledges that:
    - (A) if the Terminating SwapClear Contracts that form part of the Compression Proposal comprise both SwapClear CTM Contracts and SwapClear STM Contracts, then:
      - (1) the SwapClear Clearing Member’s identification of the SwapClear Contracts that it wishes to make available for Multilateral Compression pursuant to (ii) and/or (iii) above shall be deemed to be a STM Conversion Request in respect of those SwapClear Contracts so identified that are SwapClear CTM Contracts, and accordingly Regulation 57A (m)-(p) (inclusive) shall apply; and

- (2) it shall be a condition precedent to the occurrence of the Multilateral Compression requested under this Regulation 56 that the SwapClear CTM Contracts that are the subject of the proposed compression have been converted into SwapClear STM Contracts in accordance with Regulation 57A.
  - (B) if the Terminating SwapClear Contracts that form part of the Compression Proposal comprise only SwapClear CTM Contracts, the Post-Multilateral Compression Contracts shall also all be SwapClear CTM Contracts; and
  - (C) if the Terminating SwapClear Contracts that form part of the Compression Proposal comprise only SwapClear STM Contracts, the Post-Multilateral Compression Contracts shall also all be SwapClear STM Contracts.
- (v) warrants and represents to the Clearing House that the terms of its participation in the proposed Multilateral Compression Cycle are in compliance with Applicable Law;
  - (vi) agrees and acknowledges that the Multilateral Compression Cycle will operate, and Multilateral Compression shall take place, in accordance with this Regulation 56 [and/or the Procedures](#), the relevant Compression Proposal as accepted by such Compression Clearing Member, relevant Compression Documentation [\(if any\)](#) and such other processes and procedures as may be notified by the Clearing House from time to time; and
  - (vii) warrants and represents that, in the event that it provides or receives instructions to or from the Clearing House or to the ACSP with respect to a SwapClear Clearing Client and in connection with a Multilateral Compression Cycle, that it is authorised to provide or receive such instructions with respect to such SwapClear Clearing Client.
- (f) Where the Clearing House intends to run an ACSP Compression Cycle, it shall nominate an ACSP to facilitate such ACSP Compression Cycle and produce the Compression Proposal. Such ACSP shall notify Compression Clearing Members meeting the criteria at (e)(i) above of the timing and procedure for such ACSP Compression Cycle and invite such Compression Clearing Members to confirm their interest, either on their own account or with respect to a SwapClear Clearing Client (where applicable). The Compression Documentation for such Multilateral Compression Cycle shall include any documentation relevant to that ACSP. Additional information on the administrative procedures for any Multilateral Compression Cycle may be included in the Compression Documentation or other procedures published by the Clearing House or a nominated ACSP from time to time or in connection with a particular Multilateral Compression Cycle.
  - (g) In any Multilateral Compression Cycle, Multilateral Compression shall only take place in accordance with the terms of a Compression Proposal which has been established and accepted by all participating Compression Clearing Members in accordance with this Regulation 56, ~~and/or~~ FCM Regulation 46 [and/or the Procedures](#), as applicable. Notwithstanding the other provisions of this Regulation

56, the Clearing House shall determine (in its sole discretion) whether SwapClear Contracts proposed for inclusion in a Compression Proposal may be so included.

- (h) A Compression Proposal shall:
  - (i) in relation to an ACSP Compression Cycle, be generated by the nominated ACSP in accordance with the relevant Compression Documentation and details submitted to the ACSP by participating Compression Clearing Members and be communicated by the ACSP to each participating Compression Clearing Member in the manner contemplated in the relevant Compression Documentation for acceptance;
  - (ii) in relation to a Member Compression Cycle, be constituted by the details submitted to the Clearing House by the requesting Compression Clearing Members (subject to the Clearing House's determination that such proposed details are eligible for Multilateral Compression), and shall form the basis for the subsequent acceptance by each requesting Compression Clearing Member; and
  - (iii) in all cases include only those SwapClear Contracts that are eligible for Multilateral Compression in the relevant Multilateral Compression Cycle.
- (i) Where it wishes to participate in a Multilateral Compression Cycle, each participating Compression Clearing Member shall confirm its acceptance of a Compression Proposal in the manner and by the time specified by the Clearing House or otherwise contemplated in the relevant Compression Documentation. In relation to an ACSP Compression Cycle, each participating Compression Clearing Member agrees and acknowledges that the ACSP's confirmation to the Clearing House that such Compression Clearing Member has confirmed its acceptance of the Compression Proposal, either on its own account or with respect to a SwapClear Clearing Client, to the ACSP shall constitute a binding acceptance by such Compression Clearing Member to the Clearing House for the purposes of this Regulation 56. Upon a Compression Clearing Member's acceptance of a Compression Proposal in accordance with this paragraph, either on its own account or with respect to a SwapClear Clearing Client, such Compression Clearing Member shall be irrevocably bound to the terms of that Compression Proposal and the Multilateral Compression contemplated thereunder.
- (j) The Clearing House may require margin, subsequent to a Compression Clearing Member's acceptance of a Compression Proposal but prior to the Compression Time, in connection with the Multilateral Compression Cycle and the Compression Clearing Member's positions thereunder.
- (k) Each Compression Clearing Member that confirms its acceptance of a Compression Proposal in accordance with relevant Compression Documentation [and/or the Procedures](#) agrees and acknowledges for the benefit of the Clearing House that, by its acceptance, such Compression Clearing Member:
  - (i) shall be bound by and act in accordance with the terms of this Regulation 56, the Compression Documentation and any notifications made by the Clearing House or any nominated ACSP pursuant thereto;

- (ii) shall meet any margin calls from the Clearing House made prior to the Compression Time, and shall pay to the Clearing House any amounts that have become due and payable to the Clearing House under the SwapClear STM Terms at or prior to the Compression Time, in connection with the Multilateral Compression Cycle. Any such margin will be called, and any such amounts shall be paid, in accordance with the Procedures; and
  - (iii) is bound by the terms of the Compression Proposal and the terminations and, where applicable, registrations of SwapClear Contracts comprised therein.
- (l) Following acceptance of the Compression Proposal by all participating Compression Clearing Members, the Clearing House shall effect Multilateral Compression at such time as it may determine. For the avoidance of doubt, the irrevocable acceptance of a Compression Proposal by participating Compression Clearing Members shall not bind or require the Clearing House to proceed with a Multilateral Compression Cycle. At any time prior to the Compression Time, the Clearing House may, in its sole and absolute discretion, decide not to proceed with a Multilateral Compression Cycle.
- (m) Without prejudice to the rights of the Clearing House set out in paragraph (l) above, a Compression Proposal shall be rejected by the Clearing House if:
- (i) a Compression Clearing Member that has accepted a Compression Proposal is not eligible to participate in the relevant Multilateral Compression Cycle;
  - (ii) any of the SwapClear Contracts included as a Post-Multilateral Compression Contract or a Terminating SwapClear Contract are not eligible for such Multilateral Compression Cycle;
  - (iii) in relation to a Member Compression Cycle, the proposals submitted by the relevant Compression Clearing Members do not match; or
  - (iv) any Compression Clearing Member due to participate in a Multilateral Compression Cycle rejects the Compression Proposal or does not provide the margin, or make any other payments, as required by the Clearing House (a **“Rejecting Compression Clearing Member”**).
- (n) When the Clearing House effects a Multilateral Compression, it shall terminate all Terminating SwapClear Contracts and, where the Multilateral Compression includes the registration of Post-Multilateral Compression Contracts, simultaneously with and contingent upon the termination of such Terminating SwapClear Contracts, shall register the Post-Multilateral Compression Contracts in the name of the relevant Compression Clearing Members (either in their respective Proprietary Account or Client Account, as applicable). The Clearing House shall notify the participating Compression Clearing Members once the Multilateral Compression has been effected. Compression Clearing Members are responsible for providing notifications to SwapClear Clearing Clients.
- (o) The Clearing House shall have no involvement in and accepts no responsibility or liability in relation to any Multilateral Compression-related balancing, termination or ancillary payments or fees that participating Compression Clearing Members (or

SwapClear Clearing Clients) may agree between themselves in accordance with relevant Compression Documentation or otherwise.

- (p) Without prejudice to any other provisions of these Regulations, in particular Regulation 45, or any Compression Documentation, neither the Clearing House, nor any other member of LCH.Clearnet Group shall have any liability whatsoever to any Compression Clearing Member or to any other person (including any SwapClear Clearing Client) in contract, tort (including, without limitation, negligence), trust, as a fiduciary or under any other cause of action in respect of any damages, losses, costs or expenses of whatsoever nature suffered or incurred by a Compression Clearing Member or any other person (including any SwapClear Clearing Client), as the case may be:
- (i) as a result of any action the Clearing House takes under this Regulation 56, whether in accordance with a Compression Proposal, in reliance on information provided by Compression Clearing Members or any ACSP or otherwise;
  - (ii) in relation to an ACSP Compression Cycle, as a result of any action or omission of an ACSP, including, without limitation, any error or omission in the terms of any Compression Proposal; or
  - (iii) in relation to any Multilateral Compression Cycle, as a result of any action or omission of a participating Compression Clearing Member, including, without limitation, any error or omission in the terms of any Compression Proposal.
- (q) An ACSP's liability in respect of its acts or omissions is subject to the relevant terms of the applicable Compression Documentation.
- (r) Any notification or communication required in connection with a Multilateral Compression Cycle shall be made in accordance with the Compression Documentation [\(if any\)](#) or, if not specified in the Compression Documentation, the Procedures or such other guidance as the Clearing House may provide from time to time.
- (s) Notwithstanding any other provision of these Regulations or the terms of the SwapClear Contracts, the Clearing House may disclose details of any Compression Proposal and related details of Compression Clearing Members including (with respect to their Proprietary Accounts and Client Accounts) to any ACSP or otherwise as the Clearing House considers appropriate in order to facilitate a Multilateral Compression Cycle.
- (t) Where a Clearing Member is a Rejecting Compression Clearing Member with respect to a Multilateral Compression Cycle and acting with respect to one or more of its Client Accounts, the Clearing House may, in its sole discretion, prevent such Clearing Member from participating in future Multilateral Compression Cycles with respect to its Client Account unless or until the Clearing House considers such Client Account operationally capable of doing so, in its sole discretion.



**Appendix IV**  
Procedures Section 2C



**LCH.CLEARNET LIMITED**

**PROCEDURES SECTION 2C**

**SWAPCLEAR CLEARING SERVICE**

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information provided to it via an Approved Trade Source System on an “as is” basis (with no obligation to verify any details), (iii) the Clearing House accepts no liability for any error within or corruption of any data sent by an Approved Trade Source System to the Clearing House or to the SwapClear Clearing Member or any delay in or failure of the transmission of such data to the Clearing House or the SwapClear Clearing Member. In the event that the Clearing House terminates, registers or otherwise effects an action in connection with a compression relating to any SwapClear Contract on the basis of incorrect or corrupted data sent to it by an Approved Trade Source System, the SwapClear Clearing Member concerned shall be bound by the results of such actions. Such matters form part of the relationship between the SwapClear Clearing Member and the relevant Approved Trade Source System. Notwithstanding anything in this Section 1.16 of the Procedures, the Clearing House records in relation to any compression and the status of any SwapClear Contract prior to, during or following a compression run shall be the definitive record in connection therewith and shall prevail over any such records maintained by any Approved Trade Source System.

Any request for the Clearing House to approve an Approved Trade Source System for the purposes of this Section 1.16 must be made in writing and using the Clearing House’s standard documentation. Through making a request, an SCM is deemed to represent and warrant that the individual making the request is appropriately authorized to do so.

Following the compression process described above and as further set out in Regulation 56, the applicable SwapClear Clearing Member shall promptly notify the Clearing House if it believes that any errors have occurred in the compression process or if its books and records do not reconcile with those of the Clearing House in respect of the compressed SwapClear Contracts as notified to the SwapClear Clearing Member by the Clearing House.

#### 1.17 Duo Compression

~~Subject to completion of the Clearing House’s standard form documentation~~ The Clearing House may, in its sole and absolute discretion, from time to time make available Multilateral Compression on the basis of a Member Compression Cycle to two SwapClear Clearing Members (upon approval to participate in Multilateral Compression, each such SwapClear Clearing Member, a Compression Clearing Member).

From time to time, the Clearing House may publish an anonymised report to each Compression Clearing Member participating in Duo Compression identifying compression and risk replacement opportunities based on eligible SwapClear Contracts (the “Clearing House Compression Proposal”). Upon receipt of a given Clearing House Compression Proposal, a Compression Clearing Member may submit a request to the Clearing House to perform a Member Compression Cycle with another Compression Clearing Member. If both Compression Clearing Members consent to participate in a given Member Compression Cycle, the Clearing House may identify each Compression Clearing Member to the other participating Compression Clearing Member.

Upon consenting to participate in a given Member Compression Cycle, each Compression Clearing Member must provide to the Clearing House a set of SwapClear Contracts from the Clearing House Compression Proposal to be included in the given Member Compression Cycle; such SwapClear Contracts may not be included in any other Bulk Event until the termination or completion of the relevant Member Compression Cycle.

Upon receipt from each Compression Clearing Member in the relevant Member Compression Cycle of the SwapClear Contracts to be included in the Member Compression Cycle, the Clearing House may publish to each Compression Clearing Member a set of proposed Terminating SwapClear Contracts (which may be SwapClear CTM Contracts and/or SwapClear STM Contracts) and, if applicable, Post-Multilateral Compression Contracts (the “**Initial Member Compression Proposal**”).

Each Compression Clearing Member in the relevant Member Compression Cycle must review and agree on a set of Terminating SwapClear Contracts and, if applicable, Post-Multilateral Compression Contracts from the Initial Member Compression Proposal. For the avoidance of doubt, the Compression Clearing Members in the relevant Member Compression Cycle may agree on Terminating SwapClear Contracts and, if applicable, Post-Multilateral Compression Contracts that were not included in the Initial Member Compression Proposal. In the event a Compression Clearing Member selects Terminating SwapClear Contracts to be included in the relevant Member Compression Cycle, which were not set forth on the Initial Member Compression Proposal, the Compression Clearing Member must submit such other Terminating SwapClear Contracts to the Clearing House for inclusion in the relevant Member Compression Cycle.

In the event both Compression Clearing Members in the relevant Member Compression Cycle agree on a matching set of Terminating SwapClear Contracts and, if applicable, Post-Multilateral Compression Contracts, including any Terminating SwapClear Contracts that were set forth on the Initial Member Compression Proposal (each Compression Clearing Member’s Post-Multilateral Compression Contracts must be equal and offsetting with the other relevant Compression Clearing Member’s Post-Multilateral Compression Contracts), the Clearing House may present to each Compression Clearing Member a proposed final set of Terminating SwapClear Contracts and, if applicable, Post-Multilateral Compression Contracts for the given Member Compression Cycle (the “**Final Member Compression Proposal**”). Upon approval from each Compression Clearing Member of the Final Member Compression Proposal, such Final Member Compression Proposal shall constitute the Compression Proposal for the given Member Compression Cycle and the Clearing House may effect the Member Compression Cycle as set forth in Regulation 56 in its sole and absolute discretion.

-SwapClear Clearing Members should contact [swapclear.clientservices@lchelearnet.com](mailto:swapclear.clientservices@lchelearnet.com) for further information.

## 1.18 Cleared Trade Removal Agreement

SwapClear Contracts may be transferred from a Client Account to the relevant SCM's Proprietary Account in accordance with Section 1.13. In the event that an SCM