

SECTION 2G

CONTENTS

2G. THE NODAL SERVICE2

2G.1 INTRODUCTION.....2

2G.2 MEMBERSHIP2

2G.3 GENERAL.....3

2G.4 NODAL TRANSACTIONS3

2G.5 CLEARING FOR NODAL NON-CLEARING PARTICIPANTS4

2G.6 REGISTRATION OF NODAL TRANSACTIONS.....5

2G.7 POSITION AND FINANCIAL ACCOUNTS5

2G.8 FEES7

2G.9 MARGIN.....8

2G.10 TAX.....9

2G.11 SETTLEMENT OF NODAL CONTRACTS9

2G.12 POSITION TRANSFERS9

2G. **THE NODAL SERVICE**

2G.1 **INTRODUCTION**

2G.1.1 **Background**

These NODAL Service procedures apply to the clearing of NODAL Eligible Derivative Products listed on NODAL Exchange.

NODAL Service Clearing Members (“CMs”) must inform themselves fully of their obligations under the Clearing House Rulebook (the “Rulebook”) and other relevant documentation, such as the Clearing Membership Agreement and the terms of any approval by the Clearing House to extend clearing activities. NODAL Service CMs should also familiarise themselves with NODAL’s Rules.

The Clearing House provides the NODAL Service in respect of cash settled futures contracts only. Hence, it does not cover options contracts and there are no physical deliveries under this service. There is no provision for allocation or give-ups.

Please note that both the Rulebook (including these Procedures) and NODAL’s Rules are subject to change from time to time. Enquiries regarding these Procedures or any other aspects of the operation of the NODAL Service should be directed to the Clearing House Business Operations Department on +44 (0)20 7426 7689. Enquiries regarding CM status should be directed to the Membership Department on +44 (0)20 7426 7627 / 7063. Enquiries relating to NODAL’s Rules should be directed to NODAL.

Full details of contact points may be found on the Clearing House website (<http://www.lchclearnet.com>) and NODAL’s website (<http://www.NODAL.com>).

2G.1.2 **Interpretation**

Capitalised terms used in these Procedures have the meaning set out in the NODAL Regulations unless otherwise specified.

Except where otherwise stated, all times shown are London time and the twenty four hour clock is used.

2G.2 **MEMBERSHIP**

NODAL Service CMs may submit NODAL Transactions for registration by the Clearing House. NODAL Transactions may also be submitted for registration on behalf of a NODAL Service CM by a NODAL Non-Clearing Participant (“NODAL NCP”) as set out at Section 2G.4.1.

A NODAL Service CM must comply with all Clearing House requirements and with any NODAL requirements relating to participation in the relevant NODAL Trading System.

It is the responsibility of each NODAL Service CM to keep any report, including, but not limited to, the NODAL Service CM Report, required for its own historic, audit or legal purposes.

Details of how to be approved as a NODAL Service CM can be obtained from the Clearing House Membership Department on +44 (0)20 7426 7627 / 7063.

2G.2.1 **Submission of NODAL Transactions for registration**

NODAL Service CMs who wish a NODAL Transaction to be registered by the Clearing House must comply with all requirements of the NODAL Exchange, as relevant.

2G.3 **GENERAL**

2G.3.1 **Operating Times**

2G.3.1.1 **Opening Days**

Details of the days on which the NODAL Service is operational will be published by the Clearing House by Clearing Member circular. Details of the days on which NODAL is operational is available from NODAL.

2G.3.1.2 **Opening Hours**

The NODAL Service will be operational from 02:00 to 18:00 hours, Eastern Prevailing Time (the "Opening Hours").

2G.4 **NODAL TRANSACTIONS**

2G.4.1 **Eligible Transactions**

Only the transactions in this 2G.4 in NODAL Eligible Derivative Products executed or registered through a NODAL Trading System in accordance with NODAL's Rules will be designated as NODAL Transactions eligible for registration by the Clearing House.

Any such transactions must satisfy the Clearing House's requirements as set out in these Procedures and in the NODAL Regulations, and NODAL's requirements as set out in its Rules.

(a) **Parties to Transactions presented for Registration**

The Clearing House only registers NODAL Contracts arising from NODAL Transactions between NODAL Service CMs.

Such NODAL Transactions may arise through trades executed or registered through a NODAL Trading System by NODAL Service CMs, or by NODAL NCPs.

- (i) The NODAL Transaction may have been entered into by two NODAL Service CMs, each acting as principal.
- (ii) One side (or both sides) of the NODAL Transaction may arise through a NODAL NCP executing or registering a trade on the NODAL Trading System. In such case, the trade will immediately be replaced with:
 - a trade between the NODAL NCP and its NODAL Service CM, and

- a NODAL Transaction between its NODAL Service CM and the counterparty NODAL Service CM.

(b) **Presentation for Registration**

Under A (1) or (2) above, the NODAL Transaction will be presented to the Clearing House for registration as two NODAL Contracts, with the Clearing House as seller to the buying NODAL Service CM and as buyer to the selling NODAL Service CM.

(Where two NODAL NCPs both have the same NODAL Service CM, then each side of the trade will be presented to the Clearing House for registration as a separate NODAL Contract:

- with one in which that NODAL Service CM is buyer and the Clearing House is the seller;
- and the other in which that NODAL Service CM is the seller and the Clearing House is the buyer.)

2G.4.2 **NODAL Contracts – Eligibility Criteria**

It is part of the eligibility criteria for registration as a NODAL Contract that the particulars of a NODAL Transaction presented to the Clearing House must include matched information in respect of the following:

- (a) Seller and the Buyer;
- (b) the NODAL Eligible Derivatives Product which is the subject of the NODAL Transaction (this should be changed to a relevant contract for Nodal) and
- (c) the transaction specific information in respect of the NODAL Eligible Derivative Product.

2G.5 **CLEARING FOR NODAL NON-CLEARING PARTICIPANTS**

2G.5.1 **NODAL NCPs**

Certain NODAL Service CMs may clear for one or more NCPs (“NODAL NCPs”). In order to do so, the following conditions must be satisfied at all times:

- (a) the NODAL NCP is a participant of the NODAL Exchange; and
- (b) the NODAL Service CM and the NODAL NCP are party to a valid and enforceable agreement under which the NODAL Service CM agrees to clear NODAL Transactions on behalf of such person. Such agreement must confer rights on the NODAL Service CM and the NODAL Service CM must lawfully be entitled at all times to pass to the Clearing House, in accordance with Regulation 30, such information and data relating to the NODAL NCP as the Clearing House may in its sole discretion deem appropriate.

The static data form executed by both the NODAL NCP and the NODAL Service CM shall be definitive proof of the NODAL Service CM clearing for a NODAL NCP.

The Clearing House contracts with the NODAL Service CM alone and, to the fullest extent permitted by law, disclaims any duties or obligations to a NODAL NCP.

Further details regarding clearing for NODAL NCPs can be obtained from the Clearing House Membership Department on +44 (0) 207426 7627 / 7063.

2G.5.2 **Termination**

The NODAL Service CM may terminate its agreement with a NODAL NCP at any time by giving 21 days written notice to NODAL and the Clearing House. For the avoidance of doubt, the Clearing House need not receive any notice of or any confirmation of such termination from the NODAL NCP.

For the avoidance of doubt, termination by the NODAL Service CM of its agreement with a NODAL NCP will be without prejudice to the NODAL Service CM's obligations arising from or in relation to any NODAL Transaction or NODAL Contracts arising prior to such termination.

2G.6 **REGISTRATION OF NODAL TRANSACTIONS**

2G.6.1 **General**

The Clearing House may require a NODAL Service CM in whose name a NODAL Transaction is to be registered to provide it with cover for initial and variation margin as a condition of registration as a NODAL Contract.

2G.6.2 **Registration**

All matched transactions which have been presented for registration and comply with the Clearing House requirements for registration of a NODAL Transaction, are deemed to have been registered by the Clearing House immediately upon receipt by TRS/CPS.

2G.6.3 **Novation**

With effect from registration, novation operates to replace each NODAL Transaction with two separate NODAL Contracts, one between the selling NODAL Service CM and the Clearing House and the other between the buying NODAL Service CM and the Clearing House. Novation is described in more detail in the NODAL Regulations.

2G.6.4 **Notification**

All NODAL Contracts arising from registered NODAL Transactions are listed on the NODAL Service CM Report available through TRS.

2G.7 **POSITION AND FINANCIAL ACCOUNTS**

2G.7.1 **Position-Keeping Accounts**

2G.7.1.1 **Types of Account**

Positions with regard to NODAL Contracts are recorded within CPS in position-keeping accounts at Individual Trader Mnemonic (ITM) level, which are not CM accounts as described in Regulation 5. The account types are as follows:

- H House [excluding Clients]¹
- N Non-segregated client
- S Segregated client
- Z Default account, only to be used in the event of a CM default
- D Default “transactions” which have not been assigned to one of the above account codes

The requirement to open H and D accounts is compulsory. Other position-keeping accounts may be opened by agreement with the Clearing House.

¹ The “house position-keeping account” represents a Member’s principal business; the “house financial account” (see 2G.8.2.1 below) also includes non-segregated clients’ positions.

2G.7.1.2 **Basis of Position Keeping**

(a) **Net Accounts**

The following position-keeping accounts are held net at ITM level, e.g. a position of bought one lot and sold two lots will be reported as sold one:-

- H House
- N Non-segregated client
- S Segregated client

(b) **Gross Accounts**

The following position-keeping accounts are held gross at ITM level e.g. a position of bought one lot and sold two lots will show both bought and sold positions:-

- D Default “transactions” which have not been assigned to one of the above account codes

2G.7.2 **Financial Accounts**

NODAL Service CM position-keeping accounts have financial accounts associated with them. These are, amongst other things, used to record cash balances, securities/documentary credits and non-realised margin.

Where appropriate, a NODAL Service CM’s financial accounts are identified by a single character code: C for segregated client business (recorded as S within CPS); H for house and non-segregated business (recorded as H within CPS). Only the H financial account is obligatory.

Information contained within position-keeping accounts is consolidated into financial accounts, as follows:

2G.7.2.1 Relationship with Position-keeping accounts

Position-keeping accounts	Financial account
H House	H
N Non-segregated client	H
S Segregated client	C
D Default "transactions" which have not been assigned to one of the above account codes	H

By permitting a transaction to be allocated to a position-keeping account, a NODAL Service CM is also deemed to be designating that transaction for the associated financial account.

2G.7.2.2 Other Financial Accounts

Subject to approval by the Clearing House, further financial accounts, used only to record financial balances, may be opened as follows:

	Code
Buffer accounts, used for holding additional deposits	B
Resources account, used for holding supplementary financial resources	Q
Buyers' and Sellers' security account (segregated business) used for certain delivery contracts	X

2G.7.2.3 Default Fund (DF) Account

Each NODAL Service CM's Default Fund Contribution is held on a separate financial account. In accordance with the Default Fund Rules this account attracts a rate of interest at 3 month LIBOR +1%. The Default Fund account code is F.

2G.8 FEES**2G.8.1 General**

Fees arising for the provision of NODAL Services will be collected monthly from the NODAL Service CMs' financial accounts.

Details of tariffs and any changes thereto will be notified to NODAL Service CMs by means of Clearing Member circular.

For further details (including details of how information regarding charges made for NODAL Contracts registered by the Clearing House is communicated to NODAL Service CMs) please see Section 3.6 ("Fees") of these Procedures.

2G.8.2 Execution Fees

Members are asked to note that, in respect of NODAL Contracts, fees charged to NODAL Service CMs by the Clearing House will include execution fees which the

Clearing House will collect on behalf of NODAL in respect of the underlying trades executed through the NODAL Trading System.

Details of execution fees and any changes thereto will be notified to NODAL Service CMs by NODAL.

2G.9 **MARGIN**

For the purposes of the NODAL Service only, a “Reference Price” includes daily Settlement Price and final Settlement Price as used in the NODAL Rules.

2G.9.1 **Variation Margin**

Certain NODAL Contracts are settled to market daily by the Clearing House. Profits or losses are either credited to or debited from NODAL Service CMs’ relevant financial accounts (realised margin).

2G.9.1.1 **Realised Margin**

Realised margin is the calculated profit or loss arising from a comparison between the value of open positions at the relevant daily Settlement Price with the value of positions recorded i.e. the Traded Price for new trades and the previous day’s daily Settlement Price for other positions. The currency of this margin amount will be the same as the currency denomination of the contract’s reference price.

2G.9.2 **Initial Margin**

Separate initial margin calculations are performed for a NODAL Service CM’s house “H” and client “C” accounts; **no offset between these accounts is allowed**. Accounts are margined net, meaning that if long and short positions are held in the same delivery month/prompt date, Initial Margin is charged on the net position. Initial Margin need not be in the same currency as the contracts traded. A list of acceptable collateral to cover initial margin requirements can be found at the following location:

http://www.lchclearnet.com/risk_management/ltd/acceptable_collateral.asp

2G.9.2.1 **Initial Margin Parameters**

Initial margin parameters are set by the Clearing House. However, in accordance with the NODAL Regulations, the Clearing House retains the discretion to vary the rates for the whole market or for a NODAL Service CM’s house and/or client accounts.

NODAL Service CMs will be notified by the Clearing House of alterations to initial margin parameters no later than the day before calls are made based on the new rates.

2G.9.2.2 **Intra-day Margin Calls**

In accordance with the Regulations, the Clearing House is entitled to make additional margin calls for payment the same day (intra-day margin calls) where it considers it necessary. Intra-day margin calls will be made through the protected payments system (“PPS”) in London (“London PPS”) or the USA (“US PPS”) (see section 3.2 of these Procedures - “Protected Payments System”).

2G.9.2.3 Calculation of Initial Margin

VaR

Initial margins are re-calculated at the close of each business day using a VaR algorithm developed to margin Nodal exchange contracts.

Technical questions about this algorithm should be directed to the Clearing House Risk Management Department on +44 (0)20 7426 7520

2G.10 **TAX**

NODAL Service CMs should take their own advice regarding any taxation liabilities in any country in which a liability to pay tax may arise.

In the event that the Clearing House incurs any liability to pay any tax in respect of or in connection with any NODAL Contract, it shall have the right to require reimbursement of such tax liability, together with any costs and expenses incurred by the Clearing House in connection with the administration and processing of such tax liability, from the NODAL Service CM who is or was party to that NODAL Contract, and whom, in the Clearing House's opinion should be responsible for meeting such tax liability, costs and expenses. The Clearing House will collect such payments through PPS.

2G.11 **SETTLEMENT OF NODAL CONTRACTS**

NODAL Contracts are settled depending upon their terms, as set out in the relevant NODAL Contract Terms.

2G.11.1 **Cash Settlement**

Cash settlement is a final settlement derived from the difference between the final Settlement Price and the previous trading day's daily Settlement Price or such other quotation as is specified in NODAL's Rules. This is debited from or credited to the NODAL Service CMs' financial accounts.

2G.11.2 **Reference Prices for daily settlement to market**

Should NODAL fail to determine Reference Prices, the Clearing House will itself determine these as necessary. This will be done at the Clearing House's discretion and be announced as soon as possible following such determination.

2G.12 **POSITION TRANSFERS**

NODAL Service CMs will not have the functionality to affect a position transfer to another NODAL Service CM or between internal accounts.