

SECTION 2E

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2E. LCH ENCLEAR OTC SERVICES - GENERAL MATTERS**2E.1 INTRODUCTION**

These Procedures form part of the Rulebook (The General Regulations, Default Rules, Settlement Finality Regulations and Procedures of the Clearing House) and must be read in conjunction with the other parts of the Rulebook. Clearing Members must inform themselves fully of their obligations under 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. It is to be noted that both the Rulebook (including these Procedures) are subject to change from time to time.

The LCH EnClear OTC Services provides clearing services to Clearing Members authorised by the Clearing House to participate in it ("LCH EnClear OTC Clearing Members" or "ECMs") in respect of ("Eligible OTC Trades") executed by ECMs. Such transactions must comply with the Clearing House's requirements (see the LCH EnClear OTC Regulations).

These Procedures apply to all LCH EnClear OTC Contracts (as set out hereafter) and consist of a General section applicable to the respective divisions of the LCH EnClear OTC Services.

In the event of any conflict between any provision of these Procedures and any requirement, rule of provision of any other documentation, these Procedures shall prevail.

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

2E.2 GENERAL INFORMATION

LCH EnClear OTC Services comprises two divisions, corresponding to the headings and contract terms set out in Part A to the Schedule to the LCH EnClear OTC Regulations:

- LCH EnClear OTC Services: Gas and Power Division (including emissions) (Section 3.3 of Part A to the Schedule)
- LCH EnClear OTC Services: Freight Division (including iron ore) (Section 3.4 of Part A to the Schedule)

Eligible OTC Trades (Gas and Power Division) must be submitted to the Clearing House via the OTC Energy Trade Registration System for processing in the Clearing House Extensible Clearing System. Trade acceptance hours for the LCH EnClear OTC Services (Gas and Power Division) are 08:00 to 17:00 hours on Opening Days.

Eligible OTC Trades (Freight Division) must be submitted to the Clearing House via the Extensible Clearing System user interface, for processing in the Clearing House Extensible Clearing System. Trade acceptance hours for the OTC Freight Services are 08:00 to 18:00 hours for forward freight and iron ore contracts and 08:00 to 17:00 hours for option contracts on Opening Days.

2E.3 **OPERATING TIMES**

2E.3.1 **Opening Days**

See the Gas and Power Division and Gas and Power Division: OTC Emissions sections for Opening Days in respect of submission for registration of Eligible OTC Trades (Gas and Power Division) and for Opening Days in respect of submission for registration of Eligible OTC Trades (Freight Division).

2E.3.2 **Opening Hours**

See the Gas and Power Division and Freight Division sections in these Procedures for Opening Hours.

Note: ECMs are asked to note that where trades are executed or originated outside the Opening Hours no registration can take place until the relevant registration time on the next following Opening Day. Where a weekend and/or public holiday intervenes, registration may be delayed for more than a day.

2E.4 **SUBMISSION OF ELIGIBLE OTC TRADES FOR REGISTRATION**

For registration of Eligible OTC Trades, LCH EnClear OTC Clearing Members must comply with all requirements of the Clearing House as set out in the Rulebook and other relevant documentation issued by the Clearing House in this regard.

Details of how to obtain Clearing Member status at the Clearing House and a copy of the Clearing Membership Agreement or how to become approved by the Clearing House as an ECM can be obtained from the Clearing House Membership department on +44 (0)20 7426 7627/70.

Where a Clearing Member already has approval to be a LCH EnClear OTC Clearing Member in respect of the Gas and Power Division of the LCH EnClear OTC Services and wishes to submit trades for registration in the Freight Division of the LCH EnClear OTC Services, that Clearing Member must seek further approval from the Clearing House in respect of that division of the LCH EnClear OTC Services before any clearing can take place in respect of those other OTC trades.

2E.5 **REGISTRATION**

2E.5.1 **General**

The Clearing House may require an ECM in whose name an open LCH EnClear OTC Contract is to be registered, to provide it with cover for initial and variation margin as a condition of registration.

OTC Trades

Providing a trade is an Eligible OTC Trade and it complies with the requirements of the Clearing House for registration, that trade will be registered by the Clearing House on an intra-day basis. Registration will occur when all eligibility criteria have been satisfied.

2E.5.2 **Novation**

Novation replaces each Eligible OTC Trade submitted through the LCH EnClear OTC Services (Gas and Power Division), with two separate LCH EnClear OTC Contracts one between the selling ECM and the Clearing House and the other between the buying ECM and the Clearing House. Where a trade is submitted in the LCH EnClear OTC Services (Freight Division), the fate of the original trade will be determined by what the parties to that trade have agreed.

It should be noted that in respect of certain swap trades and freight trades, the ECMs concerned may be referred to in the Regulations and these Procedures as “the Fixed Rate Payer” and “Floating Rate Payer” not “buying ECM” and “selling ECM”. Novation is described in more detail in the LCH EnClear OTC Regulations.

2E.6 **FEES**

Fees arising for the provision of LCH EnClear OTC Services will be collected from the ECMs monthly through the Members’ accounts.

Details of tariffs and any changes thereto will be notified to ECMs by means of Member circulars.

For further details in this regard (including details of how information regarding charges made for LCH EnClear OTC Contracts registered by the Clearing House is communicated to ECMs, please see Section 3.7 (Financial Transactions) of these Procedures. Members should also have regard to the individual section of these LCH EnClear OTC Services Procedures for the LCH EnClear OTC Services which may contain further information regarding fees.

2E.7 **MARGIN**

2E.7.1 **Variation Margin**

Certain LCH EnClear OTC Contracts are settled to market daily by the Clearing House in accordance with the relevant LCH EnClear OTC Contract Terms. Profits or losses are either credited to or debited from ECMs’ relevant financial accounts (realised margin).

2E.7.1.1 **Realised Margin**

Realised margin is the calculated profit or loss arising from a comparison between the value of open positions at the relevant Reference Price with the value of positions recorded i.e. the Fixed Price for new trades and the previous day’s Reference Price for other positions.

2E.7.2 **Initial Margin**

Separate initial margin calculations are performed for an ECM’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, initial margin is charged on the net position.

2E.7.2.1 Initial Margin Parameters

Initial margin parameters are set by the Clearing House. However, in accordance with the Regulations, the Clearing House retains the right at its discretion to vary the rates for the whole market or for an ECM's house and/or client accounts.

ECMs 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.

2E.7.2.2 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 necessary. Intra-day margin calls will be made through the Protected Payments System in London or the USA (USD) (see section 3.2 of these Procedures - "Financial Transactions").

2E.7.2.3 Calculation of Initial Margin

London SPAN*

Initial margins are re-calculated at the close of each business day using the London SPAN algorithm, which is an adaptation of the SPAN method developed by the Chicago Mercantile Exchange*.

For full details of how London SPAN calculates margins, reference should be made to the SPAN technical information package (available from the Clearing House Service Desk +44 (0)20 7426 7200). Introductory booklets on London SPAN may be obtained by phoning the Clearing House Corporate Communications +44 (0)20 7426 7175. Technical questions should be directed to the Clearing House Risk Management department on +44 (0)20 7426 7620.

2E.7.2.4 Contingent Variation Margin

Certain types of LCH EnClear OTC Contracts are marked to market daily by the Clearing House in accordance with the relevant LCH EnClear OTC Contract Terms. Un-realised margin is the calculated contingent profit or loss arising from a comparison between the value of open positions at the relevant Reference Price with the value of positions recorded i.e. the original traded price.

Members should refer to the individual LCH EnClear OTC Services Section of these Procedures for further information.

2E.7.3 Option Variation Margin (Freight Options Only)

As premium is paid up front, option variation margin is the value of unexpired option, calculated with reference to the official quotation. Bought and sold options generate credit and debit option variation margin respectively. For PHE options, option variation margin is referred to as Net Liquidating Value.

* The Chicago Mercantile Exchange (CME) permitted the Clearing House to adapt the CME specifications for SPAN to produce London SPAN, which meets the particular requirements of the London futures and options markets. 'SPAN [TM] ®' is a registered trademark of the CME. The CME assumes no liability in connection with the use of SPAN or London SPAN by any person or entity.

2E.8 TAX

ECMs should take their own legal and accounting 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 LCH EnClear OTC Contract, it shall have the right to require reimbursement of such tax liability, together with any costs or expenses incurred by the Clearing House in connection with the administration and processing of such tax liability, from the ECM who is or was party to that LCH EnClear OTC Contract and whom, in the Clearing House's reasonable opinion, should be responsible for meeting such tax liability, costs and expenses. The Clearing House will collect such payments through the Clearing House Protected Payments System.

2E.9 []**2E.10 []****2E.11 GAS AND POWER DIVISION****GAS AND POWER SERVICES****2E.11.1 Introduction**

For the purposes of these provisions, an "OTC Participant" means a person authorised by the Clearing House to register Eligible OTC Trades with the Clearing House in the Gas and Power Division of the LCH EnClear OTC Services in order that such trades may be cleared by the Clearing House.

"OTC documentation" means the rules, requirements and other documentation and provisions, which govern the relationship between the Clearing House and OTC Participants.

"Eligible OTC Trades" are bi-lateral trades or trade particulars in respect of Eligible Products that meet the requirements of the Clearing House for clearing by the Clearing House. A list of Eligible Products for the Gas and Power Division appears in the Schedule to the LCH EnClear OTC Regulations and may be amended from time to time.

References to "LCH EnClear OTC Clearing Members" or ("ECMs") in this section means those ECMs, being OTC Participants, who are party to or "accept" Eligible OTC Trades for clearing by the Clearing House.

2E.11.2 Eligible OTC Trades

Only the following trades or trade particulars will be eligible for registration by the Clearing House:

- 1) Trades executed between two ECMs in Eligible Products, which satisfy all the Clearing House's requirements as set out in these Procedures and in the Regulations.
- 2) Trades which are brokered by Approved Gas and Power Brokers (see below) in respect of Eligible Products which are "accepted" by two

ECMs and which satisfy all the Clearing House's requirements as set out in these Procedures and in the Regulations.

2E.11.3 **Gas and Power Products Eligible for Clearing**

Only trades in Gas and Power Products approved by the Clearing House ("Eligible Products") may be submitted for registration. This list may change from time to time.

A list of Eligible Products in the Gas and Power Division is to be found in the Schedule to the LCH EnClear OTC Regulations.

2E.11.4 **Trade Confirmation**

An Eligible OTC Trade may be submitted for clearing either directly by the selling ECM if the parties to that trade are both ECMs (or if the parties to that trade are customers of those ECMs), or by Approved Gas and Power Brokers. A list of Approved Gas and Power Brokers is available from the Clearing House.

Eligible OTC Trades from Approved Gas and Power Brokers and ECMs must be entered into the Extensible Clearing System (ECS) User Interface. Where entry into the system is done otherwise than by an Approved Gas and Power Broker, it is the selling ECM who is responsible for notifying the relevant particulars.

Such notifications must be made between the following hours 08:00 to 17:00 (London time).

The following particulars ("Trade Particulars") of Eligible OTC Trades must be provided in such notification:

Where an Approved Gas and Power Broker notifies the trade:

- Broker ECS reference
- Seller's ECS account reference
- Buyer's ECS account reference
- Contract (Product, strip)
- Contract Series
- Volume
- Price

Where the Selling ECM notifies the trade:

- ECM's ECS reference
- Seller's ECS account reference
- Buyer's ECS account reference
- Contract (product, strip)

- Contract Series
- Volume
- Price

2E.11.5 **Trades between persons who are not ECMs**

Where a trade is an Eligible OTC Gas and Power Product and is executed directly between two parties who are not ECMs or between an ECM and another party, the trade may be submitted for clearing provided that it is an Eligible OTC Trade and each party to that trade has an ECM who is prepared to “accept” that trade for clearing. In such a case it is the selling ECM or ECM willing to accept that trade for the seller who must notify the trade particulars through the ECS system. Such Eligible OTC Trades will then be submitted to the relevant ECMs via the Trade Processing system for acceptance. If that trade is not accepted by both ECMs it will not be registered and the fate of that trade (i.e. whether it will remain alive as a bi-lateral uncleared trade or be terminated) will depend upon what the trading parties have agreed in the event of non-registration.

Clearing Members should note that unless a trade is accepted through ECS by both ECMs by 17:30 hours on the same day that it is notified through ECS it will not be registered and its Trade Particulars will be automatically deleted from ECS.

2E.11.6 **Approved Gas and Power Brokers**

Only brokers who are expressly authorised by the Clearing House may access the ECS system and submit Eligible OTC Trades for registration by the Clearing House.

Rules of the Gas and Power Broker Scheme, which bind each Approved Gas and Power Broker, and a copy of the Agreement to be signed between the Clearing House and the Approved Gas and Power Broker, are available from the Clearing House.

ECMs should, wherever possible, notify the Clearing House in the prescribed form of each Approved Gas and Power Brokers who may submit particulars of Eligible OTC Trades for registration in the name of that ECM.

Where a broker who is not an Approved Gas and Power Broker purports to input particulars of trade into the ECS, that trade will not be registered by the Clearing House and will be rejected by the Clearing House.

PLEASE NOTE: If the two relevant ECMs “accept” an Eligible OTC Trade which has been brokered, within the timeframe laid down by these Procedures, it will be registered by the Clearing House in the names of those ECMs, whether or not those ECMs have appointed or authorized that broker to submit such a trade, and whether or not those ECMs have notified the Clearing House that that broker may submit trades for “acceptance” by them.

In the event that a trade is submitted to the Clearing House for registration by an Approved Gas and Power Broker, and such trade is “accepted” for registration by that ECM, that ECM shall be bound by an LCH EnClear OTC contract arising therefrom, notwithstanding that any trade particulars submitted by that Approved

Gas and Power Broker in respect of such trade are erroneous or incorrect in any particular. A Clearing Member shall accept full responsibility to the Clearing House for any trade notified to the Clearing House by an Approved Gas and Power Broker.

The Clearing House shall not be liable for an error or omissions on the part of an Approved Gas and Power Broker who inputs a trade into the ECS system and which is registered by the Clearing House.

Approved Gas and Power Brokers do not act as agent for the Clearing House in participating in the services offered by the Clearing House in the Gas and Power Division of the LCH EnClear OTC Services, or at all.

The Clearing House, in adding a broker to the list of Approved Gas and Power Brokers, makes no warranty or promise regarding the competence, ability, experience or professional skills of any Approved Gas and Power Broker, or at all, notwithstanding that such broker shall have been authorised by the Clearing House to participate in the LCH EnClear OTC Services (Gas and Power Division). The authorisation of such brokers as Approved Gas and Power Brokers is carried out by the Clearing House purely to assist ECMs to submit trades to the Clearing House for registration in the names of those ECMs. No check is made regarding the skills, professionalism or competence of those brokers nor is any consideration paid by any such in return for authorisation or at all.

2E.11.7 **“Acceptance” of Trades**

When details of an Eligible OTC Trade are input into ECS by an Approved Gas and Power Broker, such trade details will be submitted to the ECM identified in such particulars. The ECM must either signify its acceptance of that trade, or reject that trade, in each case by such means as shall be prescribed by the Clearing House from time to time, within 30 minutes of such trade being submitted to that ECM for acceptance or rejection. If that trade is “accepted” by both ECMs, then that ECM shall be bound by an LCH EnClear OTC Contract which subsequently arises between that ECM and the Clearing House.

If a trade is neither accepted nor rejected by close of business in the Gas and Power Division at the end of any business day, the trade shall cease to be eligible for registration in the name of that ECM or any other ECM and that trade will automatically be deleted from the ECS system.

Where details of a trade are input into the ECS system by an ECM seeking to be registered as seller to the Clearing House in an LCH EnClear OTC Contract arising therefrom subsequent to registration, the same obligations regarding acceptance or rejection are applicable to the ECM identified in those particulars as the ECM to be a buyer to the Clearing House in respect of an LCH EnClear OTC Contract arising therefrom subsequent to registration.

“Acceptance” by an ECM of any Gas and Power trade submitted through ECS either by an Approved Gas and Power Broker or by another ECM means that the ECM so “accepting” agrees to be bound by an LCH EnClear OTC Contract arising in respect of that gas and power trade in accordance with the Regulations and these Procedures, and other applicable documentation. Once a trade has been accepted in accordance with the requirements of the Clearing House as

notified from time to time to ECMs, the trade may not be withdrawn or recalled or amended.

2E.11.8 **Contra Trades**

Where incorrect details of a trade which have been “accepted” by both ECMs in accordance with the Regulations and these Procedures, the only available method to “correct” that trade will be by the insertion of a contra trade input by the Clearing House into the ECS.

A contra trade will not be required if the trade has a status of “pending”, “pending buyer” or “pending seller” as the trade can be cancelled in the ECS by the ECM or a Gas and Power Broker and input again with correct details.

An “accepted” trade may need to be corrected by a contra trade for the following reasons:

- incorrect price;
- incorrect expiry month;
- incorrect product;
- incorrect lots (only where too many lots have been entered);
- incorrect buyer/seller.

ECMs may request the registration of a contra trade by forwarding a Contra Trade Request completed by a member of staff authorised to request the registration of a contra trade on behalf of an ECM.

Requests should be submitted either by fax to +44 (0)20 7667 7359 or by email to LCHOperations-Commodities@lchclearnet.com. ECMs are requested to forward the Contra Trade Request as early as possible, but no later than 16:00 hours, to the Clearing House Business Operations staff to ensure timely entry of the details to ECS.

The Clearing House Business Operations staff will input all contra trades in to ECS. ECMs will be able to view and “confirm” all Contra Trades on ECS. All Contra Trades entered will appear in ECS as “pending” and it will be the ECM’s responsibility to confirm the trade as appropriate.

Contra Trades are subject to certain guidelines. The Clearing House will deal with requests for contra trades in the following way:

- Contra Trades identified on trade day or trade day +1 will be entered into ECS at the original trade price;
- Contra trades identified on trade day +2 or trade day + 3 will be entered into ECS at the previous night’s settlement price.

Contra Trades will attract normal clearing fees.

2E.11.9 Position Transfers

ECMs wishing to effect a position transfer from one ECM to another ECM should submit a written request to the Clearing House Business Operations staff by fax (+44 (0)20 7667 7359). Confirmation of a position transfer is required from both the transferor ECM and the transferee ECM.

ECMs are requested to forward the Position Transfer Request as early as possible, but no later than 16:00 hours, on a business day to ensure timely input of the details to ECS.

Provided that adequate cover is available from both ECMs, the transfer will normally be authorized. Should insufficient cover be available the transfer may not be authorized until additional cover is provided.

2E.11.10 Approved Trade Processing System

The Clearing House Extensible Clearing System ("ECS"), as provided by the Clearing House, will be utilised for the processing of Eligible Trades submitted for clearing. It consists of two separate components - an "Administration System" and "User System".

2E.11.11 Administration System

The following functions are performed within the Administration System and are available for the use of the Clearing House only:

- User set-up and maintenance;
- Contract set-up and maintenance;
- Account set-up and maintenance;
- Opening and Closing of the clearing services;
- Settlement price processing;
- Margin static data set-up and maintenance;
- Position Transfers;
- End of day processing.

2E.11.12 User System

The following outlines the functionality which may be available to ECMs and Approved Gas and Power Brokers:

- Trade Entry;
- Presentation of particulars of transactions to the Clearing House for registration;
- Allocation and designation of transactions to a position-keeping account;

- Settlement (ECM only);
- Position-keeping (ECM only);
- Position adjustments (ECM only);
- Calculation of margin (ECM only).

Any correction to data is performed within the Clearing House ECS and results in the automatic amendment of the matched particulars in the Clearing House. ECS Contract details will be disseminated to ECMs via the Clearing House Member Reporting (private member-only site).

The Clearing House ECS will (as part of end-of-day processing) generate reports, which will be available via the Clearing House Member Reporting (private member-only site).

Banking reports will be available through the channels normally accessed by Members e.g. TRS/CPS or LME Matching and Clearing, member reporting etc.

It is the responsibility of each LCH EnClear OTC Clearing Member to preserve any report required for historic, audit or legal purposes, including, but not limited to, any Margin Reports.

In certain circumstances the Clearing House may enter trades upon request from an ECM, Approved Gas and Power Brokers or other parties. In such circumstances, the Clearing House shall have no liability to the ECM, the Approved Gas and Power Brokers or any other party for any failure to input trades or for inputting trade details incorrectly.

2E.11.13 **Clearing House System Requirements**

An ECM must maintain an acceptable Network connection from a location acceptable to the Clearing House for connecting to the Clearing House ECS.

2E.11.14 **Position-Keeping Accounts**

2E.11.14.1 **Types of Account**

Positions with regard to LCH EnClear OTC Contracts are recorded within the Clearing House ECS in position-keeping accounts. For the avoidance of doubt, these position-keeping accounts in the Clearing House ECS are not “Member accounts” as described in Regulation 5 of the General Regulations.

ECMs may open and use position accounts at their discretion. For example an ECM may wish to have a separate account for each customer or have several accounts for one customer.

There is no restriction on the number of individual position accounts an ECM may open. The account reference for each position account within LCH ECS will be a free format alphanumeric code, as prescribed by the ECM.

2E.11.14.2 **Basis of Position-Keeping**

Position Accounts for OTC NBP can be held net or gross, as required by the ECM. ECMs must notify the Clearing House of their requirements in this regard. In default of notification, position accounts will be kept net.

Position Accounts for OTC Electricity Baseload & Peak will be held gross.

2E.11.14.3 **Position Settlement (Gross Accounts)**

Where the position accounts are each held gross for OTC NBP, the ECM may, if it so wishes, carry out a closeout, by the input of a manual settlement of open positions using the position adjustment facility in the Clearing House ECS.

Position Accounts for OTC Electricity Baseload & Peak are held gross. They cannot be closed out by Clearing Members.

2E.11.15 **Financial Accounts**

Position accounts have financial accounts associated with them. These are, inter alia, used to record cash balances, securities/documentary credits and non-realised margin.

Where appropriate, an ECM's financial accounts are identified by a single character code: C for segregated client business; H for house and non-segregated business.

Position accounts will map to either an ECM's C account or H account, as specified by that Member.

2E.11.16 **Default Fund (DF) Account**

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

2E.11.17 **Operating Times**

2E.11.17.1 **Opening Days**

The Clearing House will publish by Member circular details of the business days on which the LCH EnClear OTC Services is operational to receive Eligible OTC Trades in its Gas and Power Division.

2E.11.17.2 **Opening Hours**

Eligible OTC Trades in the Gas and Power Division may be notified during the following times: 08:00 and 17:00 hours (London time). Trades must be "accepted" by the relevant two ECMs by 17:30 hours.

Any trade which has not been accepted by 17:30 hours on the day on which particulars of that trade are input into the ECS system, will be deleted from the ECS system automatically. It will cease to be an Eligible OTC Trade and will not be registrable that day. It may, however, be re-submitted on another day.

2E.11.18 Clearing Agreements

Only Clearing Members may have trades cleared in the Gas and Power Division.

Clearing Members seeking approval from the Clearing House to clear Eligible OTC Trades in the Gas and Power Division must submit to the Clearing House a signed Clearing Extension Agreement which can be obtained by contacting the Membership department at the Clearing House on +44 (0)20 7426 7627. Please note that the extension must be printed or typed on headed paper of the Clearing Member, which should include the name, mnemonic and the address of the registered office of the Clearing Member and any further contact details.

If the Clearing Member is a company registered in England and Wales, the Agreement must be signed by two directors of the company or by a director and the company secretary. If it is signed by any person who is not a director or company secretary, or if the Clearing Member is an undertaking other than a company registered in England and Wales, written evidence must be provided of the power of that signatory to bind the Clearing Member to the provisions set out in the application form. Where that written evidence consists of a board resolution, or, in the case of an undertaking which is not a company registered in England and Wales a resolution of some other governing body of that undertaking, the Clearing House requires a certified copy of the minutes of the board meeting in which the resolution was passed. Such certification will normally be carried out by the company secretary or similar officer. Any general form of delegation will only be appropriate if it is sufficiently wide to empower the signatory to commit the Clearing Member to the provisions set out in the application form. It is expected that the signatories, if not officers of the undertaking, will be senior personnel.

Clearing Approval, if granted by the Clearing House through its execution of the Clearing Approval Agreement will be sent to the relevant contact address given in the Agreement – or, if no such address is given, the registered office of the Clearing Member as it appears on the records of the Clearing House.

2E.11.19 Non Members

Parties (“Gas and Power Customers”) who are not Clearing Members approved to clear trades in the Gas and Power Division may not participate directly in the Gas and Power Division clearing service. However, any such Gas and Power Customer may enter into agreement with a Clearing Member who has been so approved (on such terms as may be agreed between them) for that ECM to clear that person’s trades for that party. Particulars of such a trade, if it is an Eligible OTC Trade – that is, it meets all the relevant criteria published by the Clearing house from time to time – may be submitted for registration to the Clearing House by the ECM in accordance with the regulations and these Procedures. Providing particulars relating to that trade are “accepted” by two relevant ECMs who each agree, in accordance with the Regulations and these Procedures, to become counterparty to the appropriate LCH EnClear OTC contracts with the Clearing House, a clearing arrangement is entered into. However, there is no relationship between the Clearing House and that Gas and Power Customer and that Gas and Power Customer has no rights against the Clearing House in respect any such LCH EnClear OTC Contract.

2E.11.20 Rejection

If the Clearing House does not register a trade presented for registration it will notify the ECMs concerned within a reasonable time, indicating the reasons for rejection.

2E.11.21 Notification

All contracts ("LCH EnClear OTC Contracts") arising from registered Eligible OTC Trades are listed on the Clearing Members Margin Report available through the Clearing House's Member reporting Extranet site.

2E.11.22 Settlement of LCH EnClear OTC Contracts registered through the OTC Gas and Power Division

All LCH EnClear OTC Contracts arising from Eligible OTC Trades are subject to physical delivery unless closed out prior to commencement of the relevant delivery period.

ECMs should refer to Section 6A of the Procedures (LCH EnClear Deliveries) for full details of how such delivery mechanism operates.

2E.11.23 Reference Prices for Daily Settlement and Marking to Market

The Clearing House will use a variety of data from market participants, price reporting agencies and brokers for the purposes of producing reference prices each Business Day for daily settlement purposes and for the final settlement price.

GAS AND POWER DIVISION**2E.12A GAS AND POWER DIVISION: OTC EMISSIONS****2E.12A.1 Additional Definitions**

These provisions 2E.12A.1 to 2E.12A.26 inclusive form the Procedures applicable to the OTC Emissions Service. The following terms shall have the following meanings for the purposes of these Procedures.

ECM	An LCH EnClear OTC Clearing Member that has entered into a clearing extension agreement with the Clearing House for the purpose of participating in the OTC Emissions Service.
ECS	The Extensible Clearing System made available by the Clearing House for the purposes of the OTC Emissions Service and the user interface of that system.
Approved Emissions Broker	A broker that has entered into an LCH EnClear OTC Energy Services Approved OTC Emissions Broker Agreement.

OTC Emissions Product	Certified Emission Reductions (CERs) or EU Allowances (EUAs), as the case may be, that meet the respective eligibility criteria contained in the Schedule to the LCH EnClear and LCH EnClear OTC Regulations.
OTC Emissions Service	That part of the LCH EnClear OTC Services (Gas and Power Division) which relates to OTC Emissions Products.

2E.12A.2 **Parties to Eligible OTC Trades within the OTC Emissions Service**

In order to be registered by the Clearing House within the OTC Emissions Service an Eligible OTC Trade must either:

- 1) be agreed between two ECMs (or customers or clients of ECMs who have entered into an arrangement with an ECM for the purposes of participating in the OTC Emissions Service);
- 2) be brokered by an Approved Emissions Broker and subsequently accepted by two ECMs.

2E.12A.3 **OTC Emissions Products**

Trades in OTC Emissions Products only may be submitted for registration within the OTC Emissions Service. The eligibility criteria for OTC Emissions Products are contained in the Schedule to the LCH EnClear OTC Regulations.

2E.12A.4 **Trade Confirmation**

An Eligible OTC Trade may be submitted for clearing either directly by the selling ECM if the parties to that trade are both ECMs (or if the parties to that trade are customers or clients of those ECMs), or by an Approved Emissions Broker. A list of Approved Emissions Brokers is available from the Clearing House.

Eligible OTC Trades must be entered into ECS. Where entry into ECS is carried out by an ECM rather than an Approved Emissions Broker, it is the selling ECM who is responsible for entering the relevant particulars.

Eligible OTC Trades may be entered between the following hours 07:30 to 18:00 (London time).

The following particulars of Eligible OTC Trades must be entered:

- Product
- Contract Series
- Sell Account (If input by an Approved Emissions Broker, obtained from the customer or its ECM)
- Sell Client Reference (this should be populated with an agreed three letter mnemonic of the Approved Emissions Broker or ECM, followed by a sequential number)
- Sell Trader Number (this should always be LCH1)

- Anonymous Trade
- Buy Broker/ECM ID
- Buy Account (If input by an Approved Emissions Broker, obtained from the customer or its ECM)
- Buy Trader Number (this should always be LCH1)
- Buy Client Reference (this should be populated with the same reference as in Sell Client Reference)
- Quantity
- Price
- Original Transaction Date (this is an optional field)

2E.12A.5 **Trades between persons who are not ECMs**

An Eligible OTC Trade agreed by parties who are not ECMs, or only one of which is an ECM, may be submitted for clearing provided that each party who is not an ECM has an arrangement with an ECM who is prepared to accept that trade for clearing. If such a trade is not accepted by both ECMs it will not be registered and the fate of that trade (whether it will continue to exist as a bilateral uncleared trade or be terminated) will be as agreed by the original trading parties.

Clearing Members should note that unless a trade is accepted through ECS by both ECMs by 18:30 hours on the same day that it is notified through ECS it will not be registered and the relevant trade particulars will be automatically deleted from ECS.

2E.12A.6 **Approved Emissions Brokers**

Only Approved Emissions Brokers may access ECS and submit Eligible OTC Trades for registration by the Clearing House. The Approved Emissions

Broker Scheme Rules, which bind each Approved Emissions Broker, and a copy of the Agreement to be agreed between the Clearing House and the Approved Emissions Broker, are available from the Clearing House.

If the two relevant ECMs accept an Eligible OTC Trade which has been brokered within the timeframe prescribed by these Procedures it will be registered by the Clearing House in the names of those ECMs whether or not those ECMs have appointed or authorised the relevant broker to submit that trade, and whether or not those ECMs have notified the Clearing House that that broker may submit trades for acceptance by them.

In the event that a trade is submitted to the Clearing House for registration by an Approved Emissions Broker, and such trade is accepted for registration by that ECM, that ECM shall be bound by an LCH EnClear OTC Emissions Contract arising therefrom, notwithstanding that any trade particulars submitted by that Approved Emissions Broker in respect of such trade are erroneous or incorrect in any respect.

The Clearing House shall not be liable for an error or omissions on the part of an Approved Emissions Broker who enters a trade into ECS and which is registered by the Clearing House.

Approved Emissions Brokers do not act in an agency capacity for the Clearing House in participating in the OTC Emissions Service or at all.

The Clearing House makes no warranty or promise regarding the competence, ability, experience or professional skills of any Approved Emissions Broker. No checks are carried out by the Clearing House regarding the skills, experience or competence of those brokers nor is any consideration paid by any Approved Emissions Broker in return for approval or at all.

2E.12A.7 **Acceptance of Trades**

When details of an Eligible OTC Trade are input into ECS by an Approved Emissions Broker, such trade details will be submitted to the ECMs identified in such particulars. Each ECM must either signify its acceptance of that trade, or reject that trade, in each case by such means as shall be prescribed by the Clearing House from time to time, within 30 minutes of such trade being submitted to that ECM for acceptance or rejection. If that trade is accepted by both ECMs, each ECM shall be bound by an LCH EnClear OTC contract which subsequently arises between that ECM and the Clearing House.

If a trade is not accepted by close of business in the OTC Emissions Service, the trade shall cease to be eligible for registration and that trade will automatically be deleted from the ECS system.

Where details of a trade are input into the ECS system by an ECM seeking to be registered as seller to the Clearing House in an LCH EnClear OTC Contract arising therefrom subsequent to registration, the same obligations regarding acceptance or rejection are applicable to the ECM identified in those particulars as the ECM to be a buyer to the Clearing House in respect of an LCH EnClear OTC Contract arising therefrom subsequent to registration.

By accepting an Eligible OTC Trade entered into ECS an ECM agrees to be bound by an LCH EnClear OTC Contract arising in respect of that trade in accordance with the Regulations and these Procedures, and any other applicable documentation. Once a trade has been accepted in accordance with the requirements of the Clearing House as notified from time to time to ECMs, the trade may not be withdrawn or recalled or amended. The time at which an Eligible OTC Trade is irrevocably accepted within ECS shall be the Registration Time for the purposes of the LCH EnClear OTC Regulations.

2E.12A.8 **Contra Trades**

Where incorrect details of a trade which have been accepted by both ECMs in accordance with the Regulations and these Procedures, the only available method to correct that trade will be by the entry of a contra trade.

A contra trade will not be required if the trade has a status of "pending", "pending buyer" or "pending seller" as the trade can be cancelled in ECS by the ECM or an Approved Emissions Broker and the correct details entered.

An accepted trade may need to be corrected by a contra trade for the following reasons:

- incorrect price;
- incorrect expiry month;
- incorrect product;
- incorrect lots (only where too many lots have been entered);
- incorrect buyer/seller.

ECMs will be able to view and “confirm” all contra trades on ECS. All contra trades entered will appear in ECS as “pending” and it will be the responsibility of ECMs to confirm the trade as appropriate.

Contra trades are subject to certain guidelines, as below:

- Contra trades identified on trade day or trade day +1 will be entered into ECS at the original trade price;
- Contra trades identified on trade day +2 or trade day + 3 will be entered into ECS at the previous night’s settlement price.

Contra Trades will attract normal clearing fees.

2E.12A.9 **Position Transfers**

ECMs wishing to effect a position transfer from one ECM to another ECM should submit a written request to the Clearing House Business Operations staff by fax (+44 (0)20 7667 7359) or by email to LCHOperations-Commodities@lchclearnet.com. Confirmation of a position transfer is required from both the transferor ECM and the transferee ECM.

ECMs are requested to forward the Position Transfer Request as early as possible, but no later than 16:00 hours, on a business day to ensure timely input of the details to ECS.

Provided that adequate cover is available from both ECMs, the transfer will normally be authorised. Should insufficient cover be available the transfer may not be authorised until additional cover is provided.

2E.12A.10 **Approved Trade Processing System**

The Clearing House Extensible Clearing System (“ECS”), as provided by the Clearing House, will be utilised for the processing of Eligible Trades submitted for clearing. It consists of two separate components - an “Administration System” and “User System”.

2E.12A.11 **Administration System**

The following functions are performed within the Administration System and are available **for the use of the Clearing House only**:

- User set-up and maintenance;
- Contract set-up and maintenance;
- Account set-up and maintenance;
- Opening and Closing of the clearing services;
- Settlement price processing;
- Margin static data set-up and maintenance
- Position Transfers;
- End of day processing.

2E.12A.12 **User System**

The following outlines the functionality which may be available to ECMs and Approved Emissions Brokers

- Trade Entry;
- Presentation of particulars of transactions to the Clearing House for registration;
- Allocation and designation of transactions to a position-keeping account;
- Settlement (ECM only);
- Position-keeping (ECM only);
- Position adjustments (ECM only);
- Calculation of margin (ECM only).

Any correction to data is performed within the Clearing House ECS and results in the automatic amendment of the matched particulars in the Clearing House. ECS Contract details will be disseminated to ECMs via the Clearing House Member Reporting (private member-only site).

The Clearing House ECS will (as part of end-of-day processing) generate reports, which will be available via the Clearing House Member Reporting (private member-only site).

Banking reports will be available through the channels normally accessed by Members including TRS/CPS or LME Matching and Clearing, member reporting.

It is the responsibility of each LCH EnClear OTC Clearing Member to preserve any report required for historic, audit or legal purposes, including, but not limited to, any margin reports.

In certain circumstances the Clearing House may enter trades upon request from an ECM, Approved Emissions Brokers or other parties. In such circumstances,

the Clearing House shall have no liability to the ECM, the Approved Emissions Brokers or any other party for any failure to input trades or for inputting trade details incorrectly.

2E.12A.13 **Clearing House System Requirements**

An ECM must maintain an acceptable Network connection from a location acceptable to the Clearing House for connecting to the Clearing House ECS.

2E.12A.14 **Position-Keeping Accounts**

2E.12A.15 **Types of Account**

Positions with regard to LCH EnClear OTC Contracts are recorded within the Clearing House ECS in position-keeping accounts. For the avoidance of doubt, these position-keeping accounts in the Clearing House ECS are not "Member accounts" as described in Regulation 5 of the General Regulations.

ECMs may open and utilise position accounts at their discretion. For example an ECM may wish to have a separate account for each customer or have several accounts for one customer.

There is no restriction on the number of individual position accounts an ECM may open. The account reference for each position account within LCH ECS will be a free format alphanumeric code, as prescribed by the ECM.

2E.12A.16 **Basis of Position-Keeping**

Position Accounts for OTC Emissions can be held net or gross, as required by the ECM. ECMs must notify the Clearing House of their requirements in this regard. In default of notification, position accounts will be kept net.

2E.12A.17 **Position Settlement (Gross Accounts)**

Where the position accounts are each held gross for OTC Emissions, the ECM may, if it so wishes, carry out a closeout, by the input of a manual settlement of open positions using the position adjustment facility in the Clearing House ECS.

2E.12A.18 **Financial Accounts**

Position accounts have financial accounts associated with them. These are, inter alia, used to record cash balances, securities/documentary credits and non-realised margin.

Where appropriate, an ECM's financial accounts are identified by a single character code: "C" for segregated client business; "H" for house and non-segregated business.

Position accounts will map to either an ECM's "C" account or "H" account, as specified by that Member.

2E.12A.19 Default Fund (DF) Account

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

2E.12A.20 Operating Times**2E.12A.21 Opening Days**

The Clearing House will publish by Member circular details of the business days on which the OTC Emissions Service is operational to receive Eligible OTC Trades.

2E.12A.22 Opening Hours

Eligible OTC Trades in the OTC Emissions Service may be notified during the following times: 07:30 and 18:00 hours (London time). Trades must be accepted by the relevant two ECMs by 18:30 hours.

Any trade which has not been accepted by 18:30 hours on the day on which particulars of that trade are input into the ECS system, will be deleted from the ECS system automatically. It will cease to be an Eligible OTC Trade and will not be registrable that day. It may, however, be re-submitted on another day.

2E.12A.24 Rejection

If the Clearing House does not register a trade presented for registration it will notify the relevant ECMs concerned within a reasonable time, indicating the reasons for rejection.

2E.12A.24 Notification

All LCH EnClear OTC Contracts arising from registered Eligible OTC Trades are listed on the Margin Report available through the Clearing House's Member reporting extranet site.

2E.12A.25 Settlement of LCH EnClear OTC Contracts registered through the OTC Emissions Service

All LCH EnClear OTC Contracts arising from Eligible OTC Trades are subject to physical delivery unless closed out prior to commencement of the relevant delivery period.

ECMs should refer to Section 6A of the Procedures (LCH EnClear Deliveries) for full details of the delivery process.

2E.12A.26 Reference Prices for Daily Settlement and Marking to Market

LCH EnClear OTC Contracts within the OTC Emissions Service are subject to daily settlement in accordance with the LCH EnClear OTC Regulations. For this purpose the Clearing House will use price information provided by the London Energy Brokers Association (LEBA).

2E.12 **FREIGHT DIVISION**

2E.12.1 **Introduction**

For the purposes of these provisions, an “OTC Participant” means a person authorised by the Clearing House to register Eligible OTC Trades with the Clearing House in the Freight Division of the LCH EnClear OTC Services in order that such trades may be cleared by the Clearing House.

“OTC documentation” means the rules, requirements and other documentation and provisions, which govern the relationship between the Clearing House and OTC Participants.

“Eligible OTC Trades” are bi-lateral trades or trade particulars in respect of Eligible Products that meet the requirements of the Clearing House for clearing by the Clearing House. A list of Eligible Products for the Freight Division appears in the Schedule to the LCH EnClear OTC Regulations and may be amended from time to time.

References to “LCH EnClear OTC Clearing Members” or (“ECMs”) in this section means those ECMs, being OTC Participants, who are party to or “accept” Eligible OTC Trades for clearing by the Clearing House.

2E.12.2 **Eligible OTC Trades**

Only the following trades or trade particulars will be eligible for registration by the Clearing House:

- 1) Trades executed between two ECMs in Eligible Products, which satisfy all the Clearing House’s requirements as set out in these Procedures and in the Regulations.
- 2) Trades which are brokered by Approved Freight Brokers (see below) in respect of Eligible Products which are “accepted” by two ECMs and which satisfy all the Clearing House’s requirements as set out in these Procedures and in the Regulations.

2E.12.3 **OTC Freight Products Eligible for Clearing**

Only trades in OTC Freight Products approved by the Clearing House (“Eligible Products”) may be submitted for registration. This list may change from time to time.

A list of Eligible Products in the Freight Division is to be found in the Schedule to the LCH EnClear Regulations and LCH EnClear OTC Regulations.

2E.12.4 **Trade Confirmation**

An Eligible OTC Trade may be submitted for clearing either directly by the selling ECM if the parties to that trade are both ECMs (or if the parties to that trade are customers of those ECMs), or by Approved Freight Brokers. A list of Approved Freight Brokers is available from the Clearing House.

Eligible OTC Trades from Approved Freight Brokers and ECMs must be entered into the Extensible Clearing System (ECS) User Interface. Where entry into the

system is done otherwise than by an Approved Freight Broker, it is the selling ECM who is responsible for notifying the relevant particulars.

Such notifications must be made between the hours of 08:00 to 18:00 (London time) for freight forward and iron ore contracts and 08:00 to 17:00 (London time) for option contracts.

The following particulars ("Trade Particulars") of Eligible OTC Trades must be provided in such notification:

- Product;
- Contract Series;
- Sell Account (If input by Broker, obtained from the customer or its ECM);
- Sell Client Reference (this should be populated with an agreed three letter mnemonic of the Broker or ECM, followed by a sequential number);
- Sell Trader Number, (this should always be LCH1);
- Anonymous Trade;
- Buy Broker/ECM ID;
- Buy Account (If input by Broker, obtained from the customer or its ECM);
- Buy Trader Number, (this should always be LCH1);
- Buy Client Reference (this should be populated with the same reference as in Sell Client Reference);
- Quantity;
- Price;
- Original Transaction Date (this is an optional field).

Please note:

The quantity is the number of lots.

The 'Price' for Tanker Routes is 'the sum of the Worldscale points multiplied by the Worldscale flat rate divided by 100'.

The contract series in the case of timecharter routes, must always be a month (i.e. a calendar trade must be entered as individual months).

2E.12.5 **Trades between Persons who are not ECMs**

Where a trade is an Eligible OTC Freight Product and is executed directly between two parties who are not ECMs or between an ECM and another party,

the trade may be submitted for clearing provided that it is an Eligible OTC Trade and each party to that trade has an ECM who is prepared to “accept” that trade for clearing. In such a case it is the selling ECM or ECM willing to accept that trade for the seller who must notify the trade particulars through the ECS system. Such Eligible OTC Trades will then be submitted to the relevant ECMs via the Trade Processing system for acceptance. If that trade is not accepted by both ECMs it will not be registered and the fate of that trade (i.e. whether it will remain alive as a bi-lateral uncleared trade or be terminated) will depend upon what the trading parties have agreed in the event of non-registration.

Clearing Members should note that unless a trade is accepted through ECS by both ECMs by 18:30 hours for freight forward and iron ore contracts and 17:30 hours for option contracts on the same day that it is notified through ECS it will not be registered and its Trade Particulars will be automatically deleted from ECS.

2E.12.6 **Approved Freight Brokers**

Only brokers who are expressly authorised by the Clearing House may access the ECS system and submit Eligible OTC Trades for registration by the Clearing House.

Rules of the Freight Broker Scheme, which bind each Approved Freight Broker, and a copy of the Agreement to be signed between the Clearing House and the Approved Freight Broker, are available from the Clearing House.

ECMs should, wherever possible, notify the Clearing House in the prescribed form of each Approved Freight Brokers who may submit particulars of Eligible OTC Trades for registration in the name of that ECM.

Where a broker who is not an Approved Freight Broker purports to input particulars of trade into the ECS, that trade will not be registered by the Clearing House and will be rejected by the Clearing House.

PLEASE NOTE: If the two relevant ECMs “accept” an Eligible OTC Trade which has been brokered, within the timeframe laid down by these Procedures, it will be registered by the Clearing House in the names of those ECMs, whether or not those ECMs have appointed or authorized that broker to submit such a trade, and whether or not those ECMs have notified the Clearing House that that broker may submit trades for “acceptance” by them.

In the event that a trade is submitted to the Clearing House for registration by an Authorised Freight Broker, and such trade is “accepted” for registration by that ECM, that ECM shall be bound by an LCH EnClear OTC Contract arising therefrom, notwithstanding that any trade particulars submitted by that Approved Freight Broker in respect of such trade are erroneous or incorrect in any particular. A Clearing Member shall accept full responsibility to the Clearing House for any trade notified to the Clearing House by an Approved Freight Broker.

The Clearing House shall not be liable for an error or omissions on the part of an Approved Freight Broker who inputs a trade into the ECS system and which is registered by the Clearing House.

Approved Freight Brokers do not act as agent for the Clearing House in participating in the services offered by the Clearing House in the Freight Division of the LCH EnClear OTC Services, or at all.

The Clearing House, in adding a broker to the list of Approved Freight Brokers, makes no warrantee or promise regarding the competence, ability, experience or professional skills of any Approved Freight Broker, or at all, notwithstanding that such broker shall have been authorised by the Clearing House to participate in the Freight Division. The authorisation of such brokers as Approved Freight Brokers is carried out by the Clearing House purely to assist ECMs to submit trades to the Clearing House for registration in the names of those ECMs. No check is made regarding the skills, professionalism or competence of those brokers nor is any consideration paid by any such in return for authorization or at all.

2E.12.7 **“Acceptance” of Trades**

When details of an Eligible OTC Trade are input into ECS by an Approved Freight Broker, such trade details will be submitted to the ECM identified in such particulars. The ECM must either signify its acceptance of that trade, or reject that trade, in each case by such means as shall be prescribed by the Clearing House from time to time. If that trade is “accepted” by both ECMs, then that ECM shall be bound by an LCH EnClear OTC contract which subsequently arises between that ECM and the Clearing House.

If a trade is neither accepted nor rejected by close of business in the Freight Division at the end of any business day, the trade shall cease to be eligible for registration in the name of that ECM or any other ECM and that trade will automatically be deleted from the ECS system.

Where details of a trade are input into the ECS system by an ECM seeking to be registered as seller to the Clearing House in an LCH EnClear OTC Contract arising therefrom subsequent to registration, the same obligations regarding acceptance or rejection are applicable to the ECM identified in those particulars as the ECM to be a buyer to the Clearing House in respect of an LCH EnClear OTC Contract arising therefrom subsequent to registration.

“Acceptance” by an ECM of any freight trade submitted through ECS either by an Approved Freight Broker or by another ECM means that the ECM so “accepting” agrees to be bound by an LCH EnClear OTC Contract arising in respect of that freight trade in accordance with the Regulations and these Procedures, and other applicable documentation. Once a trade has been accepted in accordance with the requirements of the Clearing House as notified from time to time to ECMs, the trade may not be withdrawn or recalled or amended.

2E.12.8 **Contra Trades**

Where incorrect details of a trade which have been “accepted” by both ECMs in accordance with the Regulations and these Procedures, the only available method to “correct” that trade will be by the insertion of a contra trade input by the Clearing House into the ECS.

A contra trade will not be required if the trade has a status of “pending”, “pending buyer” or “pending seller” as the trade can be cancelled in the ECS by the ECM or a Freight Broker and input again with correct details.

An “accepted” trade may need to be corrected by a contra trade for the following reasons:

- incorrect price;
- incorrect expiry month;
- incorrect product;
- incorrect lots (only where too many lots have been entered);
- incorrect buyer/seller.

ECMS may request the registration of a contra trade by forwarding a Contra Trade Request completed by a member of staff authorised to request the registration of a contra trade on behalf of an ECM.

Requests should be submitted either by fax to +44 (0)20 7667 7359 or by email to LCHOperations-Commodities@lchclearnet.com. ECMs are requested to forward the Contra Trade Request as early as possible, but no later than 16:00 hours, to the Clearing House Business Operations staff to ensure timely entry of the details to ECS.

The Clearing House Business Operations staff will input all contra trades in to ECS. ECMs will be able to view and “confirm” all Contra Trades on ECS. All Contra Trades entered will appear in ECS as “pending” and it will be the ECM’s responsibility to confirm the trade as appropriate.

Contra Trades are subject to certain guidelines. The Clearing House will deal with requests for contra trades in the following way:

- Contra Trades identified on **trade day or trade day +1** will be entered into ECS at the **original trade price**;
- Contra trades identified **on trade day +2 or trade day + 3** will be entered into ECS at the **previous night’s settlement price**.

Contra Trades will attract normal clearing fees.

2E.12.9 **Position Transfers**

ECMs wishing to effect a position transfer from one ECM to another ECM should submit a written request to the Clearing House Business Operations staff by fax (+44 (0)20 7667 7359). Confirmation of a position transfer is required from both the transferor ECM and the transferee ECM.

ECMs are requested to forward the Position Transfer Request as early as possible, but no later than 16:00 hours, on a business day to ensure timely input of the details to ECS.

Provided that adequate cover is available from both ECMs, the transfer will normally be authorized. Should insufficient cover be available the transfer may not be authorized until additional cover is provided.

2E.12.10 Approved Trade Processing System

The Clearing House Extensible Clearing System (“ECS”), as provided by the Clearing House, will be utilised for the processing of Eligible Trades submitted for clearing. It consists of two separate components - an “Administration System” and “User System”.

2E.12.11 Administration System

The following functions are performed within the Administration System and are available **for the use of the Clearing House only**:

- user set-up and maintenance;
- contract set-up and maintenance;
- account set-up and maintenance;
- opening and Closing of the clearing services;
- settlement price processing;
- margin static data set-up and maintenance;
- position Transfers;
- end of day processing

2E.12.12 User System

The following outlines the functionality which may be available to ECMs and Approved Freight Brokers:

- trade entry;
- presentation of particulars of transactions to the Clearing House for registration;
- allocation and designation of transactions to a position-keeping account;
- settlement (ECM only);
- position-keeping (ECM only);
- position adjustments (ECM only);
- calculation of margin (ECM only).

Any correction to data is performed within the Clearing House ECS and results in the automatic amendment of the matched particulars in the Clearing House. ECS Contract details will be disseminated to ECMs via the Clearing House Member Reporting (private member-only site).

The Clearing House ECS will (as part of end-of-day processing) generate reports, which will be available via the Clearing House Member Reporting (private member-only site).

Banking reports will be available through the channels normally accessed by Members e.g. TRS/CPS or LME Matching and Clearing, member reporting etc.

It is the responsibility of each LCH EnClear OTC Clearing Member to preserve any report required for historic, audit or legal purposes, including, but not limited to, any Margin Reports.

In certain circumstances the Clearing House may enter trades upon request from an ECM, Approved Freight Brokers or other parties. In such circumstances, the Clearing House shall have no liability to the ECM, the Approved Freight Brokers or any other party for any failure to input trades or for inputting trade details incorrectly.

2E.12.13 **Clearing House System Requirements**

An ECM must maintain an acceptable Network connection from a location acceptable to the Clearing House for connecting to the Clearing House ECS.

2E.12.14 **Position-Keeping Accounts**

2E.12.14.1 **Types of Account**

Positions with regard to LCH EnClear OTC Contracts are recorded within the Clearing House ECS in position-keeping accounts. For the avoidance of doubt, these position-keeping accounts in the Clearing House ECS are not "Member accounts" as described in Regulation 5 of the General Regulations.

ECMs may open and utilize position accounts at their discretion. For example an ECM may wish to have a separate account for each customer or have several accounts for one customer.

There is no restriction on the number of individual position accounts an ECM may open. The account reference for each position account within LCH ECS will be a free format alphanumeric code, as prescribed by the ECM.

2E.12.14.2 **Basis of Position-Keeping**

Position Accounts for the Freight Division can be held net or gross, as required by the ECM. ECMs must notify the Clearing House of their requirements in this regard. In default of notification, position accounts will be kept net.

2E.12.14.3 **Position Settlement (Gross Accounts)**

Where the position accounts are each held gross for OTC Freight, the ECM may, if it so wishes, carry out a closeout, by the input of a manual settlement of open positions using the position adjustment facility in the Clearing House ECS.

2E.12.15 Financial Accounts

Position accounts have financial accounts associated with them. These are, inter alia, used to record cash balances, securities/documentary credits and non-realised margin.

Where appropriate, an ECM's financial accounts are identified by a single character code: C for segregated client business; H for house and non-segregated business.

Position accounts will map to either an ECM's C account or H account, as specified by that Member.

2E.12.16 Default Fund (DF) Account

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

2E.12.17 Operating Times**2E.12.17.1 Opening Days**

The Clearing House will publish by Member circular details of the business days on which the LCH EnClear OTC Services is operational to receive Eligible OTC Trades in its Freight Division.

2E.12.17.2 Opening Hours

Eligible OTC Trades in the Freight Division may be notified during the following times: 08:00 to 18:00 hours (London time) for freight forward and iron ore contracts and 08:00 to 17:00 hours (London time) for option contracts. Trades must be "accepted" by the relevant two ECMs by 18:30 hours for freight forward and iron ore contracts and 17:30 hours for option contracts.

Any freight forward or iron ore contract trade which has not been accepted by 18:30 hours and any option contract trade that has not been accepted by 17:30 hours on the day on which particulars of that trade are input into the ECS system, will be deleted from the ECS system automatically. It will cease to be an Eligible OTC Trade and will not be registrable that day. It may, however, be re-submitted on another day.

2E.12.18 Clearing Agreements

Only Clearing Members may have trades cleared in the Freight Division.

Clearing Members seeking approval from the Clearing House to clear Eligible OTC Trades in the Freight Division must submit to the Clearing House a signed Clearing Extension Agreement which can be obtained by contacting the Membership department at the Clearing House on +44 (0)20 7426 7627. Please note that the extension must be printed or typed on headed paper of the Clearing Member, which should include the name, mnemonic and the address of the registered office of the Clearing Member and any further contact details.

If the Clearing Member is a company registered in England and Wales, the Agreement must be signed by two directors of the company or by a director and the company secretary. If it is signed by any person who is not a director or company secretary, or if the Clearing Member is an undertaking other than a company registered in England and Wales, written evidence must be provided of the power of that signatory to bind the Clearing Member to the provisions set out in the application form. Where that written evidence consists of a board resolution, or, in the case of an undertaking which is not a company registered in England and Wales a resolution of some other governing body of that undertaking, the Clearing House requires a certified copy of the minutes of the board meeting in which the resolution was passed. Such certification will normally be carried out by the company secretary or similar officer. Any general form of delegation will only be appropriate if it is sufficiently wide to empower the signatory to commit the Clearing Member to the provisions set out in the application form. It is expected that the signatories, if not officers of the undertaking, will be senior personnel.

Clearing Approval, if granted by the Clearing House through its execution of the Clearing Approval Agreement will be sent to the relevant contact address given in the Agreement – or, if no such address is given, the registered office of the Clearing Member as it appears on the records of the Clearing House.

2E.12.19 **Non Members**

Parties (“Freight Customers”) who are not Clearing Members approved to clear trades in the Freight Division may not participate directly in the Freight Division clearing service. However, any such Freight Customer may enter into agreement with a Clearing Member who has been so approved (on such terms as may be agreed between them) for that ECM to clear that person’s trades for that party. Particulars of such a trade, if it is an Eligible OTC Trade – that is, it meets all the relevant criteria published by the Clearing house from time to time – may be submitted for registration to the Clearing House by the ECM in accordance with the regulations and these Procedures. Providing particulars relating to that trade are “accepted” by two relevant ECMs who each agree, in accordance with the Regulations and these Procedures, to become counterparty to the appropriate LCH EnClear OTC contracts with the Clearing House, a clearing arrangement is entered into. However, there is no relationship between the Clearing House and that Freight Customer and that Freight Customer has no rights against the Clearing House in respect any such LCH EnClear OTC Contract.

2E.12.20 **Rejection**

If the Clearing House does not register a trade presented for registration it will notify the ECMs concerned within a reasonable time, indicating the reasons for rejection.

2E.12.21 **Notification**

All contracts (“LCH EnClear OTC Contracts”) arising from registered Eligible OTC Trades are listed on the Clearing Members Margin Report available through the Clearing House’s Member reporting Extranet site.

2E.12.22 Settlement of LCH EnClear OTC Contracts registered through the Freight Division

All LCH EnClear OTC Contracts arising from Eligible OTC Trades in the Freight Division are subject to cash settlement unless closed out prior to expiry of the relevant contract series. No physical settlement is permissible.

2E.12.23 Reference Prices for Daily Settlement and Marking to Market

The Clearing House will use a variety of data from market participants, price reporting agencies and brokers for the purposes of producing reference prices each Business Day for daily settlement purposes and for the final settlement price. See Part B of the Schedule to the LCH EnClear Regulations for details of the Reference Price for each eligible freight product listed therein. The Reference Price will be the "Floating Price" for the purposes of the Contract Terms (see the Schedule to LCH EnClear OTC Regulations).