

## ■ Bluenext Futures EUAs & CERs

### Delivery process for EUAs/CERs Futures contracts traded on Bluenext Markets.

The first delivery on Bluenext markets will be in December 2008; this memo aims at providing clearing members with a specific overview on the delivery process which will be set up for Bluenext.

As a reminder, the operating rules describe the obligations of LCH.Clearnet SA with respect to the active clearing members on the Bluenext market, in the supply of the service of compensation. LCH.Clearnet operating rules for Bluenext markets are available on our website: <http://www.lchclearnet.com/energy/bluenext/>

### Timescale for Delivery Process for Bluenext Futures Contracts

EUA Contract	CER Contract	Last Trading Day (D)	1 <sup>st</sup> Delivery Day (D+1)	2 <sup>nd</sup> Delivery Day (D+2)	Late Delivery (D+3)	Defaulting delivery (D+4)
<b>BNF EUA DEC 08</b>	<b>BNF CER DEC 08</b>	<b>01/12/2008</b>	<b>02/12/2008</b>	<b>03/12/2008</b>	<b>04/12/2008</b>	<b>05/12/2008</b>

Reminder: Members, who do not wish to go through the physical delivery, have to close their positions before the maturity.

### Normal delivery process

The contracts are physically settled and deliverable by the transfer of EUA (European Union Allowances) or CER (Certified Emission Units):

- From the person holding account of the seller in the French registry to the person holding account of LCH.Clearnet SA in the French registry,
- And from the person holding account of LCH.Clearnet SA in the French registry to the person holding account of the buyer in the French registry.

EUAs and CERs are held in dematerialized form in national registries connected to the CITL (EU Registry). The accounts refer to the national registry account operated by Caisse des Dépôts & Consignations where the entity wishes to make / take delivery.

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## **Day D-10 (17<sup>th</sup> November 2008)**

As part of the initial margin, a new step in the Span<sup>®</sup> process called the spot month charge is triggered. This calculation starts **10** clearing days preceding the maturity date until the maturity date. The maturity date being the 1<sup>st</sup> of December, the spot month will be charged on the position held from the end of day of the 17<sup>th</sup> November 2008.

The spot month charge is one amount combining naked positions and/or spread positions.

## **Day D (1<sup>st</sup> December 2008)**

After the end of the maturity date, a delivery settlement price will be posted by BlueNext around 05:30 PM (CET).

## **Day D+1 (2<sup>nd</sup> December 2008)**

The day after the maturity date (**D+1, 2<sup>nd</sup> Dec**), LCH.Clearnet SA first:

- Debits the central bank cash account of the selling clearer for Delivery Initial Margins (DIM, calculated as follows: open positions of selling clearer of D end of day x 20% x contract size<sup>1</sup> x delivery settlement price) at 09:00 AM (CET),
- Debits the central bank cash account of the buying clearer for delivery amount payment of the buying open position at 09:00 AM (CET),
- Operates the transfers of EUAs and CERs by descending order into the open positions file and by checking:
  - a. if the buying clearer has performed its payment obligation
  - b. EUAs or CERs held by the selling clearer's CDC allowances account.
- Transfers automatically the underlying:
  - a. From the selling clearer CDC allowances account to LCH.Clearnet SA CDC allowances account<sup>2</sup>;
  - b. From LCH.Clearnet SA CDC allowances account to the buying clearer CDC allowances account.
- Sends delivery report to clearing members involve in the delivery process

At the end of the sequential delivery process, LCH.Clearnet SA updates the position in the clearing system.

## **Day D+2 (3<sup>rd</sup> December 2008)**

Two days after the maturity date (**D+2, 3<sup>rd</sup> Dec**), for clearers which have completed the delivery process on D+1, LCH.Clearnet SA sends instructions in order to:

- Credit the central bank cash account of the selling clearer at 09:00 AM (CET)
- Pay back the collateral posted for the delivery initial margin to the selling clearers at 09:00 AM (CET)

If the delivery has not been fully performed on D+1, LCH.Clearnet SA

- Debits the central bank cash account of the selling clearer for Delivery Initial Margins (DIM) on the remaining positions of seller clearing member (DIM: remaining open positions of seller clearing member of D+1 end of day x 20% x contract size<sup>3</sup> x delivery settlement price) at 9:00 AM (CET),

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<sup>1</sup> Contract size = 1,000 tCO<sub>2</sub>

<sup>2</sup> Both clearers and LCH.Clearnet SA CDC Allowances Accounts are open in the French Registry SERINGAS

<sup>3</sup> Contract size = 1,000 tCO<sub>2</sub>

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- Operates the transfers of remaining EUAs and CERs by descending order into the open positions files and by checking:
  - a. if the buying clearer has performed its payment obligation
  - b. EUAs or CERs held by the selling clearer's CDC allowances account.
- Transfers automatically the underlying:
  - a. From the selling clearer CDC allowances account to LCH.Clearnet SA CDC allowances account<sup>4</sup>
  - b. From LCH.Clearnet SA CDC allowances account to the buying clearer CDC allowances account.
- Sends delivery report to clearing members involve in the delivery process

At the end of the sequential delivery process, LCH.Clearnet SA updates the remaining position in the clearing system.

On **D+2** (3<sup>rd</sup> Dec) at around 05:30 PM (CET), clearers which did not perform their delivery or payment obligation will go through the **late delivery process** and will be charged accordingly at the end of the month.

LCH.Clearnet SA will notify by e-mail around 06:00 PM (CET) the member that it is entering in a **late delivery process**.

Three days after the maturity date (**D+3, 4<sup>th</sup> Dec**), for clearers which have completed the delivery process on D+2, LCH.Clearnet SA sends instructions in order to:

- Credit the central bank cash account of the selling clearer at 09:00 AM (CET)
- Pay back the collateral posted for the delivery initial margin to the selling clearers at 09:00 AM (CET)

## Late Delivery process

On **D+3** (4<sup>th</sup> Dec) at 9:00 AM (CET), LCH.Clearnet SA debits the central bank cash account of the selling clearer for Delivery Initial Margins on the remaining positions of seller clearing member (20% of the contract value at the delivery price).

Clearers which enter into the delayed settlement process shall pay to LCH.Clearnet SA:

- A delivery delay penalty of € 500
- Late interest calculated as follows: Quantity x Contract Size x Expiration Settlement Price x (EONIA + 3%); this amount will be passed on to the clearer suffering the delay

Delayed settlement fee calculation and invoicing will take place at the end of the month.

At the end of the sequential delivery process (**D+3**), LCH.Clearnet SA updates the remaining position in the clearing system.

Four days after the maturity date (**D+4, 5<sup>th</sup> Dec**), for clearers which have completed the delivery process on D+3, LCH.Clearnet SA sends instructions in order to:

- Credit the central bank cash account of the selling clearer at 09:00 AM (CET)
- Pay back the collateral posted for the delivery initial margin to the selling clearers at 09:00 AM (CET)

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<sup>4</sup> Both clearers and LCH.Clearnet SA CDC Allowances Accounts are open in the French Registry SERINGAS

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## Cash settlement in case of defaulting

On **D+3** (4<sup>th</sup> Dec) 05:30 PM (CET), clearers which did not perform their delivery or payment obligation are in **default**.

A cash settlement is processed for the counterpart suffering from the default. Penalty fees are debited from the defaulting clearing member and credited to the counterpart suffering from this default.

Four days after the maturity date (**D+4, 5<sup>th</sup> Dec**), LCH.Clearnet SA:

- Notifies to the clearing member its default by e-mail
- Debits the central bank cash account of the selling clearer for Delivery Initial Margins on the remaining positions of seller clearing member (20% of the contract value at the delivery price) at 9:00 AM (CET),
- Calculates the cash compensation (cash settlement procedure)
- Calculates the penalties for failure to pay (buyer) / failure to deliver (seller)
- Starts the process consisting in sending the relevant credit or debit instructions to central banks.

Clearers which deemed to be in default will be fined accordingly; they shall pay the following amounts (default fees) to LCH.Clearnet SA which will pass them to the member which suffers the default:

- a delivery default penalty of € 5,000 or 1% of the contract value, which ever is the greater,
- Default interest calculated as follows: Quantity x Contract Size x Expiration Settlement Price x (EONIA + 3%),
- Cash indemnity i.e. Quantity x Contract Size x abs(Spot Price<sup>5</sup> – Expiration Settlement Price)

Default fee calculation and invoicing will take place at the end of the month.

## Fees

LCH.Clearnet SA does not charge any fee for delivery at contract expiry date.

## Contacts

For any questions you may have on the delivery process, please contact or address any correspondence to your LCH.Clearnet SA Energy account manager:

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<sup>5</sup> Bluenext Spot closing price

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