6 September 2016

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

LCH.Clearnet Limited Self Certification: Termination of post-compression SwapClear Contracts with negligible notional amount

Dear Mr Kirkpatrick,

Pursuant to Commodity Futures Trading Commission (the “CFTC”) Regulation §40.6(a), LCH.Clearnet Limited (“LCH”), a derivatives clearing organization registered with the CFTC, is submitting for self-certification changes to its rules related to the termination of trades with small notional amounts and hence a negligible Net Present Value (NPV).

Part I: Explanation and Analysis

LCH is proposing rule changes that will allow the termination of trades with economically insignificant notional amounts upon written request from a Clearing Member.

Such trades are created as a result of the Compression activity. Compression is the process by which a Clearing Member or Client can reduce the number of their individual positions and overall notional value of a portfolio by combining or offsetting trades with compatible characteristics. The compression process reduces multiple eligible trades into a small number of replacement trades. The replacement trades have new notional values which may contain decimal precision. The Clearing Member or Client may trade out any of the replacement trades at a later date. Often this trading occurs in a notional amount without any decimal precision, thereby leaving a residual small notional trade within the SwapClear platform. A trade is considered to be a “small notional” trade if it satisfies all of the four conditions identified in table 1 below. The small notional trade has a negligible NPV and associated risk and is therefore economically insignificant to the Clearing Member or Client. Following a request from both Clearing Members and Clients, LCH is amending its rules enabling it, upon request, to terminate such trades, thus simplifying reconciliation and trade line items management.
Table 1

<table>
<thead>
<tr>
<th>Condition 1 - Origination</th>
<th>Condition 2 - Individual cash flow</th>
<th>Condition 3 - All cash flows</th>
<th>Condition 4 - Notional amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade does not originate from a new registration or allocation</td>
<td>For all currencies (other than JPY and HUF where this is 1 unit or less), all future individual cash flows (both pay and receive not net) must be 0.5 unit or less</td>
<td>For all currencies (other than JPY and HUF, where this is 700 and 20 units respectively), the sum (net) of all future cash flows must be less than 4 units</td>
<td>For all currencies (other than JPY and HUF, where this is 1,750 and 50 units respectively) where the product is not VNS, the notional amount must be less than 10 units</td>
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<td>If the product is VNS then the trades will be manually reviewed and some may subsequently be flagged as “small notional” trades.</td>
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</table>

The changes will go live on, or after, September 21, 2016.

Part II: Description of Rule Changes

Regulation 56 (Compression) of the General Regulations has been amended noting the process and conditions to be followed for the termination of eligible SwapClear Contracts with small notional amount resulting from a compression run, upon written request of a SwapClear Clearing Member.

The changes in Regulation 46 (Registration of FCM SwapClear contracts; Novation and Post-Novation compression; SwapClear Accounts) of the FCM Regulations mirror those being made in the General Regulations and apply to the FCM Clearing Members and the relevant FCM SwapClear Contracts.

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.

Part III: Core Principle Compliance

LCH has concluded that compliance with the Core Principles 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.

Yours sincerely

[Signature]

Julian Oliver
Chief Compliance Officer
LCH.Clearnet Limited
Appendix I
General Regulations
GENERAL REGULATIONS OF
LCH.CLEARNET LIMITED
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).

Following the compression of SwapClear Contracts pursuant to Regulation 56(a), and in the event that the Clearing House considers in its sole discretion that the post-compression SwapClear Contracts have a “small notional amount,” then Clearing House may, upon written request by the relevant SwapClear Clearing Member, effect the termination of the SwapClear Contract(s) with a small notional amount. By making a request to terminate SwapClear Contracts in accordance with this Regulation 56(b), the relevant SwapClear Clearing Member shall be deemed to represent and warrant that: (i) such termination, if effected, will be in accordance with Applicable Law; and (ii) it consents to the termination of the relevant SwapClear Contracts.

(b)(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
Appendix II
FCM Regulations
shall have a notional amount equal to the net notional amount of the compressed FCM SwapClear Contracts; however, in some cases the replacement FCM SwapClear Contracts will have an aggregate notional amount that is greater than the net notional amount of the compressed FCM SwapClear Contracts provided that in no event will the aggregate notional amounts of the replacement FCM SwapClear Contracts be greater than the aggregate notional amounts of the compressed FCM 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 FCM SwapClear Contracts. The Clearing House shall determine (in its sole discretion) whether FCM SwapClear Contracts that are the subject of a request for compression from the FCM Clearing Member may be compressed and, if such FCM SwapClear Contracts are compressed, the Clearing House shall determine the resulting terms of the FCM SwapClear Contract(s) (if any) that replaces the compressed FCM SwapClear Contracts, and such determination shall be binding on the FCM Clearing Member, absent manifest error. It is a condition for compression of FCM SwapClear Contracts that the amount of Margin that the Clearing House requires in respect of the original FCM SwapClear Contracts is equal to that which is required by the Clearing House in respect of the replacement FCM SwapClear Contract(s).

Following the compression of FCM SwapClear Contracts pursuant to Regulation 46(m), and in the event that the Clearing House considers in its sole discretion that the post-compression FCM SwapClear Contracts have a “small notional amount,” then the Clearing House may, upon written request by the relevant FCM Clearing Member, effect the termination of the FCM SwapClear Contract(s) with a small notional amount. By making a request to terminate FCM SwapClear Contracts in accordance with this Regulation 46(m), the relevant FCM Clearing Member shall be deemed to represent and warrant that: (i) such termination, if effected, will be in accordance with Applicable Law; and (ii) it consents to the termination of the relevant FCM SwapClear Contracts.

**(m)** SwapClear Accounts. All FCM Omnibus SwapClear Client Accounts with LCH shall not be permitted to contain any FCM Contracts other than FCM SwapClear Contracts or to reflect any Margin other than in connection with FCM SwapClear Contracts.

**(o)** Unallocated FCM SwapClear Transactions. In accordance with all other applicable provisions of the FCM Rulebook, an FCM Clearing Member may register an FCM SwapClear Contract subject to post-registration allocation on behalf of a Pre-Allocation Executing Party in accordance with the following provisions:

(i) In order for a FCM SwapClear Transaction executed by a Pre-Allocation Executing Party and to be subject to post-registration allocation (such transaction, an “Unallocated FCM SwapClear Transaction”), the FCM Clearing Member that will be registering the Unallocated FCM SwapClear Transaction (such FCM Clearing Member, a “Pre-Allocation FCM Clearing Member”) must have notified the Clearing House that it wishes to establish a FCM SwapClear Suspension Sub-Account with respect to that Pre-Allocation Executing Party and the Clearing House shall have opened such FCM SwapClear Suspension Sub-Account for the FCM Clearing Member.