

## NGX Compliance Notice 2012-01

May 7, 2012

To: All NGX Customers

Re: CFTC Derivatives Clearing Organization General Provisions and Core Principles – Final Rule

### Background

The Commodity Futures Trading Commission (“CFTC”) on November 8, 2011 adopted final rules relating to risk management requirements for Derivatives Clearing Organizations (“DCO”). Certain of these rules have required changes to NGX’s internal processes and participant rules. Compliance with certain of these rules is required by May 7, 2012. The following is a summary of those new DCO rules that affect NGX and NGX’s response to each.

### Risk Management Policy

In compliance with CFTC Rule 39.13(h)(5), NGX has amended Schedule C to the NGX Contracting Party’s Agreement (“CPA”) to require a participant that qualifies either as a swap dealer or a major swap participant under the Commodity Exchange Act (United States) to have in place a current written risk management policy.

### Risk Limits

In compliance with CFTC Rule 39.13(h)(1)(i), NGX has amended Schedule C to the CPA to allow NGX to impose risk limits on each participant. Risk limits shall be set at two times the net worth (as determined by NGX in its sole discretion) of each participant.

### Liquidity Requirement

CFTC Rule 39.11(a)(1) requires a DCO to maintain sufficient financial resources to meet its financial obligations to its clearing members notwithstanding a default by its largest participant in extreme but plausible market conditions. CFTC Rule 39.11(a)(2) requires the DCO to maintain sufficient financial resources to cover its operating costs for at least one year. NGX has ensured that it currently has, and will maintain sufficient financial resources to comply with the rule.

### Letters of Credit

CFTC Rule 39.13(g)(10) prohibits a DCO from accepting letters of credit as initial margin for swaps. NGX has requested that the CFTC confirm that it will not recommend an enforcement action be brought under CFTC Rule 39.13(g)(10) against NGX or its

clearing participants if NGX continues to accept letters of credit as initial margin after May 7, 2012. The CFTC has confirmed that it is considering that request, and that NGX will not be required to comply with Rule 39.13(g)(10) until such time as the CFTC has decided whether or not to grant no-action relief.

#### Daily Settlement

CFTC Rule 39.14(b) requires a DCO to effect settlement with its participants at least once each business day, and on an intraday basis under certain circumstances. NGX has petitioned the Commission for an order permitting NGX to continue providing for settlement of variation adjustments to collateral using an accrual, rather than a daily payment and collection, methodology. The CFTC has informed NGX that it is considering that petition, NGX will not be required to comply with this rule pending the CFTC's determination on the order requested by NGX.

#### Large Trader Reporting

On December 16, 2011, NGX advised that the CFTC had granted NGX's no-action request, which relieved NGX's participants from the obligation to report cleared and uncleared transactions in NGX products that are subject to large trader reporting requirements on the condition that NGX reports such cleared transactions on its participant's behalf. On Thursday, March 22, 2012, the CFTC issued a letter to market participants providing temporary and conditional no-action relief for less than fully compliant reporting under the CFTC's large trader reporting system. This relief extends to July 2, 2012.