



**VIA EMAIL TO: SUBMISSIONS@CFTC.GOV**

July 25, 2014

Ms. Melissa Jurgens  
Secretary of the Commission  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21<sup>st</sup> Street, N.W.  
Washington, DC 20581

**RE: Risk Free Compression enhancements and fees**

Dear Ms. Jurgens:

Pursuant to §40.6(a) of the Commission Regulations, LCH.Clearnet Limited ("LCH.Clearnet"), a Derivatives Clearing Organization ("DCO") registered with the Commodity Futures Trading Commission ("CFTC"), hereby submits changes to its Rulebook. LCH.Clearnet's SwapClear service is planning to implement these rule changes to extend its existing risk-free compression service to allow the compression of trades that have differing fixed rates. In addition, LCH.Clearnet is submitting changes to the fees for the risk free compression service.

The changes will be implemented and become effective on August 18, 2014.

**Part I: Explanation and Analysis**

LCH.Clearnet currently offers a risk free compression service, under which unlinked trades with the same economic terms on the same account may be compressed into a single trade with precisely the same risk profile, fixing dates and cashflows as the original set of trades. This allows clearing members and their customers to reduce the size of cleared gross notional positions and reduce the number of outstanding trades.

Under the current service, only trades with the same fixed rate may be compressed. LCH.Clearnet is now proposing to extend the service to permit the compression of trades with different fixed rates but otherwise identical economic terms. This extended form of compression ("blended rate compression") will allow unlinked trades to be cancelled and replaced by a smaller number of trades that exactly replicate the cashflows, fixing dates and risk profile of the original set of trades. The replacement trades will be created at a rate that is a weighted average of the original different fixed rates. Controls will be applied to ensure that the resulting blended rates lie within acceptable limits.

The existing risk free compression service which runs daily will continue, whilst the blended rate compression will be scheduled initially as a weekly cycle in which clearing members and clients can determine which trades are to be considered for this extended compression.

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At the launch of the new blended rate compression service, LCH.Clearnet will also implement a new fee schedule.

For each trade terminated using the blended rate compression facility, the charge will be:

- Fee per trade terminated = (a) Registration replacement fee + (b) Processing fee
- The registration replacement fee is the registration fee as per a client's current applicable fee plan (eg \$25 for High Turnover plan and published schedule for Standard Pricing Plan)
- The Processing fee for a client will be discounted based on average monthly activity (trades cleared and trades compressed using the blended rate compression facility) over the previous quarter, as follows:
  1. \$25 for activity greater or equal to 750 trades
  2. \$50 for activity greater or equal to 250 trades but less than 750 trades
  3. \$75 for all other activity

LCH.Clearnet is also self-certifying a minor clarification as to the outcome of a Member Compression Cycle.

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

The introduction of blended rate compression necessitates changes to the General Regulations, the FCM Regulations, the FCM Procedures and the UK Procedures. Blacklines of these rules are attached as Appendices A-1, A-2, A-3 and A-4 respectively.

### **1. General Regulations**

Changes to Regulation 56 have been included to clarify that compression may occur where one or more existing contracts have the same future cash-flows as one or more substitute contracts, as opposed to basing their eligibility on economic terms.

Express reference to compression only being available where a transaction results from client business has been removed as eligibility will now be determined based on contracts being assigned a compression identifier. This is now referred to in the procedures.

Owing to the introduction of the blended rate process, trades may be compressed where they have different fixed rate legs and an aggregate notional that is greater than the net (but not aggregate) notional of the trades that are being compressed.

Changes have also been made in order to clarify that where only two members enter into a Member Compression Cycle, this may not result in any Post-Multilateral Compression Contracts being entered into (i.e. lead solely to terminations of existing contracts).

### **2. FCM Regulations**

Equivalent changes to those described above have been made to the FCM Regulations.

### **3. FCM Procedures:**

References to a pre-determined compression run times have been removed for greater flexibility. Compression eligibility is determined based on LCH.Clearnet compression identifier being assigned to eligible trades.



#### **4. UK Procedures:**

The UK Procedures have been harmonized with the FCM Procedures (including those changes described above).

#### **Part III: Public Information**

LCH.Clearnet posted a notice of pending certification with the CFTC and a copy of the submission on LCH.Clearnet's website at [http://www.lchclearnet.com/rules\\_and\\_regulations/ltd/proposed\\_rules.asp](http://www.lchclearnet.com/rules_and_regulations/ltd/proposed_rules.asp)

#### **Part IV: Compliance with Core Principles**

LCH.Clearnet will continue to comply with all Core Principles following the introduction of these rule amendments. LCH.Clearnet has concluded that its compliance with Core Principles would not be adversely affected by these changes, at that compliance with Core Principle D will be further enhanced.

#### **Part V: Opposing Views**

There were no opposing views expressed to LCH.Clearnet by its governing board or committee members, members of LCH.Clearnet or market participants that were not incorporated into the planned changes.

#### **Part VI: Certification**

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

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

Sincerely yours,

A handwritten signature in blue ink that reads 'Julian Oliver'.

Julian Oliver  
LCH Clearnet Limited

cc: Shawn Durrani, CFTC  
cc: Jay Iyer, LCH.Clearnet Limited



**Appendix A-1 (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 ~~Contract reflecting the aggregate economic terms, or the net economic terms, as the case may be,~~ Contracts having a net future cash flow equal to the net future cash flow of such original SwapClear Contracts. 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 they have differing fixed rates. 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 that 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—and provided, 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 ~~is~~ 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 ~~notional amount~~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) In addition, the Clearing House may, from time to time in its absolute discretion, make available in accordance with this Regulation 56, Multilateral Compression on the basis of a Multilateral Compression Cycle which is either:
  - (i) an ACSP Compression Cycle, available to SwapClear Clearing Members; or
  - (ii) a Member Compression Cycle, where so requested by two or more SwapClear Clearing Members and agreed to by the Clearing House.
- (d) In participating in any Multilateral Compression Cycle, a SwapClear 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 it wishes to make available for Multilateral Compression in accordance with the relevant Compression Documentation;
  - (iii) in relation to a Member Compression Cycle, shall together with the other requesting SwapClear Clearing Member(s) provide to the Clearing House details of the proposed Terminating SwapClear Contracts 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) warrants and represents to the Clearing House that the terms of its participation in the proposed Multilateral Compression Cycle are in compliance with all applicable laws and regulation; and
  - (v) agrees and acknowledges that the Multilateral Compression Cycle will operate, and Multilateral Compression shall take place, in accordance with this Regulation 56, the relevant Compression Proposal as accepted by such SwapClear Clearing Member, relevant Compression Documentation and such

Clearing Member to the Clearing House for the purposes of this Regulation 56. Upon a SwapClear Clearing Member's acceptance of a Compression Proposal in accordance with this paragraph, such SwapClear Clearing Member shall be irrevocably bound to the terms of that Compression Proposal and the Multilateral Compression contemplated thereunder.

- (i) The Clearing House may require margin, subsequent to a SwapClear Clearing Member's acceptance of a Compression Proposal but prior to the Compression Time, in connection with the Multilateral Compression Cycle and the SwapClear Clearing Member's positions thereunder.
- (j) Each SwapClear Clearing Member that confirms its acceptance of a Compression Proposal in accordance with relevant Compression Documentation agrees and acknowledges for the benefit of the Clearing House that, by its acceptance, such SwapClear 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 in connection with the Multilateral Compression Cycle. Any such margin will be called 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.
- (k) Following acceptance of the Compression Proposal by all participating SwapClear 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 SwapClear 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.
- (l) Without prejudice to the rights of the Clearing House set out in paragraph (k) above, a Compression Proposal shall be rejected by the Clearing House if:
  - (i) a SwapClear Clearing Member which 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 SwapClear Clearing Members do not match; or
  - (iv) any SwapClear Clearing Member due to participate in a Multilateral Compression Cycle rejects the Compression Proposal or does not provide the margin as required by the Clearing House.

- (m) 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~~the Terminating SwapClear Contracts, shall register the Post-Multilateral Compression Contracts in the Proprietary Accounts of the relevant SwapClear Clearing Members. The Clearing House shall notify the participating SwapClear Clearing Members once the Multilateral Compression has been effected.
- (n) 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 SwapClear Clearing Members may agree between themselves in accordance with relevant Compression Documentation or otherwise.
- (o) 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 SwapClear Clearing Member or to any other person in contract, tort (including, without limitation, negligence), trust, as a fiduciary or under any other cause of action in respect of any damage, loss, cost or expense of whatsoever nature suffered or incurred by a SwapClear Clearing Member or any other person, 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 SwapClear 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 SwapClear Clearing Member, including, without limitation, any error or omission in the terms of any Compression Proposal.
- (p) An ACSP's liability in respect of its acts or omissions is subject to the relevant terms of the applicable Compression Documentation.
- (q) Any notification or communication required in connection with a Multilateral Compression Cycle shall be made in accordance with the Compression Documentation or, if not specified in the Compression Documentation, the Procedures or such other guidance as the Clearing House may provide from time to time.
- (r) 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 SwapClear Clearing Members to any ACSP or otherwise as the Clearing House considers appropriate in order to facilitate a Multilateral Compression Cycle.



**Appendix A-2 (FCM Regulations)**

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

obligations arising from the Economic Terms of the corresponding FCM SwapClear Transaction (it being assumed, for this purpose, that such FCM SwapClear Transaction was a legal, valid, binding and enforceable obligation of the parties thereto and that the Economic Terms thereof were as presented to the Clearing House for registration), notwithstanding the change in the person entitled to them or obliged to perform them, and subject to any change thereto as a result of the operation of the Standard Terms.

- (k) If an FCM SwapClear Transaction is revoked, avoided or otherwise declared invalid for any reason after particulars of it have been accepted by the Clearing House for registration that revocation, avoidance or invalidity shall not affect any FCM SwapClear Contract arising under this FCM Regulation 46 or any other applicable provision of the FCM Rulebook.
- (l) In the case of an FCM SwapClear Contract registered by the Clearing House pursuant to rule 6(a) of the Default Rules, the Registration Time shall be deemed to be the time chosen by the Clearing House whereupon this FCM Regulation 46 shall take effect.
- (m) **Compression.** Notwithstanding any other provision of these FCM Regulations, if one or more FCM SwapClear Contracts registered by an FCM Clearing Member in accordance with these FCM Regulations and the FCM Procedures has substantially the same Economic Terms as one or more other FCM SwapClear Contracts previously registered for the account of such FCM Clearing Member, and all such FCM SwapClear Contracts are either (i) registered on the FCM Clearing Member's own behalf or (ii) registered on behalf of the same FCM Client, the FCM Clearing Member may request that the Clearing House compress and combine all such FCM SwapClear Contracts by terminating the relevant existing FCM SwapClear Contracts and, in some instances, compressing them into one or more FCM SwapClear ~~Contract reflecting the aggregate economic terms, or the net economic terms, as the case may be,~~ Contracts having a net future cash flow equal to the net future cash flow of the original FCM SwapClear Contracts. For purposes of this FCM Regulation ~~46~~45(m), two or more FCM 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 FCM SwapClear Contracts have “substantially the same Economic Terms” even if they have differing fixed rates. Two or more FCM SwapClear Contracts that are compressed under the terms of this FCM Regulation ~~46~~45(m) shall be aggregated if the position of the FCM Clearing Member (on its own behalf) or the relevant FCM Client is in the same direction on each such FCM SwapClear Contract (i.e., obligations to make payment aggregated and rights to receive payment aggregated), such that the FCM SwapClear Contract that replaces the compressed FCM SwapClear Contracts shall have a notional amount equal to the total notional amount of the compressed FCM SwapClear Contracts. Two or more FCM SwapClear Contracts that are compressed under the terms of this Regulation ~~46~~45(m) shall be netted if the position of the FCM Clearing Member (on its own behalf) or the relevant FCM Client is in the opposite direction on two or more of each such FCM SwapClear Contracts (i.e., obligations to make payment netted against rights to receive payment); In most such ~~that~~cases, the

FCM SwapClear Contract (if any) that replaces the compressed FCM SwapClear Contracts shall have a notional amount equal to the net notional amount of the compressed FCM SwapClear Contracts, ~~and provided~~, 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 ~~is~~ 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 ~~notional amount~~ 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).

- (n) **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 an Account Manager Executing Party in accordance with the following provisions:
  - (i) An FCM SwapClear Transaction executed by or on behalf of an Account Manager Executing Party and subject to post-registration allocation (such transaction, an “**Unallocated FCM SwapClear Transaction**”) shall be notified to the Clearing House as such at the time it is submitted or presented to the Clearing House.
  - (ii) The FCM SwapClear Contract registered on behalf of an Account Manager Executing Party that results from an Unallocated FCM SwapClear Transaction (an “**Unallocated FCM SwapClear Contract**”) shall be registered in a suspense sub-account of the applicable FCM Clearing Member's FCM Omnibus SwapClear Client Account with LCH (such sub-account, the “**SwapClear Suspension Sub-Account**”).
  - (iii) Following registration of an Unallocated FCM SwapClear Contract, the applicable FCM Clearing Member must notify the Clearing House (the “**Allocation Notice**”), prior to the close of the clearing of FCM SwapClear Contracts on the Business Day in which the Unallocated FCM SwapClear Contract was registered, of the applicable FCM Client Sub-Accounts to which portions of the Unallocated FCM SwapClear Contract should be allocated and the applicable portions of the Unallocated FCM SwapClear Contract to be



**Appendix A-3 (FCM Procedures)**



**FCM PROCEDURES OF  
THE CLEARING HOUSE**

**LCH.CLEARNET LIMITED**

(c) *Calculation of Initial Margin*

(i) Portfolio Approach to Interest Rate Scenarios (PAIRS)

The PAIRS calculation is a VAR based approach based on filtered historical simulations. All positions in each currency are re-valued under a series of cross portfolio yield curve scenarios to estimate the highest forecast loss and therefore the Initial Margin requirement. Further details of this method are available upon request and are detailed in the PAIRS TIP document. The PAIRS document and further information relating to Initial Margin calculations can be obtained from the Rates team at +44 (020) 7426 6325 or +44 (020) 7426 7428.

(d) *Tenor Basis Risk Margin Add-on*

A margin add-on will be applied in respect of tenor basis risk.

2.1.9 ***Intra-Day Margin Call: Collateral Management***

(a) *General – Intra-day Margining*

Following an intra-day margin call and unless notified otherwise by an FCM Clearing Member at the time of an intra-day margin call the Clearing House will deduct cash, in the appropriate currency, directly from the relevant FCM Clearing Member's PPS account to cover the Margin needed to meet that intra-day margin call.

Cash payments in respect of intra-day Margin requirements are accepted only in USD by the Clearing House.

It is the responsibility of the FCM to ensure that they have sufficient cash funds in place with their PPS bank(s) in order to avoid any intra-day liquidity issues.

2.1.10 ***Compression***

(a) Pursuant to FCM Regulation 45(m) (*Registration of FCM SwapClear Contracts; Novation and Post-Novation Compression; SwapClear Accounts*), an FCM Clearing Member may compress existing FCM SwapClear Contracts in accordance with that FCM Regulation. There are two options available to an FCM Clearing Member that wishes to compress existing FCM SwapClear Contracts:

(i) An FCM Clearing Member can request that all FCM SwapClear Contracts entered into (i) on behalf of a designated FCM Client or (ii) in such FCM Clearing Member's Proprietary Account be considered for compression by the Clearing House. Such a request shall be reconsidered by the Clearing House automatically each day (and the results notified to the FCM Clearing Member ~~by 19:00 hours, New York City time, on each~~after the applicable [dayscheduled compression run](#)) until

the FCM Clearing Member notifies the Clearing House to discontinue such compression of FCM SwapClear Contracts. FCM Clearing Members should contact the Clearing House's Membership Department to request such a compression of FCM SwapClear Contracts.

- (ii) An FCM Clearing Member may notify the Clearing House directly through the SwapClear API, specifying which FCM SwapClear Contracts should be compressed. The FCM Clearing Member will be notified ~~by 19:00 hours, New York City time, on~~after the applicable ~~days~~scheduled compression run whether compression has occurred and the Clearing House will not automatically reconsider such compression request on subsequent days regardless of whether compression has occurred.
- (b) In order to compress an FCM SwapClear Contract, an FCM Clearing Member must ~~register with an FCM Approved Trade Source System an offsetting FCM SwapClear Contract~~have in its applicable FCM Client Sub-Account or Proprietary Account two or more FCM SwapClear Contracts with the same compression identifier (being an identifier applied by the Clearing House which indicates that such FCM SwapClear Contracts are eligible for compression) and shall then follow the process for compression as set out above.
- (c) In respect of each compression, the Clearing House will notify Clearing Members of the cut-off time by which the Clearing House must be notified of the relevant SwapClear Contracts to be compressed in order for such SwapClear Contracts to be included in the relevant compression run. The Clearing House shall process the compression of all FCM SwapClear Contracts ~~as notified to it prior to 18:00 hours, New York City time, shortly after 18:00 hours, New York City time,~~such cut-off time and shall notify the applicable FCM Clearing Member ~~by 19:00 hours, New York City time,~~after the applicable compression run of the result of such compression procedure. A notification received after ~~18:00 hours, New York City~~the relevant cut-off time, shall be treated as if such notification was submitted on the following day ~~prior to 18:00 hours, New York City time, and as such shall be considered shortly after 18:00 hours, New York City time, on such following day and the results notified to the applicable FCM Clearing Member by 19:00 hours, New York City time, on such following day.~~
- (d) Following the compression process described above and as further set out in FCM Regulation 45(m) (*Registration of FCM SwapClear Contracts; Novation and Post-Novation Compression; SwapClear Accounts*), the applicable FCM 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 FCM



**Appendix A-4 (Procedures Section 2C)**



**LCH.CLEARNET LIMITED**

**PROCEDURES SECTION 2C**

**SWAPCLEAR CLEARING SERVICE**

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The Clearing House will usually require five business days notice ahead of an intended transfer.

1.16 ~~[Reserved]~~ Compression

A SwapClear Clearing Member may compress existing SwapClear Contracts in accordance with Regulation 56. There are two options available to a SwapClear Clearing Member that wishes to compress existing SwapClear Contracts:

- (a) A SwapClear Clearing Member can request that all SwapClear Contracts entered into on behalf of a designated SwapClear Clearing Client or on such SwapClear Clearing Member's own behalf be considered for compression by the Clearing House. Such a request shall be reconsidered by the Clearing House automatically each day (and the results notified to the SwapClear Clearing Member after the applicable scheduled compression run) until the SwapClear Clearing Member notifies the Clearing House to discontinue such compression of SwapClear Contracts. SwapClear Clearing Members should contact the Clearing House's Membership Department to request such a compression of SwapClear Contracts.
- (b) A SwapClear Clearing Member may notify the Clearing House directly through the SwapClear API specifying which SwapClear Contracts should be compressed. The SwapClear Clearing Member will be notified after the applicable scheduled compression run whether compression has occurred and the Clearing House will not automatically reconsider such compression request on subsequent days regardless of whether compression has occurred.

In order to compress a SwapClear Contract, a SwapClear Clearing Member must have in its applicable Client Account or Proprietary Account SwapClear Contracts with the same compression identifier (being an identifier applied by the Clearing House which indicates that such SwapClear Contracts are eligible for compression) and shall then follow the process for compression as set out above.

In respect of each compression, the Clearing House will notify SwapClear Clearing Members of the cut-off time by which the Clearing House must be notified of the relevant SwapClear Contracts to be compressed in order for such SwapClear Contracts to be included in the relevant compression run. The Clearing House shall process the compression of all SwapClear Contracts notified to it prior to such cut-off time and shall notify the applicable SwapClear Clearing Member after the applicable compression run of the result of such compression procedure. A notification received after the relevant cut-off time shall be treated as if such notification was submitted on the following day.

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.