

VIA CFTC PORTAL

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

16 October 2020

LCH Limited Self-Certification: SwapClear decompression

Dear Mr Kirkpatrick

Pursuant to CFTC regulation §40.6(a), LCH Limited (“LCH”), a derivatives clearing organization registered with the Commodity Futures Trading Commission (the “CFTC”), is submitting for self-certification changes to its rules to allow for a process that is the opposite of portfolio compression, providing for a contract to be replaced by multiple contracts reflecting an identical risk profile

Part I: Explanation and Analysis

LCH offers compression services to its members and clients. This allows them to reduce the number of individual positions and overall notional value of a portfolio by combining or offsetting trades with compatible characteristics. The process is automated to ensure that risk exposure before and after the netting run is the same, albeit with a reduced notional amount.

LCH would also like to offer members and clients the choice to terminate cleared contracts and enter into new contracts, which reflect the same risk profile but with a greater number of contracts and a higher notional, which might include unwinding trade compression. It is unlikely that this functionality will be used often, as there are operational and capital efficiencies which drive compression. However, LCH is making these rule changes now to facilitate the allocation of compensating swap positions resulting from the SOFR discounting transition and in accordance with client requests. Clients would like to break out their risk positions below the account level that is provided for in the transition process. Importantly, this functionality will only be permitted within the same client or member account.

The rule changes will go live on, or after, 30 October 2020.

Part II: Description of Rule Changes

Regulation 56 of the General Regulations has been updated to allow LCH to decompress and separate selected Eligible SwapClear Compression Contracts on behalf of members and / or their clients. Section 1.16 of Procedures Section 2C has been updated to allow for the process that a

member or client will need to perform to request a decompression by LCH. Equivalent changes have been made to Regulation 46 of the FCM Regulations and 2.1.11 of the FCM Procedures.

The text of the changes is attached hereto as:

- i. **Appendix I**, General Regulations
- ii. **Appendix II**, Procedures Section 2C (SwapClear)
- iii. **Appendix III**, FCM Regulations
- iv. **Appendix IV**, FCM Procedures

Part III: Core Principle Compliance

LCH has reviewed the changes against the requirements of the Core Principles and finds it will continue to comply with all the requirements and standards therein.

Part IV: Public Information

LCH has posted a notice of pending certification with the CFTC and a copy of the submission on LCH's website at: <https://www.lch.com/resources/rules-and-regulations/proposed-rule-changes-0>.

Part V: Opposing Views

There were no opposing views expressed by LCH's governing board or executive committee, members of LCH or market participants that were not incorporated into the change.

Certification

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

Should you have any questions please contact me.

Yours sincerely



Julian Oliver
Chief Compliance Officer
LCH Limited

Appendix I
General Regulations



**GENERAL REGULATIONS OF
LCH LIMITED**

REGULATION 56 COMPRESSION; DECOMPRESSION

- (a) The Clearing House may from time to time determine SwapClear Contracts that are eligible for compression or decompression in accordance with this Regulation 56 and the Procedures (such SwapClear Contracts, “**Eligible SwapClear Compression Contracts**”), which may include SwapClear Contracts that, inter alia, have substantially similar economic terms.
- (b) A SwapClear Clearing Member may submit a request to the Clearing House, in accordance with the Procedures, to (1) compress and combine all such SwapClear Contracts registered (a) on the SwapClear Clearing Member’s own behalf to its Proprietary Account, (b) on behalf of the same SwapClear Clearing Client and to the same Client Account (which is not an Indirect Gross Account), or (c) on behalf of the same SwapClear Clearing Client and to the same Indirect Gross Sub-Account or (2) decompress and separate selected Eligible SwapClear Compression Contracts registered on the SwapClear Clearing Member’s own behalf or on behalf of a SwapClear Clearing Client.
- (c) The Clearing House will effect the compression or decompression of Eligible SwapClear Compression Contracts by terminating the relevant Eligible SwapClear Compression Contracts and, in some instances, compressing or decompressing them, as the case may be, into one or more new SwapClear Contracts having a net future cash flow equal to the net future cash flow of such original Eligible SwapClear Compression Contracts (including, for the purposes of determining the net future cash flow of a SwapClear STM Contract, the payment obligations of the SwapClear Clearing Member and the Clearing House under the SwapClear STM Terms applicable to such SwapClear STM Contract). For the avoidance of doubt, in no circumstances can a SwapClear Contract registered in the Proprietary Account of a SwapClear Clearing Member be compressed or decompressed pursuant to this Regulation 56 with a SwapClear Contract registered in the Client Account of that SwapClear Clearing Member.
- (d) For the avoidance of doubt, the Clearing House may determine that SwapClear Contracts are Eligible SwapClear Compression Contracts even if (i) they have differing fixed or floating rates or (ii) they include at least one each of a SwapClear CTM Contract and a SwapClear STM Contract. SwapClear Contracts that are compressed shall be (a) 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) or (b) 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).
- ~~(e)~~ — In most circumstances the SwapClear Contract (if any) that replaces the compressed Eligible SwapClear Compression Contracts shall have a notional amount equal to the net notional amount of the compressed Eligible SwapClear Compression Contracts, however, in some cases the replacement SwapClear Contracts will have an aggregate notional amount that is greater than the net notional amount of the compressed SwapClear Contracts, ~~provided that in no event will the aggregate notional amounts of the replacement SwapClear Contracts be greater than the aggregate notional amounts of the compressed Eligible SwapClear Compression Contracts, and~~ **provided further that** that in the event that the net notional amount and net future cash flows are equal

to zero, ~~such~~ compression shall result in no replacement SwapClear Contracts. The SwapClear Contracts that replace the decompressed Eligible SwapClear Compression Contracts shall (1) have substantially identical economic terms, except for notional, as the relevant Eligible SwapClear Compression Contracts and (2) will be registered on the SwapClear Clearing Member's own behalf or on behalf of the SwapClear Clearing Client in whose name(s) such SwapClear Contracts were registered prior to the compression of such SwapClear Contracts.

~~(f)~~(e) The Clearing House shall determine (in its sole discretion) whether Eligible SwapClear Compression Contracts that are the subject of a request for compression or decompression from the SwapClear Clearing Member may be compressed or decompressed, as the case may be. –and, if such Eligible SwapClear Compression Contracts are compressed or decompressed, the Clearing House shall determine the resulting terms of the SwapClear Contract(s) (if any) that replaces the compressed or decompressed Eligible SwapClear Compression Contracts, as the case may be. Such determination shall be binding on the SwapClear Clearing Member, absent manifest error. It is a condition for compression or decompression of Eligible SwapClear Compression Contracts that the amount of Collateral that the Clearing House requires in respect of the original Eligible SwapClear Compression Contracts is equal to that which is required by the Clearing House in respect of the replacement SwapClear Contract(s).

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

~~(g)~~(f) If:

- (i) the SwapClear Contracts that are the subject of a SwapClear Clearing Member's compression or decompression request pursuant to the above comprise only SwapClear CTM Contracts, then the one or more SwapClear Contracts that come into existence immediately following, and as a result of, the compression or decompression shall all be SwapClear CTM Contracts;
- (ii) the SwapClear Contracts that are the subject of a SwapClear Clearing Member's compression or decompression request pursuant to the above comprise only SwapClear STM Contracts, then the one or more SwapClear Contracts that come into existence immediately following, and as a result of, the compression or decompression shall all be SwapClear STM Contracts; and
- (iii) the SwapClear Contracts that are the subject of a SwapClear Clearing Member's compression request pursuant to the above comprise both SwapClear CTM Contracts and SwapClear STM Contracts, then:

Appendix II
Procedures Section 2C (SwapClear)



LCH LIMITED

PROCEDURES SECTION 2C

SWAPCLEAR CLEARING SERVICE

- (a) the contractual terms of the Transferring SwapClear Contracts will not change solely as a result of the Clearing House effecting the Permitted Transfer;
- (b) the SCM will remain liable to the Clearing House for all obligations under the Transferring SwapClear Contracts prior to, during and after the Permitted Transfer;
- (c) the Clearing House may require that certain changes be made to the books and records of one or more Approved Trade Source Systems in order to reflect the Permitted Transfer;
- (d) the Clearing House is acting solely upon the SCM's instructions as detailed to the Clearing House in writing and in reliance on the SwapClear Clearing Member's agreements and representations (including as set out in this Section 1.15.10) in connection therewith;
- (e) the Permitted Transfer is permissible under Applicable Law and is not in violation of Applicable Law, and the SCM has obtained any and all necessary and appropriate consents, authorisations and approvals, and has taken any other actions required under Applicable Law in connection with the Permitted Transfer; and
- (f) the Clearing House shall not be liable for any costs, expenses, damages or losses, whether direct or indirect, suffered by any of the parties hereto, or by the Eligible Transferor or Eligible Transferee, as a result of any actions taken by the Clearing House in connection with the Permitted Transfer.

1.15.11 Fees

Any Permitted Transfer effected pursuant to Regulation 60 and in accordance with these Procedures and (where applicable) any relevant Collateral Management Agreement will be subject to such fees as are established by the Clearing House from time to time in its sole and absolute discretion, and notified to SwapClear Clearing Members via a member circular.

1.16 Compression

A SwapClear Clearing Member may compress or decompress Eligible SwapClear Compression Contracts in accordance with Regulation 56 and this Section 1.16. ~~There are two options available to a SwapClear Clearing Member~~ may request the compression or decompression of Eligible SwapClear Compression Contracts as follows that wishes to compress Eligible SwapClear Compression Contracts:

- (a) a SwapClear Clearing Member can request that all Eligible SwapClear Compression Contracts entered into (i) on behalf of a designated SwapClear Clearing Client (or, where relevant, in respect of an Indirect Gross Sub-Account) or (ii) 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 the~~ compression of its Eligible SwapClear Compression Contracts. ~~SwapClear Clearing Members should contact the Clearing House's Membership Department to request such a compression Eligible SwapClear Compression Contracts; or~~

(b) a SwapClear Clearing Member may notify the Clearing House through the ClearLink API or SwapClear Portal specifying the Eligible SwapClear Compression Contracts it wishes to be compressed;

(c) ~~Additionally,~~ a SwapClear Clearing Member may ~~provide such notice to notify~~ the Clearing House through any Approved Trade Source System previously approved for this purpose by the Clearing House, but only where the compression is by way of netting in respect of Eligible SwapClear Compression Contracts in respect of which the position of the SwapClear Clearing Member (on its own behalf or on behalf of the relevant SwapClear Clearing Client or, where relevant, in respect of an Indirect Gross Sub-Account) is (x) in the opposite direction on each leg of such pair (i.e. obligations to make payment netted against rights to receive payment), such that the SwapClear Contract that replaces such pair of Eligible SwapClear Compression Contracts to be compressed shall have a notional amount equal to the net notional amount of the original pair of SwapClear Contracts or (y) in the same direction on each leg of such pair (i.e. obligations to make payment aggregated and rights to receive payment aggregated), such that the SwapClear Contract that replaces the compressed Eligible SwapClear Compression Contracts shall have a notional amount equal to the total notional amount of the original pair of Eligible SwapClear Compression Contracts. 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; or

(d) a SwapClear Clearing Member may request that certain Eligible SwapClear Compression Contracts be decompressed in the manner and form as determined by the Clearing House from time to time (such requests may be subject to the Clearing House's capacity constraints).

In order to compress an Eligible SwapClear Compression Contracts, 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 that indicates that such SwapClear Contracts are eligible for compression) and shall then follow the process for compression as set out above. By making a request to compress or decompress Eligible SwapClear Compression Contracts, the relevant SwapClear Clearing Member shall be deemed to represent and warrant that its request is in compliance with Applicable Law.

In respect of each compression run (which, for the purposes of this Section 1.16, shall include the time at which the Clearing House effects the decompression of Eligible SwapClear Compression Contracts, as applicable), the Clearing House will notify SwapClear Clearing Members of the cut-off time by which SwapClear Clearing Members must notify the Clearing House of the requested Eligible SwapClear Compression Contracts to be compressed in order for such Eligible SwapClear Compression Contracts to be included in the relevant compression run. The Clearing House shall process the compression of all Eligible SwapClear Compression Contracts notified to it prior to such cut-off time. A notification received after the relevant cut-off time shall be treated as if such notification was submitted on the following day. The Clearing House shall notify the applicable SwapClear Clearing Member after the relevant compression run of the result of such compression procedure. A SwapClear Clearing Member may, with the prior approval of the Clearing House and pursuant to Section 1.32, elect to receive such notification via any Approved Trade Source System previously approved by the Clearing House for such purpose.

A SwapClear Clearing Member that elects to provide notices or reports to the Clearing House through any Approved Trade Source System specifying which Eligible SwapClear Compression Contracts should be compressed, have been compressed or any other information in relation to compressions acknowledges and agrees that (i) the Clearing House makes no warranty (and will accept no liability) as to the effectiveness, efficiency, performance or any other aspect of the services provided by any Approved Trade Source System or the timeliness or otherwise of the delivery of any compression-related details by that Approved Trade Source System to the Clearing House of the SwapClear Clearing Member, (ii) the Clearing House will process and use any compression-related information provided to it via an Approved Trade Source System on an “as is” basis (with no obligation to verify any details), (iii) the Clearing House accepts no liability for any error within or corruption of any data sent by an Approved Trade Source System to the Clearing House or to the SwapClear Clearing Member or any delay in or failure of the transmission of such data to the Clearing House or the SwapClear Clearing Member. In the event that the Clearing House terminates, registers or otherwise effects an action in connection with a compression relating to any SwapClear Contract on the basis of incorrect or corrupted data sent to it by an Approved Trade Source System, the SwapClear Clearing Member concerned shall be bound by the results of such actions. Such matters form part of the relationship between the SwapClear Clearing Member and the relevant Approved Trade Source System. Notwithstanding anything in this Section 1.16 of the Procedures, the Clearing House records in relation to any compression and the status of any SwapClear Contract prior to, during or following a compression run shall be the definitive record in connection therewith and shall prevail over any such records maintained by any Approved Trade Source System.

Following the compression or decompression 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 decompression process or if its books and records do not reconcile with those of the Clearing House in respect of the compressed or decompressed SwapClear Contracts as notified to the SwapClear Clearing Member by the Clearing House.

Appendix III
FCM Regulations



FCM REGULATIONS OF THE CLEARING HOUSE

LCH LIMITED

CHAPTER XII - FCM SWAPCLEAR REGULATIONS

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

- (a) In order for an FCM to register an FCM SwapClear Contract in respect of the registration of an FCM SwapClear Transaction, the FCM must be currently approved as an FCM Clearing Member pursuant to these FCM Regulations. The Executing Parties to such FCM SwapClear Transaction shall be responsible for any give-up or other agreement mutually agreed to among the parties with respect to such transactions, as applicable. An FCM Clearing Member must present the particulars of an FCM SwapClear Transaction for registration as two FCM SwapClear Contracts or one FCM SwapClear Contract and one Non-FCM SwapClear Contract (as the case may be) in accordance with these FCM Regulations. Each FCM SwapClear Transaction involving an FCM Client shall be presented to the Clearing House for registration on behalf of such FCM Client by its FCM Clearing Member.
- (b) Once an FCM SwapClear Transaction has been presented to the Clearing House, the Clearing House shall (where applicable in accordance with paragraph (c) below and Section 2.1.3 of the FCM Procedures) request the consent of the relevant FCM Clearing Member with whom an FCM SwapClear Contract shall be registered as a result thereof to such registration. Upon the FCM Clearing Member providing its consent, such FCM SwapClear Transaction shall be deemed to have been submitted (as such term is defined in the FCM Procedures) by such FCM Clearing Member to the Clearing House for registration. Any such consent shall be provided in accordance with the FCM Procedures.
- (c) An FCM Clearing Member which has been nominated to clear the FCM Contract arising from the registration of an FCM SwapClear Transaction on behalf of a third party Executing Party will (only where such FCM SwapClear Transaction is not an FCM Trading Venue Transaction) be notified by the Clearing House of such FCM SwapClear Transaction and shall choose whether to grant or refuse consent to the registration of such FCM SwapClear Transaction and the FCM SwapClear Contract resulting from such FCM SwapClear Transaction. Where:
- (i) an FCM Clearing Member is an Executing Party to an FCM SwapClear Transaction and is to clear an FCM SwapClear Contract resulting from such FCM SwapClear Transaction; or
 - (ii) an FCM SwapClear Transaction is an FCM Eligible Trading Venue Transaction in respect of an FCM Clearing Member, and a third party Executing Party to such FCM SwapClear Transaction has nominated such FCM Clearing Member to clear an FCM SwapClear Contract resulting from such FCM SwapClear Transaction,

the consent of that FCM Clearing Member to the registration of the relevant FCM SwapClear Contract will occur automatically and without the need for any further action by such FCM Clearing Member.

- (d) Without prejudice to the Clearing House's rights under paragraph (g) of this FCM Regulation 46, an FCM Clearing Member shall be bound by an FCM SwapClear Contract registered in its name.
- (e) The Clearing House shall register or reject the registration of an FCM SwapClear Contract in respect of an FCM SwapClear Transaction presented for registration subject to, and in accordance with, these FCM Regulations, the FCM Procedures and all Applicable Law, where the following are conditions for registration of an FCM SwapClear Contract:
 - (i) both sides of the relevant FCM SwapClear Transaction have been properly presented and submitted for clearing by (or on behalf of) the Executing Parties;
 - (ii) the relevant FCM SwapClear Transaction meets the FCM SwapClear Product Eligibility Criteria prescribed in the FCM Product Specific Contract Terms and Eligibility Criteria Manual at the time the particulars of the FCM SwapClear Transaction are presented to the Clearing House and continues to meet such criteria at the Registration Time;
 - (iii) each FCM SwapClear Contract resulting from an FCM SwapClear Transaction is consented to by the relevant FCM Clearing Member in accordance with paragraph (c) above and Section 2.1.3 of the FCM Procedures;
 - (iv) the applicable FCM Clearing Member has furnished, upon request of the Clearing House and in accordance with FCM Regulation 14 and such other applicable provisions of the FCM Rulebook, all required Margin in respect of such FCM SwapClear Contract prior to registration (taking into account SwapClear Tolerance, if any); provided that such Margin need not be furnished prior to registration as a condition to the registration of such FCM SwapClear Contract where such FCM SwapClear Contract results from an FCM SwapClear Transaction that is a Sub-Block Trading Venue Transaction; and
 - (v) all the conditions applicable (under the terms of the FCM Rulebook or the UK General Regulations, as the case may be) for the registration of the Non-FCM SwapClear Contract or the other FCM SwapClear Contract (as the case may be) deriving from the relevant FCM SwapClear Transaction have been satisfied.

If for any reason in respect of an FCM SwapClear Contract the other corresponding FCM SwapClear Contract or Non-FCM SwapClear Contract (as the case may be) is not registered by the Clearing House, the Clearing House shall de-register such FCM SwapClear Contract and shall not have any liability whatsoever to any FCM Clearing Member or to any other person (including any SwapClear Dealer (as such term is defined in the UK General Regulations)) in contract, tort (including 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 as a result of such de-registration.

- (f) The Clearing House shall be deemed to register an FCM SwapClear Contract, in accordance with this FCM Regulation 46 in the name of an FCM Clearing Member, at the time prescribed in the FCM Procedures (“**Registration Time**”). At the Registration Time, the FCM Clearing Member, and the FCM Client if applicable, will be deemed to be bound by the relevant FCM SwapClear Contract on the terms entered into between the FCM Clearing Member and the Clearing House automatically and without any further action by such FCM Clearing Member or FCM Client, which such terms shall, without limitation, incorporate all applicable terms of these FCM Regulations and of Schedule 1 to the FCM Product Specific Contract Terms and Eligibility Criteria Manual.
- (g) If at any time after registration of an FCM SwapClear Contract, the Clearing House determines that the corresponding FCM SwapClear Transaction of which details were presented for registration did not, at the Registration Time, meet the FCM SwapClear Product Eligibility Criteria in existence at the Registration Time (an “**Ineligible FCM SwapClear Transaction**”), the Clearing House shall, immediately following the next margin run following such determination, set aside both FCM SwapClear Contracts (or, the FCM SwapClear Contract and the Non-FCM SwapClear Contract, if applicable) arising from such Ineligible FCM SwapClear Transaction. Upon an FCM SwapClear Contract being set aside under this paragraph (any such FCM SwapClear Contract, an “**Ineligible FCM SwapClear Contract**”): (i) the Clearing House will notify the FCM Clearing Member party to such Ineligible FCM SwapClear Contract via the FCM Approved Trade Source System through which details of the relevant Ineligible FCM SwapClear Transaction were originally presented to the Clearing House that such Ineligible FCM SwapClear Contract has been set aside; and (ii) such Ineligible FCM SwapClear Contract shall immediately be deemed to be terminated and shall thereafter have no force or effect. Where an Ineligible FCM SwapClear Contract is set aside pursuant to this paragraph, all payments (including Settlement Payments) (if any) paid by the Clearing House or by an FCM Clearing Member (or SwapClear Clearing Member, if applicable) in respect of such Ineligible FCM SwapClear Contract up to and including the time when such Ineligible FCM SwapClear Contract was set aside shall be retained by the receiving party upon termination as a termination payment. Without prejudice to FCM Regulation 44 and its obligations under this FCM Regulation 46, the Clearing House (and each other member of the LCH Group and their respective officers, employees and agents) shall have no liability whatsoever to any person arising out of or in respect of the registration by it in error or otherwise of an Ineligible FCM SwapClear Contract.
- (h) Where the FCM Procedures so provide, the Clearing House may require the FCM Clearing Members in whose names one or more FCM SwapClear Contracts are to be registered to furnish it with Margin as a condition of registration of such FCM SwapClear Contract(s), and such Margin shall be furnished to the Clearing House in accordance with FCM Regulation 14 and such other applicable provisions in the FCM Rulebook.
- (i) Notwithstanding anything to the contrary in the FCM Rulebook, the Clearing House may decline to register an FCM SwapClear Transaction in the name of an FCM Clearing Member where it considers such action advisable for its own protection or

the protection of the relevant market, **provided that** the Clearing House may (subject to the provisions of the FCM Rulebook) register any FCM SwapClear Contract which reduces the risk exposure of the Clearing House and the applicable FCM Clearing Member, as determined in the discretion of the Clearing House. The Clearing House may, without assigning any reason, make the registration of any FCM SwapClear Transaction subject to any conditions stipulated by the Clearing House including the furnishing of additional Margin by any FCM Clearing Member in whose name any such FCM SwapClear Transaction is to be registered.

- (j) An FCM SwapClear Transaction presented for registration to, and accepted by, the Clearing House shall be registered by the Clearing House in one of the following ways:
- (i) in the case where one Executing Party clears its side of such FCM SwapClear Transaction, either through a SwapClear Clearing Member or directly with the Clearing House in its capacity as a SwapClear Clearing Member, and the other Executing Party clears its side of such FCM SwapClear Transaction as or through an FCM Clearing Member, as one Non-FCM SwapClear Contract pursuant to the UK General Regulations applicable to SwapClear Clearing Members and one FCM SwapClear Contract pursuant to these FCM Regulations, where the FCM SwapClear Contract shall be registered between the FCM Clearing Member, as the party paying Rate X, and the Clearing House as the party paying Rate Y, and the Non-FCM SwapClear Contract shall be registered between the Clearing House, as the party paying Rate X, and the SwapClear Clearing Member, as the party paying Rate Y; or
 - (ii) in the case where each Executing Party will clear its respective side of such FCM SwapClear Transaction either through an FCM Clearing Member or directly itself as an FCM Clearing Member, as two FCM SwapClear Contracts pursuant to these FCM Regulations where each relevant FCM SwapClear Contract is registered between the relevant FCM Clearing Member and the Clearing House, with one such FCM Clearing Member as the party paying Rate X, and the Clearing House as the party paying Rate Y, and the other FCM Clearing Member as the party paying Rate Y and the Clearing House as the party paying Rate X.

In each of the foregoing cases, to the extent the FCM SwapClear Contract has been entered into by an FCM Clearing Member on behalf of an FCM Client, each FCM Clearing Member will be the agent of its FCM Client, but will nevertheless remain fully liable to the Clearing House for any and all amounts due to the Clearing House in connection with any FCM SwapClear Contract cleared on behalf of its FCM Client.

FCM Regulations

- (k) For the avoidance of doubt, following the occurrence of an FCM Client Default, the FCM Clearing Member is permitted, but not obligated, to act in a capacity other than as agent of the FCM Client, which may include acting as principal (e.g., with respect to any FCM SwapClear Contracts registered in accordance with Section 2.1.13(c) of the Procedures or any other actions permitted under FCM Regulation 13(d)), even though the FCM Clearing Member may be entitled to a right of indemnity from, or be required to account for any gains to, the FCM Client in respect of such FCM SwapClear Contracts. With effect from the registration of an FCM SwapClear Transaction in accordance with FCM Regulation 46(j) above:
- (i) such FCM SwapClear Transaction shall be extinguished and replaced by the corresponding FCM SwapClear Contracts (or if applicable, the corresponding FCM SwapClear Contract and Non-FCM SwapClear Contract), and the parties to such FCM SwapClear Transaction shall be released and discharged from all rights and obligations under such FCM SwapClear Transaction which fall due for performance on or after the Registration Time;
 - (ii) each FCM SwapClear Contract registered under FCM Regulation 46(j) above shall be governed by the FCM SwapClear Contract Terms as applicable to that FCM SwapClear Contract;
 - (iii) subject to sub-paragraph (ii) above, in respect of the Economic Terms, the FCM Clearing Member shall have the same rights against, and owe the same obligations to, the Clearing House under the FCM SwapClear Contract as the party paying Rate X had and owed in respect of its counterparty under the corresponding FCM SwapClear Transaction; and
 - (iv) subject to sub-paragraph (ii) above, in respect of the Economic Terms, the FCM Clearing Member shall have the same rights against, and owe the same obligations to, the Clearing House under the FCM SwapClear Contract to which it is party as the party paying Rate Y had and owed in respect of its counterparty under the corresponding FCM SwapClear Transaction.

In subparagraphs (iii) and (iv) above, a reference to the “same” rights or obligations is a reference to rights or obligations, falling due for exercise or performance after the Registration Time, and which are the same in nature and character as the rights or 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.

- (l) 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.

- (m) 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.
- (n) **Compression.**
- (i) The Clearing House may from time to time determine FCM SwapClear Contracts that are eligible for compression or decompression in accordance with this Regulation 46(n) and the FCM Procedures (such FCM SwapClear Contracts, “**Eligible FCM SwapClear Compression Contracts**”), which may include FCM SwapClear Contracts that, inter alia, have substantially similar economic terms.
- (ii) An FCM Clearing Member may submit a request to the Clearing House, in accordance with the FCM Procedures, (1) to compress and combine all such FCM SwapClear Contracts that are either (i) registered on the FCM Clearing Member's own behalf or (ii) registered on behalf of the same FCM Client or (2) decompress and separate selected Eligible FCM SwapClear Compression Contracts registered on the FCM Clearing Member’s own behalf or on behalf of an FCM Client.
- (iii) The Clearing House will effect the compression or decompression of Eligible FCM SwapClear Compression Contracts by terminating the relevant Eligible FCM SwapClear Compression Contracts and, in some instances, compressing or decompression them, as the case may be, into one or more new FCM SwapClear Contracts having a net future cash flow equal to the net future cash flow of the original Eligible FCM SwapClear Compression Contracts.
- (iv) For the avoidance of doubt, the Clearing House may determine that FCM SwapClear Contracts are Eligible FCM SwapClear Compression Contracts even if they have differing fixed or floating rates. FCM SwapClear Contracts that are compressed shall be (i) 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) or (ii) 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).
- (v) In most circumstances, the FCM SwapClear Contract (if any) that replaces the compressed Eligible FCM SwapClear Compression Contracts shall have a notional amount equal to the net notional amount of the compressed Eligible FCM SwapClear Compression Contracts, however, in some cases the replacement FCM SwapClear Contracts will have an aggregate notional amount that is greater than the net notional amount of the compressed FCM SwapClear Contracts, ~~provided that in no event will the aggregate notional amounts of the replacement FCM SwapClear Contracts be greater than the aggregate notional amounts of the compressed Eligible FCM SwapClear Compression Contracts, and~~ **provided further that** that in the event that the net notional amount and net future cash flows are equal to zero, ~~such~~

compression shall result in no replacement FCM SwapClear Contracts. The FCM SwapClear Contracts that replace the decompressed Eligible FCM SwapClear Compression Contracts shall (1) have substantially identical economic terms, except for notional, as the relevant Eligible FCM SwapClear Compression Contracts and (2) will be registered on the FCM Clearing Member's own behalf or on behalf of the FCM Client in whose name(s) such FCM SwapClear Contracts were registered prior to the compression of such FCM SwapClear Contracts.

- (vi) The Clearing House shall determine (in its sole discretion) whether Eligible FCM SwapClear Compression Contracts that are the subject of a request for compression or decompression from the FCM Clearing Member may be compressed or decompression, as the case may be, and, if such Eligible FCM SwapClear Compression Contracts are compressed or decompression, the Clearing House shall determine the resulting terms of the FCM SwapClear Contract(s) (if any) that replaces the compressed or decompression Eligible FCM SwapClear Compression Contracts, as the case may be. Such determination shall be binding on the FCM Clearing Member, absent manifest error. It is a condition for compression or decompression of Eligible FCM SwapClear Compression Contracts that the amount of Margin that the Clearing House requires in respect of the original Eligible FCM SwapClear Compression Contracts is equal to that which is required by the Clearing House in respect of the replacement FCM SwapClear Contract(s).

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

- (vii) In addition to the foregoing, the Clearing House may, from time to time in its absolute discretion, make available in accordance with this FCM Regulation 46 Multilateral Compression on the basis of a Multilateral Compression Cycle which is either:
- (A) an ACSP Compression Cycle, available to FCM Clearing Members and/or applicable non-FCM Clearing Members (each a "**Compression Clearing Member**", and either on their own behalf or on behalf of an Authorised Compression Client); or
 - (B) a Member Compression Cycle, where so requested by two or more Compression Clearing Members and agreed to by the Clearing House.
- (viii) In participating in any Multilateral Compression Cycle, a Compression Clearing Member:

Appendix IV
FCM Procedures



FCM PROCEDURES OF THE CLEARING HOUSE

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obtain the consent of the FCM Client to which the Stress Loss Margin applies. In making any request pursuant to this paragraph, the FCM Clearing Member is deemed to represent that it has obtained such consent.

Where FCM SwapClear Contracts entered into by an FCM Clearing Member in respect of an FCM Client which has requested to pay Stress Loss Margin are transferred to a Receiving Clearing Member, such Receiving Clearing Member may be required to pay additional initial margin to the Clearing House in the event that it does not pay Stress Loss Margin with respect to the transferring FCM Client.

2.1.10 *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.

2.1.11 *Compression*

(a) An FCM Clearing Member may compress or decompress Eligible FCM SwapClear Compression Contracts in accordance with FCM Regulation 46(n) and this Section 2.1.11. ~~There are two options available to an FCM Clearing Member that wishes to compress Eligible FCM SwapClear Compression Contracts~~ may request the compression or decompression of Eligible FCM SwapClear Compression Contracts as follows:

(A) an FCM Clearing Member can request that all Eligible FCM SwapClear Compression 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 after the applicable scheduled compression run) until the FCM Clearing Member notifies the Clearing House to discontinue the compression of Eligible FCM SwapClear Compression Contracts. ~~FCM Clearing Members should contact the Clearing House's Membership Department to~~

~~request such a compression of Eligible FCM SwapClear Compression Contracts; or~~

~~(B)~~ an FCM Clearing Member may notify the Clearing House through the ClearLink API or SwapClear Portal, specifying the Eligible FCM SwapClear Compression Contracts it wishes to be compressed;

~~(C)~~ ~~.- Additionally,~~ an FCM Clearing Member may ~~provide such notice to notify~~ the Clearing House through any FCM Approved Trade Source System previously approved for this purpose by the Clearing House, but only where the compression is by way of netting in respect of Eligible FCM SwapClear Compression Contracts in respect of which the position of the FCM Clearing Member (on its own behalf or on behalf of the relevant FCM Client) is (x) in the opposite direction on each leg of such pair (i.e., obligations to make payment netted against rights to receive payment), such that the FCM SwapClear Contract that replaces such pair of Eligible FCM SwapClear Compression Contracts to be compressed shall have a notional amount equal to the net notional amount of the original pair of Eligible FCM SwapClear Compression Contracts or (y) in the same direction on each leg of such pair (i.e., obligations to make payment aggregated and rights to receive payment aggregated), such that the FCM SwapClear Contract that replaces the compressed Eligible FCM SwapClear Compression Contracts shall have a notional amount equal to the total notional amount of the original pair of Eligible FCM SwapClear Compression Contracts. The FCM 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; or

~~(B)~~(D) an FCM Clearing Member may request that certain Eligible FCM SwapClear Compression Contracts be decompressed in the manner and form as determined by the Clearing House from time to time (such requests may be subject to the Clearing House's capacity constraints).-

Any request for the Clearing House to approve an FCM Approved Trade Source System for the purposes of this Section 2.1.11(a) must be made in writing and using the Clearing House's standard documentation. Through making a request, an FCM Clearing Member is deemed to represent and warrant that the individual making the request is appropriately authorized to do so.

- (b) In order to compress an Eligible FCM SwapClear Compression Contracts, an FCM Clearing Member must 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 that indicates that such FCM SwapClear Contracts are eligible for compression) and shall then follow the process for compression as set out above. By making a request to compress or decompress Eligible FCM SwapClear Compression Contracts, the relevant FCM Clearing Member shall be deemed to represent and warrant that its request is in compliance with Applicable Law.

- (c) In respect of each compression run (which, for the purposes of this Section 2.1.11, shall include the time at which the Clearing House effects the decompression of Eligible FCM SwapClear Compression Contracts, as applicable), the Clearing House will notify Clearing Members of the cut-off time by which the FCM Clearing Members must notify the Clearing House of the requested Eligible FCM SwapClear Compression Contracts to be compressed in order for such Eligible FCM SwapClear Compression Contracts to be included in the relevant compression run. The Clearing House shall process the compression of all Eligible FCM SwapClear Compression Contracts notified to it prior such cut-off time. A notification received after the relevant cut-off time shall be treated as if such notification was submitted on the following day. The Clearing House shall notify the applicable FCM Clearing Member after the relevant compression run of the result of such compression procedure. An FCM Clearing Member may, with the prior approval of the Clearing House and pursuant to the Procedures, elect to receive such notification via any FCM Approved Trade Source System previously approved by the Clearing House for such purpose.

Any request for the Clearing House to approve an FCM Approved Trade Source System for the purposes of this Section 2.1.11(c) must be made in writing and using the Clearing House's standard documentation. Through making a request, an FCM Clearing Member is deemed to represent and warrant that the individual making the request is appropriately authorized to do so.

- (d) An FCM Clearing Member that elects to provide notices or reports to the Clearing House through any FCM Approved Trade Source System specifying which Eligible FCM SwapClear Compression Contracts should be compressed, have been compressed or any other information in relation to compressions acknowledges and agrees that (i) the Clearing House makes no warranty (and will accept no liability) as to the effectiveness, efficiency, performance or any other aspect of the services provided by any FCM Approved Trade Source System or the timeliness or otherwise of the delivery of any compression-related details by that FCM Approved Trade Source System to the Clearing House of the FCM Clearing Member, (ii) the Clearing House will process and use any compression-related information provided to it via an FCM Approved Trade Source System on an "as is" basis (with no obligation to verify any details), (iii) the Clearing House accepts no liability for any error within or corruption of any data sent by an FCM Approved Trade Source System to the Clearing House or to the FCM

Clearing Member or any delay in or failure of the transmission of such data to the Clearing House or the FCM Clearing Member. In the event that the Clearing House terminates, registers or otherwise effects an action in connection with a compression relating to any FCM SwapClear Contract on the basis of incorrect or corrupted data sent to it by an FCM Approved Trade Source System, the FCM Clearing Member concerned shall be bound by the results of such actions. Such matters form part of the relationship between the FCM Clearing Member and the relevant FCM Approved Trade Source System. Notwithstanding anything in this Section 2.1.11 of the FCM Procedures, the Clearing House records in relation to any compression and the status of any FCM SwapClear Contract prior to, during or following a compression run shall be the definitive record in connection therewith and shall prevail over any such records maintained by any FCM Approved Trade Source System.

- (e) Following the compression or decompression process described above and as further set out in FCM Regulation 46(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 decompression process or if its books and records do not reconcile with those of the Clearing House in respect of the compressed or decompressed FCM SwapClear Contracts as notified to the FCM Clearing Member by the Clearing House.

For purposes of this Section 2.1.11, (i) an FCM Client may, on behalf of an FCM Clearing Member, submit a compression request (whether under paragraph (a) or (b) above) or an election to provide notices or reports via an FCM Approved Trade Source System, the ClearLink API or SwapClear Portal and (ii) for the avoidance of doubt, references to an FCM Approved Trade Source System may include the SwapClear Portal, in each case as applicable.

2.1.12 ***Portfolio Transfers (BAU)***

FCM Clearing Members may, acting for their own account or for the account of an FCM Client, effect Permitted Transfers in accordance with the provisions of FCM Regulation 46(p).

2.1.13 ***Actions in Respect of an FCM Client Default***

This Section describes certain transfers and registrations that, under certain conditions, can be requested by an FCM Clearing Member upon an FCM Client Default with respect to a Defaulting FCM Client.

The Clearing House shall have no liability in connection with any loss or cost suffered or incurred by any FCM Clearing Member or FCM Client in connection with any actions taken by the Clearing House pursuant to this Section 2.1.13.