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NO-ACTION RELIEF RELATED TO 7 U.S.C. §§ 1a(50), 2(h)(1), 2(h)(8), 7b-3; 17 CFR Part 37; 17 CFR Part 43; 17 CFR Part 50

June 11, 2026

Submitted Via Email

Acting Director of the Division of Clearing and Risk
Acting Director of the Division of Market Oversight
Director of the Market Participants Division
Commodity Futures Trading Commission
1155 21st Street NW
Washington DC 20581

Re: **Request for No-Action Positions Regarding Post-Trade Risk Reduction Services**

Dear All:

We are writing this letter on behalf of three firms that provide post-trade risk reduction services ("**PTRRS**") for swaps—Capitolis Partners LLC, Quantile Technologies Limited (as part of the London Stock Exchange Group plc), and TriOptima AB (as part of OSTTRA) (each, individually, a "**Service Provider**" and collectively, the "**Service Providers**")—to request relief[1] from certain of the rules of the Commodity Futures Trading Commission (the "**Commission**" or the "**CFTC**") that have been applied to PTRRS or to the resulting swaps.[2] PTRRS made available by the Service Providers are of three types: (i) "portfolio compression," (ii) "portfolio rebalancing," and (iii) "basis risk mitigation," each of which is described further below. All PTRRS allow swaps market participants to reduce various risks in their swap portfolios without materially changing their market exposures. With respect to portfolio compression, the Commission's swaps regulations and

[1] The Service Providers are requesting relief from the Commission pursuant to Commission regulation 140.99. The National Futures Association ("**NFA**") registration identification numbers for each of the Services Providers is as follows: (i) Capitolis Partners LLC (NFA ID: 0517879); (ii) Quantile Technologies Limited (NFA ID: 0500570); and (iii) TriOptima AB (NFA ID: 0452206).

[2] While the discussion herein is limited to the provision of PTRRS with respect to "swaps" (as such term is defined in Section 1a(47) of the Commodity Exchange Act) regulated by the Commission, the Service Providers also provide PTRRS with respect to other financial instruments, including, but not limited to forwards and "security-based swaps" (as such term is defined in Section 3(a)(68) of the Securities Exchange Act of 1934) regulated by the Securities and Exchange Commission.

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no-action relief recognize and provide exemptions from certain regulatory requirements for such services. However, for the other services—*i.e.*, portfolio rebalancing and basis risk mitigation (collectively, the "**Optimization Services**")—certain Commission rules have the effect of discouraging their use, impeding their efficient execution, and/or raising their costs, without, in our view, providing any corresponding benefit.

Before going into a fuller description of the various PTRRS, we again note that portfolio compression already benefits from the exemptions that we are seeking as to the Optimization Services. We note that we are not seeking any further relief as to portfolio compression; we are only seeking comparable relief for the Optimization Services. Nonetheless, we think a discussion of portfolio compression is important to an understanding of our request because both the process by which portfolio compression is achieved, and the benefits that portfolio compression provides, are substantially similar to the processes employed in, and the benefits provided by, the Optimization Services. Likewise, the conditions under which the Optimization Services would operate, and already do operate, are largely the same as those applicable to portfolio compression services. Therefore, we believe that the reasons why the Commission granted regulatory relief to portfolio compression services should apply with equal force to the Optimization Services.

This letter is organized as follows:

- **Section I** of this letter provides an overview of each of the various PTRRS, detailing conceptually how each service operates to reduce various risks with respect to counterparties' swap portfolios without materially changing swap counterparties' market exposures.

- **Section II** details how the PTRRS generally operate, including the process of the Services Providers' algorithms and the conditions under which transactions proposed by an algorithm may be executed.

- **Section III** explains the various benefits of PTRRS, including reductions in operational risk and counterparty risk, as well as potential reduction in systemic risk, and potential enhancements in market stability. Section III also discusses how some non-U.S. financial services regulators have approached regulation of PTRRS.

- **Section IV** reviews the various regulatory relief that the Commission has historically afforded one type of PTRRS—*i.e.*, portfolio compression—including relief from swap execution facility registration requirements, relief from the Commodity Exchange Act's clearing requirement, and relief from the real-time public reporting requirements under Part 43 of the Commission's regulations. Section IV emphasizes that swaps subject to such other types of PTRRS—*i.e.*, the Optimization Services—should be granted substantially similar regulatory relief by the Commission as has been granted for swaps subject to portfolio compression exercises, subject to the additional requests for relief outlined in this letter.

- **Section V** provides a comprehensive description of the specific regulatory relief sought for the Optimization Services and details the conditions under which the Service Providers requesting such regulatory relief would operate.

- **Section VI** concludes the letter and reiterates the request for relief in summary.

I. The Post Trade Risk Reduction Services

A. Portfolio Compression

The Commission's portfolio compression regulations define "multilateral portfolio compression" as "an exercise in which multiple swap counterparties wholly terminate or change the notional value of some or all of the swaps submitted by the counterparties for inclusion in the portfolio compression exercise and, depending on the methodology employed, replace the terminated swaps with other swaps whose combined notional value (or some other measure of risk) is less than the combined notional value (or some other measure of risk) of the terminated swaps in the compression exercise."[3]

Compression may be achieved either by amending existing swaps or by termination of such swaps and replacing them with swaps of lower notional value but equal market exposure. Under the amended swap method, the outstanding notional value of the original swap between two counterparties is reduced by amending the original swap or by terminating the swap entirely. Under the swap replacement method, one or more existing swaps are terminated and replaced by new swaps that reflect a netting down of existing notional exposure between the counterparties. In both methods, the counterparties' market exposure and maximum maturity do not change.

B. Portfolio Rebalancing

"Portfolio rebalancing" (or counterparty risk reduction) is intended to reduce the counterparty credit risk or change the concentration of credit risk in existing swap positions. The process works through the insertion of new derivatives transactions into existing portfolios. The result of these new transactions is that market risk for participants is unchanged beyond pre-defined tolerances entered by each participant, but the credit risk exposure between particular counterparties may be reduced, and the overall credit risk of the participants in the PTRRS exercise will be reduced.

Portfolio rebalancing is similar to portfolio compression in that it is intended to help market participants reduce their risks (in this case, counterparty credit risk) without changing their market risk. However, we note that unlike compression, portfolio rebalancing involves inserting new transactions into the portfolios of participants that will raise their gross notional with a view to reducing non-market risk of the whole portfolio (but, like portfolio compression, leaving each counterparty with an unchanged level of market risk).

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[3] See Commission regulation § 23.500(h).

C. Basis Risk Mitigation

"Basis risk mitigation" is used to reduce the risk that arises from misaligned pricing dates or expiration dates in portfolios that appear to be fully hedged from a macro standpoint. For example, suppose that a swap party has offsetting long and short positions of the same size in a particular asset, and the maturities of the offsetting swaps are almost the same, but one expires on the last business day of a month, and the other expires on the first business day of the next month. That difference in expiration dates, which could be several days depending on weekends and holidays, introduces unhedged risk into positions that seem to be offsetting. The cumulative effect of such unhedged risk in a large portfolio can be substantial.

Basis risk mitigation works without amending or terminating any existing positions by adding equal and opposite "technical transactions" to neutralize the price setting or expiration dates of a firm's existing portfolio positions.[4] As with PTRRS Transactions (as defined herein) resulting from portfolio compression and portfolio rebalancing, PTRRS Transactions resulting from basis risk mitigation are not price forming and do not change the overall market risk of a portfolio, beyond pre-defined tolerances agreed by all participants in the exercise.

II. The PTRRS Process

All of the PTRRS operate in a materially similar fashion. The Service Provider for a PTRRS (i) serves as a central hub for inputs from participants of their existing portfolios and of any constraints to be imposed during the exercise (*e.g.*, the maximum new credit exposure that one participant will accept to another participant, or the maximum maturity of transactions that a participant will accept with another participant); and (ii) serves as the operator of the relevant service that will be used for purposes of the post-trade risk reduction exercise. We note that the benefits of the exercise increase with the number of participants, as this expands the opportunities for beneficial matching, offsetting and elimination of risks.

On periodically designated dates (the frequency depends upon the nature of the PTRRS), participants in a post-trade risk reduction exercise submit their portfolio positions and their entity and transaction term constraints. The relevant Service Provider then "runs" participants' portfolio data and constraints through its algorithm and the algorithm identifies terminations, amendments, or new transactions that reduce risks in a market risk neutral manner, and within the constraints entered by each participant in the exercise (transactions identified by a PTRRS algorithm are hereafter referred to as "**PTRRS Transactions**").

In order for the exercise to run in a market risk neutral manner, the algorithm must, among other things, account for the maturity curves of the positions considered and reflect a deemed market value on all positions and potential swaps. Depending on the PTRRS model used, this is accomplished by accepting as the value of the positions the mid-market prices at a time before the exercise is run. This illustrates that the purpose of PTRRS has nothing to do with price discovery

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[4] *See* Financial Conduct Authority, *Consultation on the Derivatives Trading Obligation and Post-Trade Risk Reduction Services*, CP24/14, at 1, 63 (July 2024) (the "**FCA PTRRS Consultation**").

as even before any exercise runs, the prices on which any transactions are based will be both known and stale.

At the end of a run—which, depending on the complexity of the run, generally may be from a few hours after the start of such run to more than a day after the start of such run—the Service Provider's PTRRS algorithm will identify PTRRS Transactions to the participants in the post-trade risk reduction exercise and notify each participant of the output PTRRS Transactions that are relevant to that participant. Where PTRRS Transactions are not executed on a swap execution facility—which, as emphasized further below, we do not think should be necessary—each and every U.S. participant will, depending on the particular process, be required affirmatively to accept all of the PTRRS Transactions identified by the Service Provider's exercise. In all cases, no partial rejection or selection is allowed from any participant in a post-trade risk reduction exercise. Where participant acceptances of PTRRS Transactions are required by a PTRRS model for such PTRRS Transactions to become effective, a single rejection from one participant of a single PTRRS Transaction will cause the entire run to be discarded.

To avoid any question as to whether a Service Provider is a SEF by virtue of it actually executing transactions for the participants, a Service Provider may require that each participant in the post-trade risk reduction exercise confirm its acceptance of any relevant transactions with each other participant with which it has a PTRRS Transaction. This process of exchanging multiple messages may delay the confirmation of the PTRRS Transactions for several hours or more, given that, under such PTRRS model, no PTRRS Transactions can be deemed entered into until the final participants have exchanged messages of acceptance. (This delay is an issue that we discuss further below.) Once all acceptances have been exchanged and execution of the PTRRS Transactions has occurred among the participants, then, depending on the PTRRS model, the Service Provider will notify the participants that the PTRRS Transactions have been executed by such participants and can be booked.

The participants may then report their PTRRS Transactions to the market (as discussed below, no such reporting is required for portfolio compression transactions) at the price at which the PTRRS transactions were executed, whose prices will now be stale given the time it takes to run the exercise.[5]

III. Benefits of PTRRS

PTRRS offer a number of important financial benefits for both swap counterparties availing themselves of such services and the swaps markets more broadly. Portfolio compression reduces notional amounts and the number of open transactions. This reduces the amount of collateral that must be posted, reduces counterparty credit risk and operational risk, frees up capital, reduces operational costs, and eliminates positions serving no economic purpose. Portfolio rebalancing transfers counterparty credit risk to diversify and reduce credit exposures and increase available collateral in the market. Further, it may also reduce liquidity strains through reduced size and

[5] The Service Providers provide PTRRS with regard to swaps cleared at various derivatives clearing organizations, including CME Group, ICE Clear Credit, Eurex Clearing, LCH SA, LCH ForexClear, and LCH Limited.

volatility of initial margin requirements. Basis risk mitigation reduces second order trading term mismatches that create basis risk between seemingly fully hedged positions.

The Commission has long recognized that portfolio compression exercises serve fundamental risk reduction objectives that align with the Dodd-Frank Act's systemic risk mitigation goals. The Commission has consistently emphasized that portfolio compression activities reduce gross notional exposure without changing net market risk positions, thereby achieving risk reduction without altering the fundamental economic substance of market participants' positions.

For portfolio rebalancing in particular, the reduction in bilateral exposures and in cleared exposures will reduce requirements for initial margin and the attribution of regulatory capital against positions, and the reduction in risk as against any counterparty reduces closeout risks.

In regard to portfolio compression and portfolio rebalancing, a November 2024 report on PTRRS published by The Board of the International Organization of Securities Commissions acknowledged the various benefits of PTRRS, including that PTRRS:

- provide an opportunity for swap counterparties to reinvest capital "while reduc[ing] the gross outstanding value of [swaps] contracts";
- reduce counterparty risk without changing market exposure risk;
- diminish operational risk "by reducing transaction count, as there are fewer transactions to maintain, process and settle"; and
- potentially reduce systemic risk and enhance market stability by reducing operational risk.[6]

In July 2024, the U.K. Financial Conduct Authority (the "**FCA**") issued the FCA PTRRS Consultation on the benefits of PTRRS, including the benefits of the Optimization Services, proposing certain regulatory relief to allow firms to realize the benefits of PTRRS.[7] The FCA stated that "expanding the list of [PTRRS] exempted from the [derivatives trading obligation] and other relevant obligations will be net beneficial."[8] Furthermore, it stated that such reduction in obligations could "increase uptake [in risk reduction], particularly among small firms," and that PTRRS "have significant potential for long-term benefits due to their effectiveness in reducing

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[6] *See* *Final Report on Post Trade Risk Reduction Services: Sound Practices for Consideration*, The Board of the International Organization of Securities Commissions, 6 (November 2024) (the "**IOSCO Report**"). Although the IOSCO Report does not focus primarily on basis risk mitigation services, it provides favorable mention of such services, describing such services as allowing "[PTRRS] users [to]…generate market neutral outputs with the purpose of reducing fixing or strike risk." *See* IOSCO Report at 10.

[7] *See supra* note 4.

[8] FCA PTRRS Consultation at 7.

systemic risk."[9] Beyond these generic or global benefits, the FCA PTRRS Consultation highlighted the specific benefits to the U.K. by "enabling UK-based firms to offer and participate in innovative and efficient [PTRRS] without the need to incur disproportionate regulatory costs…[Such a] more proportionate regulatory regime will enhance the attractiveness of the UK for international businesses and investors, thereby facilitating long-term and sustainable growth."[10]

In April 2025, after consulting with the U.K. Prudential Regulation Authority and the Bank of England, the FCA adopted the regulatory relief for PTRRS that it proposed in the FCA PTRRS Consultation. Such regulatory relief included exemptions from (i) the obligation of PTRRS providers to operate as, or seek authorization as, multilateral trading venues, (ii) the derivatives trading obligation under the U.K. Markets in Financial Instruments Regulation; (iii) best execution obligations under FCA rules; and (iv) certain transparency requirements, including the obligation to publicly report transactions that arise in connection with the use of PTRRS.[11] The European Union has likewise acknowledged the benefits of PTRRS and provided similar regulatory relief under the European Market Infrastructure Regulation ("**EMIR**").[12] Indeed, EMIR has contained a conditional exemption from its clearing obligation for PTRRS since EMIR 3 went into effect in 2024.[13]

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[9] *Id.*

[10] *Id.* at 10.

[11] *See* Financial Conduct Authority, *Policy Statement on the Derivatives Trading Obligation and Post-Trade Risk Reduction Services*, PS25/2 (April 2025).

[12] *See, e.g.,* Regulation (EU) 2024/2987 of the European Parliament and of the Council of 27 November 2024 amending Regulations (EU) No 648/2012, (EU) No 575/2013 and (EU) 2017/1131 as regards measures to mitigate excessive exposures to third-country central counterparties and improve the efficiency of Union clearing markets, Article 4b ("Post-trade risk reduction services") (November 27, 2024); Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014, amended by Regulation (EU) No 2024/791, Article 31 ("Post-trade risk reduction services") (February 28, 2024); *see also* International Swaps & Derivatives Association, ISDA Briefing Paper on Post-trade Risk Reduction (March 24, 2023).

[13] *See supra* note 10 regarding Article 4b of EMIR. In February 2026, the European Securities and Markets Authority, the European Union's financial markets regulator and supervisor, launched a consultation on the requirements for how PTRRS can benefit from such conditional exemption introduced under EMIR 3. The draft regulatory technical standards set out in the consultation focus on the same PTRRS discussed herein. *See generally* European Securities and Markets Authority, Consultation Paper, *Regulatory Standards on the Requirements for Post-Trade Risk Reduction Services for the Purposes of the Clearing Obligation Exemption Under EMIR* (February 26, 2026). We note further that in October 2025, the Australian Securities and Investments Commission ("**ASIC**"), Australia's financial services and consumer credit regulatory agency, proposed to "extend exemptive relief to clearing derivative transactions resulting from post-trade risk reduction exercises…consistent with existing relief under 2015 Rules relating to clearing derivatives resulting from multilateral portfolio compressions." *See* Australian Securities and Investments Commission, Simple Consultation, *Proposed Remake of the ASIC Derivative Transaction Rules (Clearing) 2015* (October 28, 2025). In March 2026, ASIC finalized Simple Consultation 33 to extend its exemption from the clearing requirement in section 2.1.1 of the Derivatives Transaction Rules (Clearing) for multilateral portfolio compression exercises to derivatives transactions entered as a result of a post-trade risk reduction exercise.

Furthermore, in December 2025, the Bank of England published a consultation paper proposing to exempt from the derivatives clearing obligation under the U.K. version of EMIR the transactions carried out as part of PTRRS.[14] In explaining the policy rationale for the proposed exemption, the Bank of England stated the following: "The Bank [of England] considers that exempting transactions arising from PTRR services would support its financial stability objective by reducing complexity and increasing the efficiency of PTRR services. This should support access to PTRR services for a wider range of market participants, allowing them to reduce their counterparty, operational and basis risk. This can unlock resources, that would otherwise be managing these risks, for other purposes. For example, increasing greater liquidity in the system which in turn benefits financial stability or as capital, to support innovation and growth."[15]

In addition to the direct benefits to the swaps markets that were the principal subjects of the IOSCO Report and the FCA PTRRS Consultation, we also believe it is important to be mindful of the second order benefits. As the IOSCO Report pointed out, PTRRS can result in lower capital charges for firms (which should follow from the fact that such exercises are risk-reducing), which in turn both frees up capital for other uses and increases liquidity.[16]

IV. The Commission's Historical Recognition of the Risk Reducing Benefits of Portfolio Compression

As noted above, the Commission has previously explicitly acknowledged the benefits of some types of PTRRS—in particular, portfolio compression services. In particular, this is evidenced by: (i) the Commission's adoption of a requirement under Commission regulation 23.503 for swap dealers and major swap participants to "establish, maintain, and follow written policies and procedures for periodically engaging in" portfolio compression exercises with other swap dealer and major swap participant counterparties, as well as by the Commission's definition of "multilateral portfolio compression exercise" in Commission regulation 23.500(h);[17] (ii) the Commission's identification of entities providing portfolio compression services as being outside the scope of the Commission's definition of "swap execution facility" ("**SEF**") in Section 1a(50) of the Commodity Exchange Act ("**CEA**"); (iii) the Commission's issuance of no-action relief with respect to the CEA's clearing requirement for swaps subject to multilateral portfolio

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The revised ASIC derivatives transaction rules came into effect on April 1, 2026. *See* *ASIC Derivative Transaction Rules (Clearing) 2026*.

[14] *See* Bank of England, Consultation Paper, *Exempting Post-Trade Risk Reduction Transactions from the Clearing Obligation* (December 11, 2025). We note that the exemptions from U.K. EMIR and E.U. EMIR clearing requirements for transactions carried out as part of PTRRS are not limited to legacy transactions.

[15] *Id.*

[16] IOSCO Report at 18.

[17] *See* Commission regulations §§ 23.503(a); 23.500(h).

compression; and (iv) the exclusion of swaps subject to portfolio compression exercises from the real-time public reporting requirements under Part 43 of the Commission's regulations.

We analyze in further detail below the Commission's recognition of the benefits of portfolio compression. We think that the Commission's historical recognition of the benefits of portfolio compression provides substantial justification for the Commission to similarly recognize the benefits of the Optimization Services.

A. Commission Regulation 23.503 and the Definition of "Multilateral Portfolio Compression Exercise"

As noted above, some of the Commission's regulations expressly acknowledge the benefits of portfolio compression by adopting requirements in relation to such exercises. In particular, we note the Commission's adoption of Commission regulation 23.503 which, among other things, *requires* that each swap dealer and major swap participant establish, maintain, and follow written policies and procedures for periodically engaging in multilateral portfolio compression exercises with another swap counterparty that is also a swap dealer or major swap participant.[18] When the Commission adopted the requirements of Commission regulation 23.503, it stated the following with respect to portfolio compression generally:

> "Portfolio compression is a mechanism whereby substantially similar transactions among two or more counterparties are terminated and replaced with a smaller number of transactions of decreased notional value *in an effort to reduce the risk, cost, and inefficiency of maintaining unnecessary transactions on the counterparties' books.* Because portfolio compression participants are permitted to establish their own credit, market, and cash payment risk tolerances and to establish their own mark-to-market values for the transactions to be compressed, *the process does not alter the risk profiles of the individual participants beyond a level acceptable to the participant. The usefulness of portfolio compression as a risk management tool has been acknowledged widely.*"[19]

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[18] Commission regulation § 23.503(a)(3). More specifically, Commission regulation 23.503(a)(3) requires that such policies and procedures include: "(i) [p]olicies and procedures for participation in all multilateral portfolio compression exercises required by Commission regulation or order; and (ii) [e]valuation of multilateral portfolio compression exercises that are initiated, offered, or sponsored by any third party."

[19] Final Rule, *Confirmation, Portfolio Reconciliation, Portfolio Compression, and Swap Trading Relationship Documentation Requirements for Swap Dealers and Major Swap Participants*, Commodity Futures Trading Commission, 77 FED. REG. 55904, 55932 (September 11, 2012) ("**Portfolio Compression Adopting Release**") (emphasis added). Among other things, the Commission noted in the Portfolio Compression Adopting Release that in 2008, the President's Working Group on Financial Markets identified portfolio compression of outstanding transactions as a "key policy objective in the effort to strengthen the OTC derivatives market infrastructure." *Id.* In addition, the Commission also noted that in 2010, a staff report from the Federal Reserve Bank of New York "identified trade compression as an element of strong risk management and recommended that market participants engage in regular, market-wide portfolio compression exercises." *Id.*

Furthermore, we note that the definition of "multilateral portfolio compression exercise" adopted by the Commission in Commission regulation 23.500(h) expressly recognizes that for an exercise to be considered a "multilateral portfolio compression exercise" within the scope of the Commission's definition, it must be risk-reducing. The definition of "multilateral portfolio compression exercise" states, in relevant part, that a multilateral portfolio compression exercise is one that "depending on the methodology employed, replace[s] the terminated swaps with other swaps whose combined notional value (or some other measure of risk) is less than the combined notional value (or some other measure of risk) of the terminated swaps in the compression exercise."[20]

B. Portfolio Compression Services are Outside the Scope of the SEF Definition

When the Commission adopted its regulatory requirements regarding the registration and operation of SEFs, including the regulations regarding the SEF Core Principles, it considered whether certain business models should be required to register as a SEF, including, specifically, services facilitating portfolio compression.[21] The Commission ultimately determined that an entity providing portfolio compression services should not be required to register with the Commission as a SEF because portfolio compression services only provide a netting mechanism, and do not provide for the execution or trading of swap transactions. More specifically, the Commission stated that it "does not believe that a portfolio compression service…provides for the execution or trading of swap transactions between counterparties because the compression service is providing a netting mechanism whereby the outstanding transaction count and outstanding gross notional value of swaps in two or more swap counterparties' portfolios are reduced. Therefore, an entity providing such a portfolio compression service would *not* meet the SEF definition in section 1a(50) of the [CEA] and would not have to register as a SEF under section 5h(a)(1) of the [CEA]."[22]

C. Clearing Relief for Portfolio Compression

In March 2013, the Commission issued CFTC Letter No. 13-01, which established conditional no-action relief from the CEA's clearing requirement for swaps resulting from multilateral portfolio compression exercises.[23] In the Portfolio Compression Clearing Relief Letter, the Commission acknowledged that "[m]ultilateral portfolio compression allows swap market participants to net down the size and/or number of outstanding swaps among them, lower the aggregate gross notional value of outstanding swaps, and decrease the number of outstanding swaps or the aggregate notional value of such swaps, *thereby reducing operational risk and…reducing counterparty*

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[20] Commission regulation § 23.500(h).

[21] *See* Final Rule, *Core Principles and other Requirements for Swap Execution Facilities*, 78 Fed. Reg. 33476, 33480 (June 4, 2013) (the "**SEF Release**").

[22] SEF Release at 33482 (emphasis added).

[23] *See No-Action Relief from Required Clearing for Swaps Resulting from Multilateral Portfolio Compression Exercises*, CFTC Letter No. 13-01 (March 18, 2013) (the "**Portfolio Compression Clearing Relief Letter**").

credit risk."[24] Furthermore, the Commission recognized that "the overall market risk of the portfolios of the market participants in the compression exercise does not change," regardless of the method of compression (*i.e.*, regardless of whether the portfolio compression exercise results in an amended swap or replacement swap).

Because the CEA's clearing requirement applies to all new swaps, as well as changes in the ownership of a swap, including assignment, novation, exchange, transfer or conveyance, the amended or new swaps that are the result of multilateral portfolio compression exercises would be subject to such clearing requirement.[25] However, as noted in the Portfolio Compression Clearing Relief Letter, "requiring amended swaps or replacement swaps resulting from a compression exercise to be cleared would alter the credit risk profile for those participating in the compression exercise because counterparties to the amended or replacement swaps would be required to face a derivatives clearing organization [("**DCO**")] instead of the original bilateral counterparty."[26] This would ultimately result in market participants "reconsider[ing] their participation in these industry-wide risk reduction exercises," "discourage participation in compression exercises[,] and inhibit the risk reduction benefits that such exercises provide."[27] Thus, "in order to promote the benefits of compression for uncleared swaps," the Commission granted no-action relief for market participants, excusing them from submitting to a DCO for clearing amended swaps or replacement swaps that are generated as part of a multilateral portfolio compression exercise and are subject to required clearing under Commission regulation 50.4(a) or (b), provided that certain conditions are met.[28] In granting clearing relief to swaps resulting from a multilateral portfolio compression exercise, the Commission staff imposed the following five conditions:

1. The "multilateral portfolio compression exercise" generating the amended and replacement swaps must meet the definition set forth in Commission regulation 23.500(h) and must involve more than two market participants.

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[24] Portfolio Compression Clearing Relief Letter at 2 (emphasis added); *see also* Final Rule, *Clearing Requirement Determination Under Section 2(h) of the Commodity Exchange Act for Interest Rate Swaps To Account for the Transition From LIBOR and Other IBORs to Alternative Reference Rates*, Commodity Futures Trading Commission, 87 FED. REG. 52182, 52192 (August 24, 2022) ("This letter [CFTC Letter No. 13-01] explained that compression is an important tool to facilitate post-trade risk reduction."). For purposes of the relief granted in the Portfolio Compression Clearing Relief Letter, the term "multilateral portfolio compression exercise" has the meaning given to such term in Commission regulation § 23.500(h). *See* Commission regulation § 23.500(h) ("[A]n exercise in which multiple swap counterparties wholly terminate or change the notional value of some or all of the swaps submitted by the counterparties for inclusion in the portfolio compression exercise and, depending on the methodology employed, replace the terminated swaps with other swaps whose combined notional value (or some other measure of risk) is less than the combined notional value (or some other measure of risk) of the terminated swaps in the compression exercise.")

[25] *See* Portfolio Compression Clearing Relief Letter at 4; CEA Section 2(h)(1).

[26] Portfolio Compression Clearing Relief Letter at 3.

[27] *Id.*

[28] Portfolio Compression Clearing Relief Letter at 4.

2. No original swap submitted by market participants as part of the multilateral portfolio compression exercise shall include any swap that has been cleared by a DCO.

3. No original swap submitted by market participants as part of the multilateral portfolio compression exercise shall include any swap that is required to be cleared under 2(h)(1)(A) of the CEA and part 50 of Commission regulations because it was executed on or after an applicable compliance date.

4. Each amended swap(s) or replacement swap(s) generated by the multilateral portfolio compression exercise must:
   a. be generated in accordance with a multilateral portfolio compression service provider's established rules and parameters for multilateral portfolio compression exercises;

   b. be entered into between the same counterparties as the original swap(s) that is amended or terminated;

   c. with the exception of reducing the notional amount, have the same material terms as the original swap(s), as defined in Part 45 of Commission regulations, including the reference entity, the maximum maturity of the swap, and the average weighted maturity of the swap; and

   d. be entered into for the sole purpose of reducing operational or counterparty credit risk.[29]
5. Once the original swaps have been selected and submitted by market participants as part of the multilateral portfolio compression exercise, the multilateral portfolio compression methodology does not permit participants to specify which swaps may be amended or replaced.

We note that the no-action relief from the clearing requirement provided by the Commission continues to apply as of the date of this letter and that the Commission has reiterated its recognition of the benefits of portfolio compression exercises in more recent no-action relief. In an August 2020 no-action letter providing relief from the swap clearing requirement for amendments to legacy uncleared swaps to facilitate an orderly transition from inter-bank offered rates to alternative risk-free rates in the wake of the transition from the London Interbank Offered Rate to alternative reference benchmarks, the Commission stated that the no-action position taken by the Commission's Division of Clearing and Risk in the Portfolio Compression Clearing Relief Letter "is consistent with Commission rules promoting the use of multilateral compression as a means of

[29] See Portfolio Compression Clearing Relief Letter at 4-5.

operational and risk management."[30] Furthermore, the Commission noted in the IBOR Clearing Relief Letter that the staff of the Division of Swap Dealer and Intermediary Oversight (now known as the Market Participants Division) issued similar no-action relief relating to uncleared margin requirements to allow compression exercises.[31]

D. Relief from Real-Time Public Reporting for Portfolio Compression

In adopting the Commission's real-time public reporting requirements in Part 43 of the Commission's regulations, the Commission notably excluded portfolio compression exercises from the definition of "publicly reportable swap transaction" in Commission regulation § 43.2(a)(2)(ii). In the related 2012 adopting release, the Commission stated that portfolio compression exercises "should not be publicly disseminated" as the "purpose of such transactions is to mitigate risk between counterparties and any new swaps that were executed as a result of portfolio compression exercises would be a result of the compression itself and not an arm's-length transaction between the parties."[32] Accordingly, reporting of the swap transaction and pricing data related to such compression exercises would not enhance price discovery and would be costly without any public benefit.[33]

More recently, in its November 2020 adopting release regarding amendments to the Commission's real-time public reporting requirements, the Commission highlighted its exclusion of portfolio compression exercises from the Part 43 requirements and provided further clarification on the scope of such exclusion to account for post-trade risk reduction exercises performed by automated systems. Specifically, the Commission stated the following:

> "The Commission understands that since 2012, different multi-party swap portfolio risk reduction exercises have evolved to accomplish the same goals as portfolio compression exercises. To the extent any such risk reduction exercises serve the same purposes as portfolio compression

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[30] *See* *Revised Staff No-Action Relief from the Swap Clearing Requirement for Amendments to Legacy Uncleared Swaps to Facilitate an Orderly Transition from Inter-Bank Offered Rates to Alternative Risk-Free Rates*, CFTC Letter No. 20-25, 6 (August 31, 2020) ("**IBOR Clearing Relief Letter**").

[31] *See* IBOR Clearing Relief Letter at 6; *see also* *No-Action Position: Application of Uncleared Swap Margin Rules to Immaterial Amendments, Swaption Exercises, Partial Terminations, Partial Novations, or Multilateral Compression of Legacy Swaps*, CFTC Letter No. 19-13 (June 6, 2019). In 2020, the U.S. prudential regulators, including the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency, adopted similar exclusions from their uncleared swap margin regulations for amendments made to legacy swaps to reduce operational or counterparty risk as a result of, among other things, portfolio compressions. *See* Final Rule, *Margin and Capital Requirements for Covered Swap Entities*, Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, Farm Credit Administration, Federal Housing Finance Agency, 85 FED. REG. 39754, 39766-67 (July 1, 2020).

[32] *See* Final Rule, *Real-Time Public Reporting of Swap Transaction Data*, 77 FED. REG. 1182, 1187 (January 9, 2012) ("**Real-Time Public Reporting Release**").

[33] Real-Time Public Reporting Release at 1187.

> exercises, the Commission is of the view that the resulting new or amended swaps from the exercise would not be deemed publicly reportable swaps. …To qualify, the sole purpose of such risk reduction exercises, like portfolio compression exercises, must be to mitigate risk by replacing or changing swaps that have already been publicly reported, if the original swaps were publicly reportable swap transactions. In addition, the resulting new or amended swaps must be entered into between the same counterparties as the original swap(s) that is amended or terminated, and the risk reduction exercises must be market risk neutral and performed by automated systems of third-party service providers. If these conditions are satisfied, like portfolio compression exercises, the replacement or amended swaps resulting directly from a risk reduction exercise would not fall within the definition of publicly reportable swap transaction."[34]

Put more succinctly, the Commission clarified that swaps resulting from post-trade risk reduction exercises "performed by automated systems that are market risk neutral are *not* publicly reportable swap transactions."[35]

V. Relief Sought for PTRRS

A. Overview of Relief Sought

The Service Providers, either on their own behalf or on behalf of the participants in a post-trade risk reduction exercise, are seeking relief from the following aspects of the Commission's regulations, subject to the conditions set out herein:

- **SEF Registration Relief**. Subject to certain exceptions, CEA Section 5h(a)(1) requires any entity that falls within the scope of the definition of "swap execution facility" under CEA Section 1a(50) to register as such with the Commission. The Service Providers seek confirmation that, even if they were to facilitate the execution of transactions resulting from a post-trade risk reduction exercise

[34] *See* Final Rule, *Real-Time Public Reporting Requirements*, 85 FED. REG. 75422, 75426 (November 25, 2020) (the "**November 2020 Part 43 Amendments Release**"). The Commission also noted that the "evaluation of whether a swap that results from a risk reduction exercise does or does not fall within the definition of publicly reportable swap transaction is separate and distinct from the evaluation of whether or not the platform operating such risk reduction exercises is subject to SEF registration requirements." *See* 85 FED. REG. at 75426-27, n. 53. We note that the Commission has expressly acknowledged the existence of risk reduction exercises other than portfolio compression. For example, the technical specifications relating to Part 43 and Part 45 swap data reporting and public dissemination requirements state that an allowable value for the "Event type" data element is "Compression or *Risk Reduction Exercise*," and further explain that "[c]ompressions and *risk reduction exercises* generally have the effect of terminating or modifying (*i.e.*, reducing the notional value) of a set of existing transactions and of creating a set of new transaction(s). These processes result in largely the same exposure of market risk that existed prior to the event for the counterparty." Commodity Futures Trading Commission, *CFTC Technical Specification: Parts 43 and 45 Swap Data Reporting and Public Dissemination Requirements*, Version 3.2 (March 1, 2023) (emphasis added).

[35] November 2020 Part 43 Amendments Release at 75459 (emphasis added).

involving Optimization Services, they would not be required to register as SEFs either because their activities do not bring them within the relevant definition or because no purpose would be served by such registration.[36]

- **Trade Execution Requirement Relief**. On behalf of the participants to post-trade risk reduction exercises, the Service Providers seek relief from the requirement under CEA Section 2(h)(8) that any PTRRS Transactions subject to a clearing requirement be executed on a designated contract market or SEF because the benefits that would be potentially provided by the imposition of such trade execution requirement are not relevant to PTRRS.

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[36] With respect to the Service Providers' offering of PTRRS, subject to the Commission's confirmation that the Service Providers would not be required to register as SEFs because their PTRRS activities do not bring them within the relevant definition and/or because no purpose would be served by such registration, as explained further below in Section V.C. of this letter, the relevant CFTC and NFA registration category should be that of "introducing broker" as defined in CEA Section 1a(31). As described herein, Service Providers offer their participants analytical services to identify risk-reduction opportunities in their swap portfolios, but those opportunities, if accepted, are entered into between and amongst the participants themselves; the Service Providers themselves do not act as a principal to swap transactions. Accordingly, the Service Providers are not requesting relief from the swap dealer or DCO registration requirements under the CEA and Commission regulations as the Service Providers' PTRRS activities do not cause the Service Providers to fall within either the "swap dealer" definition under CEA Section 1a(49) or the "derivatives clearing organization" definition under CEA Section 1a(15).

More specifically, with respect to the Service Providers' PTRRS activities as described above in Sections I and II of this letter, none of the Service Providers (i) holds itself out as a dealer in swaps; (ii) makes a market in swaps; (iii) regularly enters into swaps with counterparties as an ordinary course of business for its own account; or (iv) engages in any activity causing the person to be commonly known in the trade as a dealer or market maker in swaps. Thus, the Service Providers' PTRRS activities would not cause the Service Providers to fall within the "swap dealer" definition under CEA Section 1a(49). Moreover, none of the Service Providers' PTRRS activities, as described in Sections I and II of this letter, involves the Service Providers (i) acting as a central counterparty to either PTRRS Transactions or the original swaps executed by swap counterparties participating in post-trade risk reduction exercises, (ii) assuming the counterparty credit risk of the swap counterparties participating in post-trade risk reduction exercises, or (iii) being involved in the settlement, clearing, or handling of funds or positions with respect to either PTRRS Transactions or the original swaps executed by swap counterparties participating in post-trade risk reduction exercises. Thus, the Service Providers' PTRRS activities would not cause the Service Providers to fall within the definition of "derivatives clearing organization" under CEA Section 1a(15).

With respect to the "introducing broker" registration category, CEA Section 1a(31) defines the term "introducing broker" to mean, in relevant part, "any person (except an individual who elects to be and is registered as an associated person of a futures commission merchant)—(i) who…is engaged in soliciting or in accepting orders for…the purchase or sale of any…swap…[and] does not accept any money, securities, or property (or extend credit in lieu thereof) to margin, guarantee, or secure any trades or contracts that result or may result therefrom." As the Service Providers' offering of PTRRS as part of Optimization Services may involve the solicitation and arranging of the execution of swaps, the Service Providers have acknowledged that such activity falls within the scope of the definition of "introducing broker" under the CEA. Accordingly, each of the Service Providers is registered with the CFTC as an introducing broker and is subject to compliance with CFTC and NFA regulations applicable to introducing brokers. We note that, as of the date of this letter, none of the Service Providers has been the subject of any reported disciplinary or remedial action taken by either the CFTC or the NFA.

- **Clearing Requirement Relief**. CEA Section 2(h)(1)(A)(7) makes it unlawful for any person to enter into a swap that is required to be cleared without submitting it to a clearing organization. The Service Providers seek relief to the extent that PTRRS Transactions are intended solely to offset the risks of uncleared swaps positions previously entered into that were not required to be cleared at the time of such swaps' original execution pursuant to CEA Section 2(h)(1)(A). The Service Providers seek relief from the clearing requirement for both new swaps and legacy swaps in connection with the operation of Optimization Services.

- **Relief from Real-Time Public Reporting**. On behalf of the participants in post-trade risk reduction exercises, the Service Providers seek relief from the Commission's real-time public reporting requirements in Part 43 of the Commissions regulations with respect to PTRRS Transactions.

B. General Conditions

In seeking relief from the Commission regulations discussed above, we emphasize that the Service Providers and the participants would, with respect to PTRRS, be expected to comply with the substance of the specific conditions imposed on multilateral portfolio compression in the context of Portfolio Compression Clearing Relief Letter (as detailed in Section IV above), albeit with modifications relevant to the relevant service. In this regard, we note that the most notable difference is that the Optimization Services generally operate by preserving the existing portfolio of swaps while adding new swaps that offset or eliminate risk in the existing portfolio.

However, stepping back from the specific conditions applied to portfolio compression under the Portfolio Compression Clearing Relief Letter and how such conditions would apply to the Optimization Services, we have outlined below the conditions that would be generally applicable to all of the PTRRS if granted the relief sought:

1. **Market Risk Neutral**. Exercises in connection with PTRRS are designed not to change the directional market risk of a portfolio in any material way.

2. **Risk Reducing**. Exercises in connection with PTRRS are intended to reduce one or more risks, other than market risk, such as operational risk, counterparty credit risk, or basis risk, and in doing so, they should reduce systemic risk.

3. **No Reduction in Clearing**. In no case are PTRRS used to move risk from a cleared environment to an uncleared environment. PTRRS Transactions will not be entered into for the purpose of evading the swap clearing requirements under the CEA and the Commission's regulations (including by extending legacy status to PTRRS Transactions so that they are not subject to such swap clearing requirements).

4. **Non-Price Forming**. Any transactions executed as a result of the run of a PTRRS exercise are executed based on a pre-identified price, with no possibility for negotiation.

5. **Transactions Proposed**. All transactions are proposed through the operation of a PTRRS exercise.

6. **No Partial Selection**. All PTRRS Transactions must be accepted by the participants to the post-trade risk reduction exercise or none of the PTRRS Transactions will go forward. Thus, PTRRS Transactions are provided by a third-party Service Provider on the basis of non-discretionary rules that are set in advance by the third-party Service Provider based on specified parameters and that result in PTRRS Transactions that bind all the participants on an all-or-nothing basis.

7. **Disinterested Service Providers**. Neither the Service Providers, nor their affiliates, are counterparties to any PTRRS Transactions identified by their respective service.

8. **Regulation and Recordkeeping**. The Service Providers offering PTRRS to U.S. participants are and would be (i) registered with the Commission as introducing brokers and (ii) members of the NFA. As such, they would be subject to all of the relevant Commission and NFA Rules relating to their businesses as introducing brokers, including those relating to recordkeeping, so that the Commission would have full access to all information as to any PTRRS exercises.

C. SEF Registration Relief

The Commodity Exchange Act defines a "swap execution facility," in pertinent part, as a "trading system or platform in which multiple participants have the ability to execute or trade swaps by *accepting bids and offers* made by multiple participants in the facility or system…including any trading facility, that…facilitates the execution of swaps between persons."[37] The Commission stated in the SEF Release that it interprets the "multiple-to-multiple" requirement to include any trading system or platform in which "more than one market participant has the ability to execute or trade swaps with more than one other market participant on the system platform."[38] However, as the Commission clarified in the SEF Release, the Commission's determination of whether a particular entity falls within the scope of the SEF definition is ultimately dependent on "all of the relevant facts and circumstances of the entity's operations."[39] Furthermore, the Commission expressly stated in the SEF Release that the purpose of requiring entities to register as SEFs is to

[37] CEA Section 1a(50) (emphasis added).

[38] SEF Release at 33482.

[39] SEF Release at 33482.

allow swap market participants to "benefit from viewing the prices of available bids and offers and from having access to transparent and competitive trading systems or platforms."[40]

To date, certain of the Service Providers have limited their activities so that where market participants' acceptances of PTRRS Transactions are required for execution of such transactions under a PTRRS model, the market participants cannot confirm their acceptance of PTRRS Transactions through the Service Provider. This eliminates any possibility that the Service Providers could be deemed to be SEFs as they have not facilitated the execution of swap transactions. Where market participants' acceptances of PTRRS Transactions are required for executions of such transactions under a PTRRS model, each participant must confirm its transactions with every other participant with which it has a PTRRS Transaction. Because none of the PTRRS Transactions can be deemed effected unless all the transactions are agreed, none of the PTRRS Transactions can be deemed finalized until the slowest participant has signed off, until which time all of the participants are left in limbo.

Before we discuss the benefits of providing SEF registration relief, we wish to raise the question of whether such relief should even be necessary for PTRRS in light of the statutory definition of "swap execution facility." When the Commission considered, in its SEF Release, whether an entity offering "risk mitigation services" would fall within the scope of the SEF definition in CEA Section 1a(50), it viewed an entity offering risk mitigation services as providing "more than one market participant [with] the ability to execute swaps with more than one other market participant," and thus providing "an alternative avenue to execute certain swap transactions between counterparties," in contrast to execution on a SEF or designated contract market.[41] Thus, the Commission determined that an "entity that provides…risk mitigation service[s] would have to register as a SEF under [CEA] [S]ection 5h(a)(1)."[42] Put differently, the Commission focused on the outcome of "risk mitigation services" being the "*execution* of new transactions between multiple participants at prices accepted by those multiple participants."[43]

However, we note that under the CEA's statutory definition of "swap execution facility," an entity would only fall within the SEF definition if it provided a means for its customers to "accept bids and offers" made by others. A "bid" or "offer" is understood, in ordinary English, to mean for a person to state, as to product, including as to a swap, a price, a direction (buy or sell, long or short) and/or a quantity.

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[40] SEF Release at 33477.

[41] SEF Release at 33483.

[42] SEF Release at 33483. The Commission did note, however, that "such entities [offering risk mitigation services] may not have to register as a SEF if they only provide the analytical services that produce the proposed risk mitigation transactions and the execution of those transactions occurs elsewhere and, in particular, the execution of those transactions that are subject to the trade execution mandate occurs on a SEF." *Id.*

[43] SEF Release at 33483 (emphasis added).

In the case of the participants in a PTRRS exercise, it is not only that one of these factors is missing—***none*** of the factors is present. Rather, the participants provide their relevant portfolios and any risk tolerance parameters (*e.g.*, the size of the position that they are willing to take with any other participant). There is nothing in the submissions that could be called a "bid" or an "offer" in any ordinary use of those terms. Furthermore, the parties to any PTRRS exercise have no ability to negotiate price, nor can they pick which PTRRS Transactions they wish to execute.

The standard understanding of what a "bid" or "offer" means operates throughout the entire SEF Release. For example, the SEF Release speaks of "accepting bids and offers,"[44] "executable and non-executable bids and offers";[45] "firm bids and offers";[46] "the ability to observe and receive bids and offers, and transact on such bids and offers";[47] "choos[ing] to transact on such bids and offers";[48] "firm and indicative bids and offers";[49] "resting bids and offers";[50] "the prices of bids and offers";[51] and "placing bids and offers."[52] ***None*** of these terms or concepts is relevant to the operation of a PTRRS. There are no bids or offers placed or accepted, there are no resting bids or offers, no one has the ability to observe or receive bids or offers, there are not executable bids or offers, there are not indicative bids or offers, and no one can choose to transact with bids or offers. Thus, we think it is reasonable to conclude that, given the absence of any acceptance of bids or offers with respect to the operation of the PTRRS exercise, the Service Providers are not within the scope of the statutory definition of a "swap execution facility."

Even more importantly, no benefit would be served by having the participants submit their portfolios or the PTRRS Transactions resulting from the run of a PTRRS exercise through a SEF. That is, the purpose of a SEF is to facilitate price forming transactions by forcing pre-trade price transparency or price discovery—two activities that have no place in a PTRRS run since the relevant prices are pre-determined before the exercise even runs.

As we have stated above, the potential requirement of registration as a SEF may require a Service Provider to limit its activities so as to ensure that it is not required to register as such with the Commission. In particular, so as not to be deemed a SEF by virtue of the execution of transactions,

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[44] SEF Release at 33477.

[45] SEF Release at 33477.

[46] SEF Release at 33480.

[47] SEF Release at 33484.

[48] SEF Release at 33484.

[49] SEF Release at 33493.

[50] SEF Release at 33496.

[51] SEF Release at 33562.

[52] SEF Release at 33567.

a Service Provider may inform the participants of a post-trade risk reduction exercise that they must execute the proposed transactions bilaterally, rather than doing so by simply informing the Service Provider of their acceptance. Thus, depending on the PTRRS model used, if there are forty participants in an exercise, each of them may be required to send a note of acceptance to all 39 of the other participants, and to notify the Service Provider that it has done so, resulting in 1560 notices in all. Furthermore, depending on the PTRRS model used, the PTRRS Transactions cannot be deemed completed until the last of the 1560 notices has been sent and received, and the Service Provider has notified the participants that this has been done. Given that the exercise itself takes time to run, this further delay by reason of the PTRRS exercise acceptance process introduces needless uncertainty and additional operational risks and cost to the clients who must be ready and waiting for the resulting transactions if they are eventually executed. Until the process is completed, market participants cannot be assured of their positions.

By contrast, if the Service Provider were able to receive acceptances directly from the forty participants, and then to confirm directly to the forty participants, a process that may take hours could be finished in far less time, with far less operational risk, and greater certainty for all involved.

We also note that any needless delay in the ability to confirm the execution of transactions is inconsistent with one of the principal purposes of the Commission's swap regulations, which is to speed the timely confirmation of transactions, so "that the parties to a swap know what their deal is."[53]

D. Trade Execution Requirement Relief

CEA Section 2(h)(8)(A) requires that any transaction subject to the clearing requirement and made available to trade is also subject to the requirement that it be executed on a contract market, or, as a practical matter, on a SEF. To the extent that the Commission granted relief from the clearing requirement, it follows that the trade execution requirement would not apply to an algorithm relating to legacy transactions, as such transactions would not be required to be cleared.[54]

However, the requirement that the transaction be executed on a SEF would still apply with respect to PTRRS Transactions if such transactions were required to be cleared. That is, as a formal matter, such transactions would have to be executed on a SEF.

As our discussion of the SEF registration requirement demonstrates, the reasons for the SEF registration requirement (and thus the reasons for executing the risk reducing PTRRS Transactions on a SEF)—price transparency and price discovery—are simply not relevant in this context. There are no bids or offers, there is no increased price transparency or price discovery, and there is no price negotiation. In sum, there is no benefit to PTRRS Transactions being executed on a SEF—it

[53] Portfolio Compression Adopting Release at 55945.

[54] *See, e.g.*, Commission regulation § 36.1(b).

is only an administrative or operational "check-the-box," the only consequences of which are increased costs and delays in execution.[55]

E. Clearing Requirement Relief

Section 2(h)(1)(A)(7) of the Commodity Exchange Act makes it unlawful for any person to engage in a swap that is required to be cleared unless the swap is submitted to a registered derivatives clearing organization. This requirement does not apply, however, to swaps that were entered into before swaps of the relevant type were actually required to be cleared (*i.e.*, so-called "legacy swaps"). Further Congress provided the Commission with broad exemptive powers under Section 4(c)(1), including exemptions from clearing, that allow the Commission to "promote responsible economic or financial innovation and fair competition."

Put simply, the potential imposition of a clearing requirement with respect to transactions that are not subject to clearing discourages the use of PTRRS. As noted above, the Commission staff recognized this issue in the Portfolio Compression Clearing Relief Letter in which it stated that "requiring amended swaps or replacement swaps resulting from a compression exercise to be cleared would alter the credit risk profile for those participating in the compression exercise because counterparties to the amended or replacement swaps would be required to face [DCO] instead of the original bilateral counterparty."[56] This would ultimately result in market participants "reconsider[ing] their participation in these industry-wide risk reduction exercises," "discourage participation in compression exercises[,] and inhibit the risk reduction benefits that such exercises provide."[57] Likewise, according to the IOSCO Report, "[m]arket participants mentioned that they might be discouraged from submitting certain legacy OTC derivatives transactions to compression or other PTRRS that generates new transactions as the resulting transactions may trigger new clearing requirements."[58]

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[55] This view is consistent with the FCA's conclusion in the FCA PTRRS Consultation, which states: "By including PTRRS within the [trade on a market obligation], the current rules are providing a constraint on firms' activity without a countervailing benefit for them or wider markets." *See* FCA PTRRS Consultation at 72. We note as well that in March 2023, the Commission granted time-limited no-action relief from the CEA's trade execution requirement with respect to certain transactions executed as part of post-trade risk reduction exercises to facilitate the closure of ICE Clear Europe Ltd. and the migration of open credit default swap positions from that central clearing counterparty to a new central clearing counterparty. *See* *No-Action Position to Facilitate the Migration of Credit Default Swaps from ICE Clear Europe*, CFTC Letter No. 23-05 (March 30, 2023). In CFTC Letter No. 23-05, the Commission acknowledged that for transactions resulting from a post-trade risk reduction exercise to be market risk neutral, such transactions must be executed at a pre-determined price "which is not possible if market participants are required to execute their transactions on a SEF via the required methods of execution." *See* CFTC Letter No. 23-05 at p. 3 (citation omitted).

[56] Portfolio Compression Clearing Relief Letter at 3.

[57] Portfolio Compression Clearing Relief Letter at 3.

[58] IOSCO Report at 22. As noted in Section V.A. of this letter, the Service Providers seek relief to the extent that PTRRS Transactions are intended solely to offset the risks of uncleared swaps positions previously entered into that were not required to be cleared at the time of such swaps' original execution pursuant to CEA Section 2(h)(1)(A).

In this regard, we observe that the Commission and its staff have previously granted relief from the clearing requirement for new or amended swaps that resulted from or were related to legacy swaps under a variety of circumstances. Situations in which exemptive relief has been granted include the transition from LIBOR to other rates,[59] Brexit-related transfers,[60] a corporate restructuring in connection to the winddown of Credit Suisse,[61] and multilateral portfolio compressions (as noted above).[62] In all cases, such relief was granted either where providing relief was justified because the causal event was beyond the control of the swap counterparties (*e.g.,* Brexit), or because the relief facilitated amendments to legacy swaps that furthered other policy goals and reduced systemic risk (*e.g.,* LIBOR relief and multilateral portfolio compression relief). We also note that in all cases relief was subject to strict conditions.

By way of example, it is useful to turn to the relief that the Commission has granted in the case of multilateral portfolio compression exercises. CFTC Letter No. 19-13 provided that multilateral compression exercises involving only legacy swaps would not trigger new margin requirements only if the following conditions were satisfied: (i) all submitted swaps, with respect to the relevant exercise, are legacy swaps; (ii) the compression methodology does not permit participants to specify which swaps may be amended or replaced; (iii) compressed swaps maintain the same material terms as original swaps except for notional reductions; and (iv) the exercise is conducted solely for operational risk, counterparty credit risk, or basis risk reduction. In the case of conditions (i), (ii) and (iv), these conditions would be met by PTRRS Transactions resulting from the Optimization Services. In the case of condition (iii), the substance of the condition would be met—*i.e.,* there would not be any change in a participant's market position. However, the transfer of the credit risk and the minimization of the basis risk may involve the entry of parties into new transactions to reduce or eliminate the existing counterparty and basis risk. It is our belief that enabling access to the benefits provided by the Optimization Services justifies relief from the clearing requirement, subject to the conditions set forth herein.

The Service Providers seek relief from the clearing requirement for both new swaps and legacy swaps in connection with the operation of Optimization Services.

[59] *See* *Request for No-Action Relief Concerning Calculation of Initial Margin*, CFTC Letter No. 19-29 (December 19, 2019).

[60] *See* *Time Limited No-Action Position with Respect to Margin for Uncleared Swaps and Swap Clearing Requirement related to the Conclusion of the Brexit Transition Period*, CFTC Letter No. 20-42 (December 4, 2020).

[61] *See* *No-Action Position with Respect to Compliance with 17 CFR §§ 23.150 - 23.161 ("CFTC Margin Rule") and Commodity Exchange Act ("CEA") § 2(h)(1)(A) and 17 CFR § 50.2 and § 50.4 (together, the "Clearing Requirement") for Certain Legacy Swaps Transferred under Part VII of The Financial Services and Markets Act of 2000 in Connection with the Integration of UBS Group and Credit Suisse Group*, CFTC Letter No. 25-12 (April 15, 2025).

[62] *See* Portfolio Compression Clearing Relief Letter; CFTC Letter 19-13.

F. Relief from Real-Time Public Reporting Under the Commission's Part 43 Requirements

The primary purpose of the Commission's real-time public reporting requirements in Part 43 is to improve price discovery, which the Commission stated would decrease various risks, including liquidity risk.[63] Furthermore, additional availability of real-time swap transaction and pricing data would support the fairness and efficiency of the swaps markets.[64]

In commenting on the proposed 2020 amendments to the Commission's Part 43 regulations, then-Commissioner Berkovitz stated that such reporting provides the public with an opportunity to timely access swap transaction and pricing data, and thereby "to enhance price discovery."[65] Even so, then-Commissioner Berkovitz acknowledged that does not mean that every swap should be reported. For example, the Commissioner supported "eliminating duplicate reporting of the mirror swap after the 'trigger' swap is reported."[66] More specifically, then-Commissioner Berkovitz noted the following: "Duplicate reporting can create a false signal of swap trading volume and potentially obscure price discovery by giving the price reported for a single prime brokerage swap twice as much weight relative to other non-prime brokerage swaps."[67]

By the same token, "real-time" reporting of any PTRRS Transactions would not be helpful to the public, but would create, in Commissioner Berkovitz's words, a "false signal," in the same way, albeit for a different reason, that the double reporting of prime brokerage transactions creates a "false signal." That is, the information of the PTRRS Transaction is true, but it is just not meaningful. When participants in a risk reduction exercise input their portfolios, they are agreeing that all transactions will be executed based on the market price determined by the Service Provider prior to the start of the exercise. However, the exercise may take more than a day to run, depending on the complexity and the number of participants. Once the exercise has run, depending on the PTRRS model, it may take several hours or longer for all of the participants to confirm their acceptance of transactions with each other, at which point the transactions become legally enforceable, and would be potentially subject to trade reporting.

By the time the transactions were executed and reported, market prices will very likely have changed and so the trade reports would not be of true value to the market at the time of the reporting. Even if the prices had not materially changed, there would not be any information in them since the transactions were simply executed at the price that the Service Providers deemed to be mid-market prior to the time that the exercise ran—information which was available to the

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[63] *See generally* Real-Time Public Reporting Release.

[64] *Id.*

[65] *See* *Statement of Commissioner Dan M. Berkovitz on Proposed Amendments to Part 43: Real-Time Public Reporting Requirements* (Feb. 20, 2020).

[66] *Id.*

[67] *Id.*

public at the time that it actually reflected market prices, but is now stale and thus not helpful to public investors. Thus, the information does not serve the real-time reporting requirements' policy purpose of price discovery because PTRRS Transactions say nothing about the direction of the market.

VI. Conclusion

As we have detailed above, the Commission and the staff have demonstrated a willingness to examine the impact of the Commission's regulations as to specific transactions and situations. For example, the Commission staff has recently taken a no-action position with respect to the requirement for a SEF to maintain order books for permitted transactions where no one posted orders.[68] Subsequently, the Commission also proposed to eliminate or reduce the impact of a variety of Commission regulations that applied either to swaps to be cleared contemporaneously with execution or to swaps in which a prime broker is involved.[69]

Similarly, we believe it would benefit the swaps markets to reduce the scope of those Commission regulations that impede use of the Optimization Services without providing the intended benefit of such regulations.

In light of the material market benefits provided by the Optimization Services offered by the Service Providers, we respectfully request the grant of the relief discussed herein.

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The undersigned hereby certify that the material facts set forth in this letter dated June 11, 2026, are true and complete to the best of their knowledge and undertakes that, if at any time prior to the issuance of a no-action letter, any material representation made in this letter ceases to be true and complete, they will promptly inform the Commission Staff in writing of all materially changed facts. Please feel free to reach out to the undersigned should you have any questions.

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[68] *See*, *No-Action Position with Respect to the Swap Execution Facility Minimum Trading Functionality under Commission Regulation 37.3(a)(2)*, CFTC Letter No. 25-24 (July 30, 2025).

[69] See Notice of Proposed Rulemaking, *Revisions to Business Conduct and Swap Documentation Requirements for Swap Dealers and Major Swap Participants*, Commodity Futures Trading Commission, 90 FED. REG. 47136 (Sept. 30, 2025).

Respectfully submitted,

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