# CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. THE NODAL CLEARING SERVICE</td>
<td>1</td>
</tr>
<tr>
<td>1.1 Introduction</td>
<td>1</td>
</tr>
<tr>
<td>1.2 Membership</td>
<td>1</td>
</tr>
<tr>
<td>1.3 General</td>
<td>2</td>
</tr>
<tr>
<td>1.4 NODAL Transactions</td>
<td>2</td>
</tr>
<tr>
<td>1.5 Registration of NODAL Transactions</td>
<td>3</td>
</tr>
<tr>
<td>1.6 Proprietary Accounts and Client Accounts</td>
<td>4</td>
</tr>
<tr>
<td>1.7 Position and Collateral Accounts</td>
<td>5</td>
</tr>
<tr>
<td>1.8 Fees</td>
<td>6</td>
</tr>
<tr>
<td>1.9 Margin and Collateral</td>
<td>7</td>
</tr>
<tr>
<td>1.10 Tax</td>
<td>8</td>
</tr>
<tr>
<td>1.11 Settlement of NODAL Contracts</td>
<td>8</td>
</tr>
<tr>
<td>1.12 Position Transfers</td>
<td>9</td>
</tr>
<tr>
<td>1.13 The NODAL Service Client Clearing</td>
<td>9</td>
</tr>
<tr>
<td>1.14 Indirect Clearing</td>
<td>10</td>
</tr>
</tbody>
</table>
1. THE NODAL CLEARING SERVICE

1.1 Introduction

1.1.1 Background

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

NODAL Service Clearing Members ("Clearing Members") 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 Clearing Members 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 Operations Department on +44 (0)20 7426 7689 or via email Derivatives.Ops.UK@lchclearnet.com. Enquiries regarding Clearing Member status should be directed to the Membership Department on +44 (0)20 7426 7949 or membership@lchclearnet.com. 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.NODALexchange.com).

1.1.2 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.

1.2 Membership

NODAL Service Clearing Members may submit NODAL Transactions for registration by the Clearing House. NODAL Transactions may also be submitted for registration on behalf of NODAL Service Clearing Members by an Non Clearing Participant ("NCP").
A NODAL Service Clearing Member 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 Clearing Member to keep any report, including, but not limited to, the NODAL Service Clearing Member Statement, required for its own historic, audit or legal purposes.

Details of how to be approved as a NODAL Service Clearing Member can be obtained from the Clearing House Membership Department on +44 (0)20 7426 7949 or membership@lchclearnet.com.

1.2.1 Submission of NODAL Transactions for registration

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

1.3 General

1.3.1 Operating Times

(a) 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.

(b) Opening Hours

The NODAL Service will be operational from 01:00 to 17:30 hours, Eastern Prevailing Time (the "Opening Hours").

1.3.2 Clearing House Reporting

The Clearing House (acting, where applicable, through the entity to which it has elected to delegate the relevant reporting obligation) shall report to a trade repository or similar body the details of a NODAL Contract and any modification or termination of such contract without duplication and no later than the working day following the conclusion, modification or termination of such contract, in line with the requirements of applicable law.

1.4 NODAL Transactions

1.4.1 Eligible Transactions

Only the transactions in this Section 1.4 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 Clearing Members.

Such NODAL Transactions may arise through trades executed or registered through a NODAL Trading System by NODAL Service Clearing Members or an NCP on behalf of a NODAL Service Clearing Member.

The NODAL Transaction may have been entered into by two NODAL Service Clearing Members, each acting as principal.

(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 Clearing Member and as buyer to the selling NODAL Service Clearing Member.

1.4.2 **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.

1.5 **Registration of NODAL Transactions**

1.5.1 **General**

The Clearing House may require a NODAL Service Clearing Member in whose name a NODAL Transaction is to be registered to transfer Collateral in respect of initial and variation margin obligations to the Clearing House as a condition of registration as a NODAL Contract.
1.5.2 **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 the NODAL Clearing System (NCS).

1.5.3 **Novation**

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

1.5.4 **Notification**

All NODAL Contracts arising from registered NODAL Transactions are listed on the NODAL Service Clearing Member Statement (CMS) report available via LCH.C's Member Reporting website.

1.6 **Proprietary Accounts and Client Accounts**

1.6.1 **Proprietary Accounts**

A NODAL Service Clearing Member may request that the Clearing House opens one or more Proprietary Accounts in respect of its House Clearing Business.

Each Proprietary Account will map to two sub-accounts

(a) a position account; and

(b) a collateral account

1.6.2 **Client Accounts**

(a) **Types of Client Account**

Subject to Regulation 11 (*Client Clearing Business*) of the General Regulations and Section 1.13 (The NODAL Service Client Clearing) below, a NODAL Service Clearing Member may request that the Clearing House opens, in respect of its Client Clearing Business, one or more:

(i) Individual Segregated Accounts;

(ii) Non-Identified Client Omnibus Net Segregated Accounts;

(iii) Identified Client Omnibus Net Segregated Accounts; and/or

(iv) Affiliated Client Omnibus Net Segregated Accounts;
(b) Each Client Account will map to two or more sub-accounts:

(i) one or more position accounts; and

(ii) a collateral account.

1.7 Position and Collateral Accounts

1.7.1 Position-Keeping Accounts

Positions with regard to NODAL Contracts are recorded within the NODAL Clearing System in position-keeping accounts at Individual Trader Mnemonic ("ITM") level. The account types are as follows:

<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>H</td>
<td>NODAL Clearing House Business</td>
</tr>
<tr>
<td>S</td>
<td>NODAL Client Clearing Business</td>
</tr>
</tbody>
</table>

The H account is obligatory. The S account will be used in respect of any NODAL Service Clearing Member which engages in NODAL Client Clearing Business.

1.7.2 Collateral Accounts

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

Where appropriate, a NODAL Service Clearing Member's collateral accounts are identified by a single character code: C for NODAL Client Clearing Business; H for NODAL Clearing House Business. Only the H account is obligatory. The C account will be used in respect of any NODAL Service Clearing Member which engages in NODAL Client Clearing Business.

Information contained within a position-keeping account is consolidated with the associated collateral account, as follows:

(a) Relationship with Position-keeping accounts

<table>
<thead>
<tr>
<th>Position-keeping accounts</th>
<th>Collateral account</th>
</tr>
</thead>
<tbody>
<tr>
<td>H</td>
<td>H</td>
</tr>
<tr>
<td>S</td>
<td>C</td>
</tr>
</tbody>
</table>

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

Each client "S" position-keeping account and the client "C" collateral account of a NODAL Service Clearing Member may hold any number of segregated sub-accounts. Each Individual Segregated Account of
the NODAL Service Clearing Member will map onto one such segregated sub-account in the client "S" position-keeping account and one such segregated sub-account in the client "C" collateral account and each Omnibus Segregated Account will map onto one such segregated sub-account in the client "S" position-keeping account and one such segregated sub-account in the client "C" collateral account.

(b) **Further accounts**

Subject to approval by the Clearing House, further accounts may be opened as follows:

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>B</td>
<td>Buffer account (House), used for holding House Excess in relation to NODAL Clearing House Business</td>
</tr>
<tr>
<td>E</td>
<td>Buffer account (Client), used for holding Client Excess</td>
</tr>
</tbody>
</table>

(c) **Default Fund (DF) Account**

Each NODAL Service Clearing Member's Default Fund Contribution is held on a separate account. The Default Fund account code is F.

### 1.8 Fees

1.8.1 **General**

Fees arising for the provision of NODAL Services will be collected monthly from the relevant NODAL Service Clearing Member's accounts.

Details of tariffs and any changes thereto will be notified to NODAL Service Clearing Members 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 Clearing Members) please see Section 1.7 ("Fees") of Section 3 (Financial Transactions) of these Procedures.

1.8.2 **Execution Fees**

Members are asked to note that, in respect of NODAL Contracts, fees charged to NODAL Service Clearing Members 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 Clearing Members by NODAL.
1.9 **Margin and Collateral**

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.

1.9.1 **Variation Margin**

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

Separate variation margin calculations are performed for a NODAL Service Clearing Member's Proprietary Accounts and for each Individual Segregated Client Account and Omnibus Segregated Account.

No offset between the "C" and the "H" accounts is allowed and, except pursuant to a Cross-ISA Client Excess Deduction, no offset is allowed between any Client Accounts.

(a) **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.

1.9.2 **Initial Margin**

Separate initial margin calculations are performed for a NODAL Service Clearing Member's Proprietary Accounts and for each Individual Segregated Client Account and Omnibus Segregated Account.

No offset between the "C" and the "H" accounts is allowed and, except pursuant to a Cross-ISA Client Excess Deduction, no offset is allowed between any Client Accounts.

The Collateral in respect of the initial margin obligation need not be in the same currency as the contracts traded. A list of acceptable Collateral to satisfy initial margin requirements can be found at the following location:

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

(a) **Initial Margin Parameters**

Initial margin parameters are set by the Clearing House. 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 Clearing Member's Proprietary Accounts and/or Client Accounts.
NODAL Service Clearing Members 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.

(b) Intra-day Margin Calls

In accordance with the Regulations, the Clearing House is entitled to make additional margin calls for payment on 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 1.3 of Section 3 (Financial Transactions) of these Procedures - "Protected Payments System").

(c) Calculation of Initial Margin

VaR

The initial margin obligations are re-calculated at the close of each business day using a VaR algorithm developed to calculate margin requirements in respect of NODAL exchange contracts.

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

1.10 Tax

NODAL Service Clearing Members 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 Clearing Member 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.

1.11 Settlement of NODAL Contracts

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

1.11.1 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 relevant Proprietary Account or Client Account (as applicable).
1.11.2 **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.

1.12 **Position Transfers**

A Nodal Service Clearing Member may affect a transfer with agreement from the Clearing House. The Clearing House will effect such transfer (in conjunction with Nodal) within two days of receiving a request for such transfer from the relevant Receiving Nodal Service Clearing Member; provided, that the Nodal Service Clearing Member completes, to the satisfaction of the Clearing House, any documentation as required and provided by the Clearing House.

1.13 **The NODAL Service Client Clearing**

1.13.1 **The NODAL Service Client Clearing – Ancillary Documentation**

(a) **Security Deed**

Unless specified otherwise by the Clearing House, a NODAL Service Clearing Member must enter into a Security Deed in respect of its Clearing Clients in relation to amounts due to it from the Clearing House pursuant to the Client Clearing Annex. Further information in relation to such Security Deed is prescribed by the Clearing House from time to time and published on the Clearing House's website.

(b) **Prescribed Language and End-User Notice**

Pursuant to the Clearing House's General Regulations, each NODAL Service Clearing Member is required to ensure that it includes certain language in its agreement with its NODAL Clearing Client (the "Clearing House Prescribed Language"). The Clearing House Prescribed Language is shown at Schedule 2 of Procedure 4 (Margin and Collateral).

NODAL Clearing Clients' attention is drawn to the End-User Notice which is published on the Clearing House's website:

http://www.lchclearnet.com/about_us/corporate_governance/end_user_notices.asp

1.13.2 **Backup Clearing Members**

A NODAL Clearing Client may appoint a Backup Clearing Member for the purposes of the porting of the NODAL Contracts entered into by a NODAL Service Clearing Member on its behalf, in accordance with the Client Clearing Annex.

Where, following the Default of a NODAL Service Clearing Member, the Clearing House is notified of the existence of such a Backup Clearing Member
in respect of a NODAL Clearing Client, the Clearing House is entitled, in accordance with the Client Clearing Annex, to immediately and without notice to any person, send details of the Relevant Contracts and Account Balances to that appointed Backup Clearing Member. The Clearing House shall not require consent from any person in advance of sending these details.

Note: The appointment by a NODAL Clearing Client of a Backup Clearing Member and the notification of a Backup Clearing Member to the Clearing House does not mean that NODAL Contracts will always be transferred to that Backup Clearing Member. Porting of NODAL Contracts, following a NODAL Service Clearing Member's Default is always subject to the Clearing House's receipt of consent from the relevant Backup Clearing Member.

1.14 **Indirect Clearing**

1.14.1 In circumstances where an early termination date (howsoever described) occurs in respect of all of the transactions between a NODAL Service Clearing Member and a NODAL Clearing Client acting on behalf of Indirect Clearing Clients comprising an Indirect Omnibus Segregated Account in respect of which such NODAL Service Clearing Member (i) is a party to Related NODAL Contracts and (ii) at the time of such early termination date, is not a Defaulter, that NODAL Service Clearing Member may instruct the Clearing House to take one of the following steps:

(a) in circumstances where (i) the NODAL Service Clearing Member notifies a single Backup Client in respect of all of the relevant Indirect Clients and (ii) within such time as the Clearing House may determine of the receipt of the relevant instructions from the NODAL Service Clearing Member, the Clearing House has received confirmation in writing from the Backup Client of its agreement to act as Backup Client in relation to the arrangement described in this paragraph (a) (in such form as the Clearing House may require at the relevant time), transfer to the appointed Backup Client all of the open Related NODAL Contracts and the balance of the Collateral recorded by the Clearing House as being credited to the relevant Indirect Omnibus Segregated Account (a "Client to Client Porting"); or

(b) transfer the relevant Related NODAL Contracts from the relevant Indirect Omnibus Segregated Account to a new Omnibus Segregated Account opened within the Clearing House by the relevant NODAL Service Clearing Member directly on behalf of the relevant clients (a "Direct Account Opening").

The Clearing House will determine whether a Client to Client Porting or a Direct Account Opening is possible within the period of time considered by the Clearing House (in its sole discretion) to be appropriate in the relevant circumstances and published on its website in relation to the relevant NODAL Clearing Client. In the event of a determination by the Clearing House that the relevant step is impossible (an "Impossibility Determination"), the Clearing House will arrange a transfer of the Related NODAL Contracts to the
NODAL Service Clearing Member's Proprietary Account (a "Fallback Transfer").

1.14.2 Each of the steps referred to in paragraphs 1.14.1(a) and 1.14.1(b) above and any Fallback Transfer will be subject to receipt by the Clearing House of the following:

(a) a copy of the notice from the relevant NODAL Service Clearing Member to the relevant NODAL Clearing Client or from the relevant NODAL Clearing Client to the relevant NODAL Service Clearing Member, copied to each of the relevant Indirect Clearing Clients, designating the relevant early termination date or, if such early termination date has occurred automatically, evidence of the relevant event of default or termination event;

(b) a copy of a notice served by the relevant NODAL Service Clearing Member on the relevant NODAL Clearing Client and copied to each of the relevant Indirect Clearing Clients, alerting that NODAL Clearing Client and those Indirect Clearing Clients (i) of its intention to request a Client to Client Porting or a Direct Account Opening (as applicable) in respect of the relevant Related NODAL Contracts; and (ii) that, in the event of an Impossibility Determination in respect of a request for Porting or a Direct Account Opening, a Fallback Transfer is likely to occur; and

(c) an indemnity from the relevant NODAL Service Clearing Member in a form suitable to the Clearing House

Unless contested by the relevant NODAL Clearing Client, the Clearing House will usually arrange a transfer of Related NODAL Contracts in the case of a Fallback Transfer, within 24 hours of the relevant Impossibility Determination.

For the purposes of this Section 1.14, a "Related NODAL Contract" means in respect of a transaction between a NODAL Service Clearing Member and a NODAL Clearing Client which has been terminated on an early termination date, the open position represented by the NODAL Contract entered into with the Clearing House by such NODAL Service Clearing Member on behalf of the relevant NODAL Clearing Client on equal and opposite terms to such transaction, save that, in this Section 1.14.2, the NODAL Clearing Client is acting on behalf of Indirect Clearing Clients comprising an Indirect Omnibus Segregated Account.