



## **OSLO CLEARING ASA**

# **CENTRAL COUNTERPART**

## **Equity CCP**

## **Service Description**

**Version 1.1**  
**2010-03-30**

# Service Description

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This Service Description is intended to provide the clearing members with an overview of the equity clearing services provided by Oslo Clearing ASA (“Oslo Clearing”). The Service Description shall be used for explanatory purposes only and is not a legal document. The legal rights and obligations between Oslo Clearing and its clearing members are solely governed by the clearing membership agreement, other ancillary agreements, and the General Terms for Clearing of Trades Equity Market Instruments (the “Clearing Rules”). Should this document in any way contradict with the terms of the Clearing Rules, the clearing member shall comply with the Clearing Rules. This document must not be reproduced or distributed in whole or in part without the prior consent of Oslo Clearing. Oslo Clearing reserves the right to make changes in this document without any obligation to inform the clearing members of such changes.

## 1 INTRODUCTION

### 1.1 Oslo Clearing ASA

Oslo Clearing ASA ("Oslo Clearing") is a central counterparty authorised as a clearing house pursuant to chapter 13 of the Securities Trading Act. The company operates as a central counterparty for equity instruments, standardised financial derivatives listed and traded on Oslo Børs, tailor made derivatives and for securities lending products.

Oslo Clearing has extensive experience from providing efficient multilateral clearing services for the securities market and its members. The clearing systems of Oslo Clearing are broadly set up in accordance with European market standards, however, also taking local Norwegian market practice in consideration. The clearing systems provides for transaction netting, so as to reduce the transaction costs of the clearing member. Additionally Oslo Clearing focuses on providing services that gives the customer a wide range of choices to comply with the needs for flexibility of each Clearing Member, as well as to provide easy to use and exhaustive reporting and messaging services based on the principles of straight-through-processing (STP).

Oslo Clearing is a public limited company, owned by Oslo Børs VPS Holding ASA, and subject to supervision by the Financial Supervisory Authority of Norway ("Finanstilsynet").

### 1.2 What is a CCP?

A central counterparty ("CCP") takes on the role as the buyer versus the seller and the role as seller versus the buyer, hence replacing the original parties to the trading transaction. The primary functions of a CCP are therefore to:

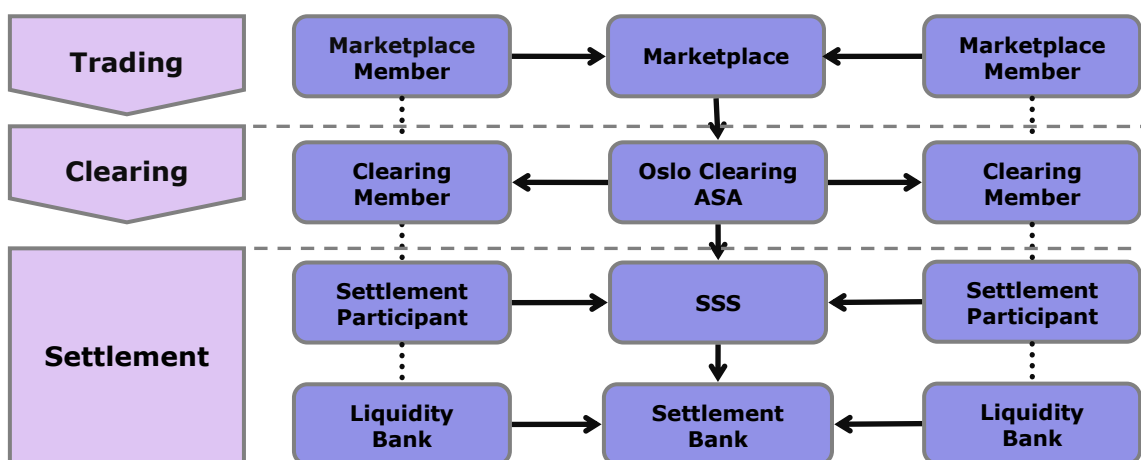
- eliminate the bilateral relationship between the original parties, and in doing so to remove each party's counterparty risk for correct settlement towards the other party,
- simplify the settlement process, including the establishment of netting arrangements, and thereby reducing the volumes and costs associated with settlement, and
- facilitate for post-trade anonymity.

Most of the established securities marketplaces in Europe use a CCP for clearing of equity instruments in their market, or are in the process of establishing a CCP structure. Oslo Clearing has been appointed as a central counterparty for equities, equity certificates and units in exchange traded funds that are listed and traded on Oslo Børs.

## 2 BUSINESS MODEL

### 2.1 Participants and their roles in cleared settlement of Norwegian equities

Illustration 1: Participants and roles



### 2.2 Marketplaces

Oslo Clearing offers clearing of trades that are matched in the trading systems of Oslo Børs and Oslo Axess. According to the trading rules of Oslo Børs and Oslo Axess, CCP clearing of trades is mandatory for Equity Market Instruments.

The clearing service extends to all equities, equity certificates and exchange traded funds traded on Oslo Børs and Oslo Axess.

### 2.3 Marketplace members

One of the membership requirements of Oslo Børs and Oslo Axess is that the marketplace members shall arrange for their trades to be cleared. Clearing arrangement may be established by the marketplace member in the capacity of also being a direct clearing member of Oslo Clearing, Direct Clearing Member ("DCM"), or by entering into an agreement with a General Clearing Member ("GCM"). In the latter case the marketplace member's trades will be cleared through the GCM. In this case, the GCM is responsible towards Oslo Clearing for the trades as if they were the GCM's own transactions.

## 2.4 Clearing Members

Institutions that satisfy the membership criteria of Oslo Clearing may choose to be either:

- Direct Clearing Member ("DCM") or
- General Clearing Member ("GCM").

All clearing member shall enter into a clearing membership agreement with Oslo Clearing.

As a DCM, the member is responsible to Oslo Clearing for clearing of the trades the member has carried out in the marketplace on its own account and/or on account of its customers.

A GCM may in addition take on the responsibility for clearing of trades carried out by marketplace members that are not clearing members. The latter mentioned parties are referred to as Non Clearing Members ("NCM"). There is no legal agreement or relationship between an NCM and Oslo Clearing.

**Table 1:** Overview – DCM, GCM and NCM

Member type	Marketplace member	Clearing Member	Description
DCM	Yes	Yes	Clears own business (client and house)
GCM	Yes or no (not a prerequisite for a GCM)	Yes	Clears own business (client and house) and/or on behalf of other marketplace members
NCM	Yes	No	Clears through GCM

## 2.5 Settlement

### 2.5.1 Settlement of Norwegian Equity Market Instruments

All equities, equity certificates and exchange traded fund units traded on Oslo Børs or Oslo Axess are registered in the Norwegian CSD ("VPS"). Settlement of transactions in these financial instruments takes place in the securities settlement system operated by VPS ("VPO").

VPS carries out settlement both in terms of delivery of financial instruments ("securities settlement") and payments ("cash settlement"). Securities settlement is registered on the settlement participant's account with VPS. Cash settlement in Norwegian kroner ("NOK") is calculated by VPS and submitted to the central bank of Norway ("Norges Bank") for entry on the settlement account of the liquidity bank ("Liquidity Bank") that the settlement participant uses for cash settlement in Norges Bank, acting as the settlement bank for VPO.

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All settlement transactions carried out between Oslo Clearing and its counterparties are settled in VPO as “delivery versus payment” (“DvP”) or “receive versus payment” (“RvP”) transactions.

## **2.5.2 Settlement Participants**

A settlement participant is a party that has entered into an agreement with VPS to participate in the Securities Settlement System, VPO, in order to settle trades carried out on its own account and/or trades carried out by other parties (“Settlement Participant”). Oslo Clearing will be a Settlement Participant in VPO.

A Clearing Member may choose to be a Settlement Participant in VPO itself, or arrange to have its clearing transactions settled in VPO via a third (“Settlement Agent”). The Settlement Agent must sign and provide a mandate to Oslo Clearing in respect of the settlements it will carry out on behalf of a Clearing Member, authorising Oslo Clearing to effect cancellations of VPO transactions on its behalf.

## **2.5.3 Norges Bank**

Norges Bank is the settlement bank for VPO and carries out the cash settlement between the Liquidity Banks used by Clearing Members in accordance with the cash settlement instructions produced by VPO.

## **2.5.4 Liquidity Banks in VPO**

A Settlement Participant in VPO must have access to a settlement account in Norges Bank on which the Settlement Participant shall make available the cash liquidity needed to carry out settlement in VPO. The banks that have such an account are referred to as Liquidity Banks for VPO.

Settlement Participants that are banks may act as the Liquidity Bank for their own cash settlements provided that they are authorised as such by Norges Bank. Other Settlement Participants must enter into an agreement with a Liquidity Bank to carry out settlement in Norges Bank.

## **2.6 Account structure in the clearing system**

Each Clearing Member is furnished with a standard account structure in the clearing system. The standard account structure comprises five different account types: Trading Account, Clearing Account, Margin Account, Service Collateral Account and a Service Margin Account, the latter on optional basis.

Trading accounts are linked to the member id in the trading systems of Oslo Børs and Oslo Axess. All transactions, including gross clearing transactions (trades), net clearing transactions (settlement transactions) and clearing positions due to such transactions are registered on the Clearing Account. The margin requirements due to open clearing positions registered on Clearing Accounts are calculated on the associated Margin Account. A Clearing Account may be linked only to one Margin Account. A Margin Account

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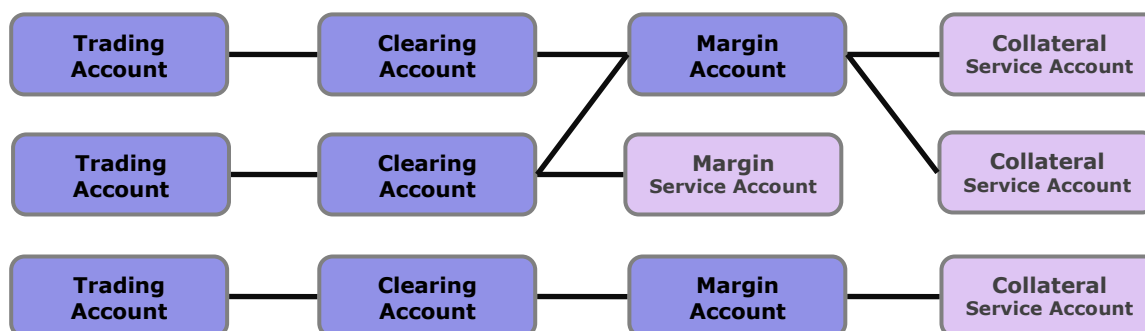
may however be linked to several Clearing Accounts. The latter enable netting of margin requirements for several Clearing Accounts.

The Collateral Service Account mirrors the positions on collateral accounts held by collateral agents to meet margin requirement on the associated Margin Account. A Collateral Account may be linked only to one Margin Account. A Margin Account may however be linked to several Collateral Accounts.

The Margin Service Account is an account used merely for information purposes and facilitates margin calculations on Clearing Accounts specified by the member when the clearing member's general account setup comprises several Clearing Accounts linked to the same Margin Account.

The following chart illustrates the standard account structure described above.

**Illustration 2: Account structure in the clearing system**



Clearing Members may define their own account structure subject to the overall possibilities and restrictions imposed by the account system and the Clearing Rules. This includes the possibility to elect the number of accounts and arranging links between the accounts in such a way that trading, settlement and margin requirements are netted and reported as appropriate for the member's business model.

The account structure also allows for the segregation of Clearing, Margin and linked Collateral Accounts. The structure enables the segregation of the Clearing Member's own and client account trading from specific client accounts, and thereby separating the client's Clearing Transactions and collateral from liabilities relating to non-segregated accounts.

## 2.7 Trade processing

### 2.7.1 Trade capture

All trades that are matched through the trading system of Oslo Børs in Equity Market Instruments will be submitted by Oslo Børs in real-time to Oslo Clearing's clearing system. Oslo Børs will also notify Oslo Clearing of any corrections or cancellations in accordance with its rules.

## **2.7.2 Validation of trades notified for clearing**

All trades received by the clearing system will be subject to validation before they are approved for clearing by Oslo Clearing.

The validation procedure validates that:

- both the party and the counterparty to the trade are authorised to clear via Oslo Clearing,
- the financial instrument is eligible for clearing through Oslo Clearing, and
- the trade includes sufficient information to register and process the transaction in the clearing system, including volume, price, ISIN, etc.

If a trade fails to pass the validation process, Oslo Clearing will inform the relevant marketplace about the rejection and the reason for such rejection, including information of any errors or missing details in the information received by the clearing system about the trade or parties to the trade.

## **2.7.3 Establishing a legal relationship between Oslo Clearing and the Clearing Member**

The legal relationship between Oslo Clearing as the buyer versus the seller or the seller's GCM, and as the seller versus the buyer or the buyer's GCM, will automatically come into effect at the point of time when the trade is registered on the member's Clearing Account. Upon registration in the clearing system the trade is referred to as a Gross Clearing Transaction.

Oslo Clearing will not take a one-sided position for its own account as a result of the validation process or the entering into of a Clearing Transaction.

## **2.7.4 Confirmation of Trades notified for clearing**

Provided that the Clearing Member has subscribed to receive such confirmation, Oslo Clearing will send a clearing confirmation for each trade immediately after the trade has been received, successfully validated and registered on the Clearing Member's Clearing Account in the clearing system. Such clearing confirmation will be distributed via MT518 messages further described in section 2.9.2 MT-messages .

## **2.7.5 Netting of Clearing Transactions**

Oslo Clearing will at the end of each business day aggregate and net all Gross Clearing Transactions registered on a Clearing Account during a Clearing Day and create one Net Clearing Transaction per ISIN, currency and settlement date on the respective Clearing Account.

If the netting process results in that a Clearing Member is due to deliver or receive both cash and securities, only cash or securities or neither cash nor securities ("Strange net"), Oslo Clearing will instead aggregate and net buy and sell Gross Clearing Transactions separately and create two Net Clearing Transactions, one DvP and one RvP transaction("Clean net").

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## Illustration 3: Clean and Strange nets

	Stock	Cash
1. Receive stock Versus cash Payment	+	-
2. Delivery stock Versus cash Payment	-	+
3. Receive stock without cash payment	+	0
4. Deliver stock without cash payment	-	0
5. Receive stock with cash payment	+	+
6. Delivery stock with cash payment	-	-
7. Receive cash payment but no stock	0	+
8. Deliver cash payment but no stock	0	-
9. No delivery or payment	0	0

### 2.7.6 Generating settlement instructions

The Net Clearing Transactions created per Clearing Day in accordance with section 2.7.5 over, will be submitted by Oslo Clearing to VPO at the end of each Clearing Day, approximately at 19:30 CET. Settlement instructions registered in VPO will not be changed as a result of new Clearing Transactions registered on the same Clearing Account at a later time.

If buy and sell Gross Clearing Transactions are netted separately as a result of a Strange net and the netting procedure thus results in two settlement instructions for the same member in the same ISIN on the same settlement day, Oslo Clearing will link these instructions when they are registered in VPO. Linking the instructions means that the delivery of securities required by the sales transaction is conditional upon that the Clearing Member receives the same securities from the delivery being part of the buying transaction.

### 2.7.7 Matching of settlement instructions

Oslo Clearing will give its Clearing Members the following two options on how to create and match settlement instructions:

- Oslo Clearing submits matched settlement instructions on behalf of the member to VPO on the basis of a registration mandate granted by the member (or the member's Settlement Agent if applicable), or
- The member will, either acting on its own behalf or through a Settlement Agent, submit its own settlement instructions and thereby match the settlement instructions that Oslo Clearing submits to VPO as its counterparty.

Members that elect to submit settlement instructions themselves must register these instructions within 12:00 CET on the first VPO business day subsequent to the trading day (T+1). Transactions that are not matched for settlement within this timetable will be subject to sanctions in accordance with the Clearing Rules and/or the VPO Rules.

## **2.7.8 Settlement**

The settlement cycle of the Norwegian Market is three business days subsequent to Trade date ("T+3"). VPO has two settlement batches per settlement date. The first one takes place at approximately 06:00 CET and the second at approximately 11:30 CET. Failure to settle within the second settlement batch at T+3 ("S") will be considered a settlement failure.

## **2.8 Failed Delivery**

### **2.8.1 Introduction**

Settlement shall at the outset take place as originally agreed with the Clearing Member. CCP clearing, however, presupposes that the CCP receives the securities from the delivering Clearing Member in order to perform delivery of the securities to the receiving Clearing Member. Consequently should the delivering Clearing Member fail to deliver, the CCP will at the outset fail to deliver towards the receiving Clearing Member. To reduce the risk of failed deliveries, a set of arrangements described in the following are in place.

### **2.8.2 Securities lending**

Participants in VPO may elect to participate in an automated securities lending facility ("Pool") in connection with settlement through VPO. If a member of the Pool has a shortfall of financial instruments, the Pool will, subject to availability, automatically generate a securities loan to the member. This service is offered on a voluntary basis to all members of VPO by VPS.

### **2.8.3 Partial delivery**

In a situation where a cash or financial instruments settlement may only partially be performed, and the shortfall in financial instruments cannot be repaired through a Pool loan, partial delivery will take place in accordance with the VPO Rules.

According to the VPO Rules, a partial delivery is deemed as delivery of a part of the originally matched settlement instruction, and will therefore be carried out without requiring any new matching by the member.

According to the VPO Rules, partial delivery will take place for all cleared transaction and neither Oslo Clearing nor its Clearing Members, will be permitted to prevent a partial delivery initiated by VPO.

### **2.8.4 Deferrals**

In VPO, transactions that are not settled on the originally agreed settlement date will automatically be deferred, in part or in full, to the next VPO settlement.

VPS will notify Oslo Clearing and the Clearing Members of partial deliveries and any deferrals (as well as all successful transactions) after VPO has carried out each of the two settlement batches per settlement day.

## **2.8.5 Buy in rules**

### **Initiation of buy-in procedures**

Buy-in procedures may be initiated by the Clearing Member entitled to receive securities or Oslo Clearing in accordance with the following.

A Clearing Member which has not received full delivery within the 7<sup>th</sup> Clearing day subsequent to the originally agreed settlement date ("S"), may on this day or any Clearing Day thereafter request Oslo Clearing to initiate buy-in in accordance with the rules set out in section 7 of Appendix 7 to the General Terms.

Oslo Clearing may at its own discretion, initiate buy-in under the same procedures in the event that a cleared settlement instruction has been deferred for more than 30 clearing days past S. Oslo Clearing may also initiate buy in prior to this date if extraordinary market conditions or events, or other imperative reason requires it.

### **Buy-in notification**

A request from the Clearing Member to initiate buy in ("Request to initiate buy-in") shall be received by Oslo Clearing within CET 14:00 on the respective Clearing Day ("Buy-in Notification date"). Upon receipt of a Request to initiate buy-in Oslo Clearing will issue a buy-in notification ("Buy-in Notification") to one or several Clearing Members with the oldest delivery obligations for the relevant underlying instruments. The Buy-In Notification shall at the latest be submitted by Oslo Clearing within CET 15:00 on the Buy-in Notification date. The clearing members being subject to a buy in will be selected in accordance with the first-in-first-out (FIFO) principle, starting with the clearing member holding the oldest delivery obligation on the relevant underlying instrument.

At the Buy-In Notification date, Oslo Clearing will cancel any settlement instruction subject to buy-in and reinstruct new corresponding settlement instructions. Transactions being subject to buy-in will be registered to settle against a VPO settlement account designated for settlement of buy-in transactions.

Any remaining parts of a pending settlement instruction not being part of a buy-in shall also be cancelled and reinstructed. The Clearing Members involved in the transactions subject to buy-in are obliged to reinstruct and match the applicable settlement instructions within the opening hours of the relevant settlement system on the Buy-In Notification date.

### **Buy-in execution**

Any Clearing Member being subject to a buy-in may settle the transaction in question by delivering the underlying instruments within the end of the second settlement cycle on the 3<sup>rd</sup> Clearing Day subsequent to the Buy-in Notification date. If the Clearing Member fails to settle in accordance with the above, then Oslo Clearing will cancel the settlement instruction of the defaulting Clearing Member and attempt to execute buy-in transaction for the account and risk of the respective Clearing Member.

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Attempts to execute buy-in will be made if delivery has not been made within the end of the second settlement cycle on the 3<sup>rd</sup> Clearing Day subsequent to the Buy-in Notification date, and additional attempts will be made on the four consecutive Clearing Days.

Settlement, by Oslo Clearing's delivery of the underlying instruments acquired via buy-in and receiving Clearing Member's payment, shall take place no later than the 3<sup>rd</sup> clearing day subsequent to the final Buy-in Execution date. Any costs incurred by Oslo Clearing due to the execution of buy-in transaction and settlement towards the receiving clearing member, including any loss, commissions or other charges, will be passed on to the defaulting Clearing Member.

## **Cash compensation**

If the execution of buy-in as described above turns out to be unsuccessful then Oslo Clearing may settle the unsettled settlement obligation subject to buy-in by a cash compensation settlement, in accordance with the Section 8 in Appendix 7 to the General Terms, crediting the receiving Clearing Member and debiting the defaulting Clearing Member (if such amount is more than zero).

The cash compensation settlement credited the receiving clearing member shall be calculated as the difference between the close price of the underlying instrument on the marketplace on the last buy-in execution date, or if no close price is available, the last quoted ask price (the "Substitution Price") and the original trade price of the Net Clearing Transaction of the receiving Clearing Member, if such price is less than the Substitution Price, multiplied with the number of unsettled Equity Market Instruments.

The cash compensation settlement debited the clearing member failing to deliver will be calculated as the difference between the cash compensation price and the original trade price of the transaction subject to buy-in, if such price is less than the cash compensation price, multiplied with the number of unsettled instruments. The cash compensation price shall be the highest of the original trade price of the defaulting Clearing Member, the original trade price of the receiving Clearing Member and the close price of the underlying instrument on the marketplace on the last buy-in execution date.

### **2.8.6 Cancellations in VPO**

Clearing Members or their Settlement Agents may not without Oslo Clearing' prior consent, unilaterally cancel cleared transactions in VPO where Oslo Clearing is counterparty.

Cancellations may be done by Oslo Clearing in such instances as are described in Appendix 7, hereunder upon execution of a buy in transaction. Cancellation may also take place with effect for the receiving Clearing Member if the Oslo Clearing's delivery obligation is substituted with a cash compensation claim (as further provided for in Appendix 7).

## 2.9 Communication

### 2.9.1 Oslo CCP web application

The Oslo CCP Web Application is an online web interface available via Oslo Clearing website or directly via the URL: <https://www.osloclearing.no/ccp/>. The application provides all relevant clearing information on real time basis, enabling Clearing Members to follow up Gross Clearing Transactions, Net Clearing Transactions with e.g. margin and fee calculations. The application include functionality for downloading Gross and Net Clearing Transactions on various formats supporting Clearing Members internal procedures for reconciliation and reporting.

Log on to the web application will require username and password. This will be provided by Oslo Clearing upon request. A user guide for the application is available at the Oslo Clearing web site.

### 2.9.2 MT-messages

#### General

Oslo Clearing will provide general clearing information to its Clearing Members via standardized messages based on the ISO-15022 format (MT-messages). The service allows Clearing Members to subscribe to one or several of the messages provided.

MT-messages will be distributed via dedicated communication channels making use of Message Queuing ("MQ") or via SWIFT. Clearing members communicating via MQ must setup separate local message queues for communication with Oslo Clearing. Clearing members using SWIFT must be registered and approved to communicate within Oslo Clearing Closed User Group ("CUG"). Further information on how to setup communication towards Oslo Clearing will be provided upon request.

#### MT Messages supported by Oslo Clearing

The message flow based on the ISO 15022 standard comprises both intra- and end-of-day communication.

The following two messages are related to Margin Calculations. MT503 is used when Oslo Clearing is issuing a margin call and the MT506 is used for margin reporting.

#### MT503 Collateral Claim

- Sent from Oslo Clearing when a Margin Call is issued

#### MT506 Collateral and Exposure Statement

- Sent from Oslo Clearing at predefined points in time during a business day. For instance;
  - in the morning after the first settlement cycle in VPS
  - mid-day after the second (last) settlement cycle in VPS.
  - end-of-day after Oslo Clearing is closed for the receiving of gross trades for clearing

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## **Intra day messages**

Oslo Clearing will send MT518 messages, in real time throughout the day as confirmation on trades that are received from the marketplace, successfully validated and registered on a Clearing Account in the clearing system.

### **MT518 Market-Side Securities Trade Confirmation**

- Sent from Oslo Clearing every time a Gross Clearing Transaction is registered in the clearing system

## **End of day messages**

The following four messages will be sent from Oslo Clearing at end-of-day after Oslo Clearing has received the last trade from the marketplace, created Net Clearing Transactions and sent their settlement instruction to VPO. Each message will include transactions either net or gross related to the Clearing Account referred to in the A-block of the message.

### **MT536 Statement of Transaction (EOD Gross Transaction)**

- Includes all Gross Clearing Transactions registered on trading day, except for any cancelations.

### **MT536 Statement of Transactions (EOD Settled Transactions)**

- Includes all Net Clearing Transactions settled in the relevant settlement system on a settlement day.

### **MT537 Statement of Pending Transactions (EOD Net Transactions)**

- Includes all Net Clearing Transactions sent from Oslo Clearing to the relevant settlement system on a settlement day (EOD).

### **MT537 Statement of Pending Transactions (EOD Open Positions)**

Includes all pending Net Clearing Transactions including those sent to VPS the on the applicable settlement day.

## **3 CORPORATE ACTIONS**

The Clearing Members are responsible for the full settlement of all Clearing Transactions as originally agreed, inclusive of any adjustments or entitlements lost due to that a Clearing Transaction was not settled on the originally agreed settlement date and deferred past record date for a corporate event. Oslo Clearing will process such corporate events, pursuant to Section 9 of Appendix 7 to the General Terms.

Oslo Clearing will process elective corporate events (e.g. voluntary offers) and corporate events comprising any option (e.g. distributions with options) taking place after the original settlement date of a settlement transaction and prior to the actual settlement date of the respective transaction, on a best effort basis, pursuant to Oslo Clearing's Procedure for corporate events established in accordance with local market practice.

The procedures carrying the above into effect may include amendment of settlement transactions by cancellation of the original settlement transaction subject to a corporate event and/or registration of a new and/or an additional settlement transaction to ensure that any duties and entitlements is passed over to their rightful recipient.

Oslo Clearing is also entitled to calculate a compensation settlement between Oslo Clearing and its members if it is not possible to amend the original settlement transaction or if such amendment is not considered adequate to carry out proper final settlement.

Any loss or damages incurred by Oslo Clearing as a result of corporate events in deferred settlements, including payment of any compensation settlement is the liability of the defaulting clearing member.

Oslo Clearing will not process corporate events such as voting rights etc. Corporate event entitlement of an intangible nature will be deemed to have no commercial value (and thus not give rise to claim for any compensation settlement by the receiving Clearing Member).

## **4 RISK MANAGEMENT**

### **4.1 Introduction**

Oslo Clearing provides robust risk management in order to secure continuity on the cleared market places and in order to perform its obligations towards non-defaulting Clearing Members in the event of a default. Oslo Clearing has set up a risk model with several layers to mitigate the risk the clearing house is exposed to as a central counterparty.

### **4.2 Risk model**

The risk model of Oslo Clearing consists of five layers. In the event of a material default, Oslo Clearing will proceed to the close-out of the defaulting member's clearing transactions, and realise margin collateral pledged by the defaulting member necessary

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to cover Oslo Clearing's loss; this also includes the Clearing Fund contribution of the defaulting member.

Before applying the remaining Clearing Fund, Oslo Clearing will contribute up to NOK 30 million for Events of Default occurring on the same Clearing Day, however, limited to NOK 60 million in total for all Events of Default within a 30 day period. Any remaining liability upon exhaustion of the Clearing Fund, will be covered by the remaining own funds of Oslo.

#### **Illustration 4:** Defence lines of Oslo Clearing

1. Margin collateral pledged by the defaulting member
2. The defaulting member's contribution to the Clearing Fund
3. A limited proportion of Oslo Clearing's regulatory capital
4. Other joint and several contributions to the Clearing Fund
5. Remaining regulatory capital of Oslo Clearing

## **4.3 Margin**

### **4.3.1 Calculating the Margin Requirement**

Oslo Clearing will require its members to pledge collateral to meet their Margin Requirement. Margins are calculated to cover potential exposures on cleared positions from the time that margin collateral is collected to any default is disclosed and the positions of the clearing member in default liquidated.

Margin Requirements are calculated on the basis of a Clearing Member's Clearing Transactions on its Clearing Accounts and inclusive of applicable collateral from the corresponding Collateral Accounts.

The margin is calculated using a value-at-risk approach, based on a confidence level of 99 pct. The margin is the sum of the initial margin (IM) and the variation margin (VM) . IM is a monetary expression of a portfolio's potential volatility – the IM will always be negative or zero. VM is the liquidation value of a portfolio at current market prices – the VM can be positive, zero or negative. Model parameters such as margin rates and

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correlations are risk based and reviewed regularly. The margin rates and the correlation matrix will be available on the website of Oslo Clearing.

The calculations are carried out in accordance with the member's account structure. The Clearing Member's aggregate margin is calculated based on the aggregate value of the Clearing Member's Margin Accounts. Positive and negative margin values for Margin Accounts are summed, however, so that margin values on segregated Margin Accounts are only summed with values of the Clearing Member's other Margin Accounts if the sum is negative.

The margin for each member is calculated continuously during the Clearing Day, and Clearing Members have access to information related to the margin calculations via the Oslo Clearing web application.

## **4.3.2 Settlement of Margin Requirements**

Margin calls will be available on the Oslo Clearing web application, and clearing members will be informed by mail. Clearing Members may also subscribe to MT messages; MT 503 and MT 506 providing the Clearing Members with margin requirements and margin calculations respectively. A Clearing Member must settle the Margin Requirement by crediting eligible collateral to one or several Collateral Accounts (which is pledged to Oslo Clearing). Failure to settle a Margin Requirement within deadline set by Oslo Clearing is considered a material default in accordance with the Clearing Rules, section 9.1.

## **4.3.3 Daily Margin Requirement**

Each day a Daily Margin Requirement is issued to each Clearing Member. This is issued after the completion of Settlement 1 in VPO (VPO-1), usually between 06:30 and 07:30 CET. The Ordinary Margin Call shall be settled within 11:00 CET the same Clearing Day.

## **4.3.4 Extraordinary Margin Requirements**

Oslo Clearing may issue an Extraordinary Margin Requirement if the collateral provided by a Clearing Member is deemed to be insufficient to cover the risk on the Clearing Member or in other circumstances when considered necessary in view of the prevailing market conditions or for any other imperative reasons. The member will be contacted via telephone and by email in the event of an extraordinary margin requirement. The Clearing Member must settle the Extraordinary Margin Requirement within a minimum of one (1) hour after the time at which Oslo Clearing notifies the Clearing Member, or within such later time limit specified by Oslo Clearing.

## **4.4 Collateral**

### **4.4.1 Introduction**

Clearing Members shall provide collateral to meet their Margin Requirement. Collateral shall be placed on Collateral Accounts pledged in favour of Oslo Clearing, or subject to other mechanism for securing Collateral acceptable to Oslo Clearing.

## 4.4.2 Eligible collateral

Oslo Clearing accepts the following forms of collateral to satisfy the Margin Requirement:

- Financial Instruments held on a Securities Collateral Account, when approved as eligible collateral.
- Cash held on a Cash Collateral Account.
- On-demand Guarantees issued by Credit Institutions approved by Oslo Clearing, in a form approved by Oslo Clearing.

The collateral value is calculated as the market value for each collateral object, with the deduction of a "haircut". Collateral value of an Equity Market Instrument approved for Clearing is included in the margin calculation.

The list of acceptable collateral and haircuts will be available on the website of Oslo Clearing.

## 4.4.3 Institutions accepted for holding collateral

Oslo Clearing will accept the following depository and custodian institutions for holding of collateral:

- VPS for financial instruments registered on a VPS account pledged in favour of Oslo Clearing. Oslo Clearing shall have a registered right to dispose of the account.
- Clearstream for financial instruments registered on a Clearstream-account pledged in favour of Oslo Clearing. Oslo Clearing shall have a registered right to dispose of the account.
- Approved cash collateral banks for cash held on bank accounts pledged in favour of Oslo Clearing. Oslo Clearing shall have a registered right to dispose of the account
- Approved collateral agents for cash held in the name of Oslo Clearing based on transfer of title.

Oslo Clearing has approved Nordea, DnBNOR and Danske Bank as eligible cash collateral banks ("Collateral Banks"). Commercial terms will be negotiated directly between the cash collateral banks and the Clearing Member.

JP Morgan has been approved as collateral agent for cash held in the name of Oslo Clearing, commercial terms will be negotiated by Oslo Clearing and interests will be passed on to the Clearing Member with the deduction of Oslo Clearing's costs related to the administration of the collateral.

Oslo Clearing will accept cash collateral in the following currencies: NOK, EUR, SEK, DKK, GBP and USD.

The Clearing Members may grant Oslo Clearing the right to instruct withdrawal from other accounts within the same bank, in case there are insufficient funds on the Collateral Account.

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Oslo Clearing has approved Clearstream as custodian for holding of collateral in the form of interest rate instruments not registered in VPS. The Clearing Member will use a separate account for this purpose. The account shall be pledged to Oslo Clearing and a right of disposal in favour of Oslo Clearing shall be attached to the account. Oslo Clearing will define which type of interest rate instruments which are eligible as collateral. Clearstream offers a flexible and standardised service for collateral management.

#### **4.4.4 Release of collateral**

Clearing Members are permitted to give instructions in respect of the balance on a cash Collateral Account that is in excess at any time relative to the actual margin. Such instruction shall be made to Oslo Clearing in a standard form available on the website of Oslo Clearing. Subject to approval from Oslo Clearing, Oslo Clearing will release excessive collateral or instruct the collateral agent.

Collateral held in Clearstream or VPS will be released upon instructions made by the account operator, subject to confirmation by Oslo Clearing.

## **4.5 Clearing Fund**

### **4.5.1 Introduction**

Oslo Clearing will establish a Clearing Fund as described in section 4.2 Risk Model. The Clearing Fund will consist of contributions from all Clearing Members.

### **4.5.2 Contributions to the Clearing Fund**

Each Clearing Member's contribution to the Clearing Fund will be recalculated and settled once a month. The Clearing Member shall provide collateral equivalent to an amount being the larger of:

- A 12% of the average value of the initial margin for the Net Clearing Transactions of the Clearing Member over the previous 30 Clearing Days.
- A 12% of the average value of the initial margin for the Net Clearing Transactions of the Clearing Member over the previous 250 Clearing Days.
- NOK 8 million for each DCM and NOK 15 million for each GCM.

The average value set out above is calculated based on those Clearing Days that the Clearing Member had open positions. The fixed percentage is published on the website of Oslo Clearing.

Oslo Clearing will accept contributions to the Clearing Fund in the following forms:

- Cash deposits
- Securities as approved by Oslo Clearing
- On demand Guarantees

The Clearing Member may at any time request the release of collateral in excess of its Clearing Fund Contribution requirement.

## 4.5.3 Use of the Clearing Fund

The Clearing Fund may be applied to cover any losses incurred by Oslo Clearing due to the default by one or more Clearing Members. As described in section 4.2 Risk Model, a loss arising from a default situation will be covered first (1) through realisation of all margin collateral pledged by the defaulting Clearing Member, thereafter (2) by applying the defaulting Clearing Member's contribution to the Clearing Fund, after which (3) Oslo Clearing's own capital, however, limited to NOK 30 million (per Clearing Day and in aggregate no more than 60 million per 30 days' period) will be applied, and, thereafter (4) the other Clearing Member's contributions to the Clearing Fund will be applied proportional to each member's share of the total Clearing Fund.

Non-defaulting Clearing Members will have no liability with regard to another Clearing Member's default other than with regard to their contribution to the Clearing Fund.

## 4.6 Default

### 4.6.1 Introduction

Oslo Clearing will manage defaults by its Clearing Members in accordance with the procedures for defaults as stipulated from time to time in Section 9 of the Clearing Rules.

### 4.6.2 Definition of default

A Clearing Member is deemed to be in default if:

- a) It is in breach of the Clearing Rules
- b) it fails to deliver Equity Market Instruments in a settlement
- c) it fails to pay cash in the settlement
- d) it fails to meet its obligations to provide or release collateral
- e) it no longer satisfies the financial requirements in Section 5.1 or a Relevant Authority withdraws the Clearing Member's authorisation as specified in section 2.2 or gives prior notice of such withdrawal
- f) an order for attachment or seizure, or other equivalent order imposing restrictions, is registered against an account pledged in favour of Oslo Clearing
- g) it enters into negotiations for a voluntary debt settlement, or a compulsory debt settlement, is placed under public administration or similar proceedings or suspends payments
- h) it is in Material Default of the Derivatives Rulebook
- i) it is suspended from one or more Marketplaces
- j) it suspended from one or more Marketplaces or upon
- k) any other circumstances equivalent to those defined above occur for a Clearing Member in any jurisdiction

Breach of c) to h), as well as gross or repeated breaches of a) and b), will be deemed as a material default. An event of default as defined in letter j) is deemed to be a material default if the relevant event is equivalent to an event of default as defined in letters b) to g) above.

### **4.6.3 Measures to be applied in response to default by a Clearing Member**

If a Clearing Member is in default, Oslo Clearing may implement such measures as it considers necessary, including:

- demand additional collateral
- suspend the Clearing Member
- carry out Buy In Transactions
- impose a penalty fee

In the event of a material default, Oslo Clearing may in addition implement the following measures:

- Declare all claims against the Clearing Member to be immediately due and payable.
- Foreclose on any and all collateral provided by the defaulting Clearing Member to discharge claims against the Clearing Member.
- Carry out a close-out as provided for in section 9.4.
- Terminate the Clearing Membership Agreement with immediate effect.
- Collect in the Default Fund Contribution of the Clearing Member as provided for in Appendix 3.

## 5 CLEARING MEMBERSHIP

### 5.1 Clearing Membership requirements

The following entities may apply for Clearing Membership:

- a. Investment firms that are authorised to provide investment services referred to in MiFID as described in the Clearing Rule book
- b. Credit institutions that are authorised to provide investment services referred to in MiFID as described in the Clearing Rule book
- c. Co-operating Clearinghouses
- d. Other entities, including entities similar to those described above that have their head office in states other than the EEA, subject to specific approval by Oslo Clearing

The applicant may apply for either membership as a DCM or a GCM. The requirement concerning the Regulatory Capital will differ based on the type of membership:

- a. A DCM must have Regulatory Capital of at least NOK 40 million, or such stricter regulatory financial requirements applicable for the business activity the DCM is authorised to conduct
- b. A GCM must have Regulatory Capital of at least NOK 500 million or such stricter regulatory financial requirements applicable for the business activity the GCM is authorised to conduct
- c. Oslo Clearing reserves the right to impose other financial requirements in addition to the requirements stipulated in the first and second paragraph

### 5.2 Application for Clearing Membership

An institution that wishes to apply for Clearing Membership must submit an original, fully completed, Clearing Membership application form to Oslo Clearing. The application must be accompanied by two signed originals of the Clearing Membership Agreement and such other documents as Oslo Clearing may require from time to time (see section 5.3 below).

The membership is open to all applicants that satisfy the minimum requirements set out in the Clearing Rules, and further requirements set by Oslo Clearing shall be justifiable and non-discriminatory.

Oslo Clearing will perform an individual assessment of the prospective Clearing Member, based on the elements above to determine which are the inherent counterparty risks, i.e. determine the creditworthiness of the participant.

Oslo Clearing shall inform the applicant of the result of the application process as soon as possible, and in any case, no later than 30 Clearing Days after Oslo Clearing receives the application. If the application does not contain the information required, the time limit will run from the date on which all such information was received.

## 5.3 Documentation

An applicant for Clearing Membership must:

- Provide a certificate of registration
- Signature list for persons signing on behalf of the firm (official certified copy by a lawyer).
- Copies of passports for persons signing on behalf of the firm (official certifies copy by a lawyer)
- List of the 10 largest shareholders, including percentage ownership
- Copy of license from financial authorities (official certified copy by a lawyer)
- Audited financial statements for last full operating year
- Interim financial reports for current year
- The last three capital adequacy reports, as reported to financial authorities
- Up to date organisational chart, including contact details for key employees
- Non-EEA applicants shall upon request provide a legal opinion satisfactory to Oslo Clearing on the validity and enforceability of the Clearing Rules and Clearing Transactions under the laws of the Clearing Member's Home State. Oslo Clearing reserves the right to impose further requirements as to the content of such a legal opinion, and to request similar opinions from EEA applicants. The applicant shall carry the cost of obtaining the legal opinion.

Oslo Clearing will only admit to Clearing Membership such applicants that Oslo Clearing, in its sole discretion, considers fit and proper.

Oslo Clearing reserves the right to impose further requirements or restrictions for Clearing Membership. Such requirements must have justifiable basis and not discriminate against applicants domiciled in other EEA states.

## 6 FEES AND PENALTIES

### 6.1 Introduction

The fee model is a customer choice model, where the Clearing Members may choose between three types of fee models with a fixed monthly element and applicable alternative variable transaction fee elements.

Settlement fee is a fixed transaction fee per netted transaction Oslo Clearing settle towards the Clearing member. The settlement fee apply equal for all fee models.

Further information to the fee model, penalties and procedures related to change of fee model can be found in Appendix 5 Fee and Schedule A to Appendix 5 "Request Form Fee".

### 6.2 Fee model

Clearing Members may each month elect one of the three fee alternatives. Each fee alternative consists of a fixed monthly membership fee. In connection with the fixed monthly membership fee the Clearing Member may elect one of two alternative variable transaction fee models (per transaction or value based). The transactions fees are calculated based on the received Gross Clearing Transactions (trades). In addition a settlement fee will apply for each settlement transaction.

A General Clearing Member may choose different transaction based fees (applicable to the fixed monthly membership fee alternative it has chosen) for its NCMs.

The Clearing Member may elect a new fee model each month. Changes in the fee model must be notified to Oslo Clearing in accordance to the procedures in Appendix 5, at least 3 Clearing Days prior to the last Clearing Day of the month.

The Clearing Fee for a Gross Clearing Transaction originating from a deal where the trading member was both the seller and the buyer shall equal to 50 % of the otherwise applicable Clearing Fee.

### 6.3 Penalties

The penalty model will apply for all failures to deliver securities to Oslo Clearing at the intended settlement date, and is designated in order to be transparent and predictable.

The failed delivery management fee consists of:

- An initial fixed fee of NOK 100 per failed delivery and;

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- A variable fee (average 1 month NIBOR (Norwegian Inter Bank Offered Rate) + 1 % /360 x amount), capped at NOK 4.000,- (approximately €500) per clearing day.

## 6.4 Invoicing

Oslo Clearing will invoice all fees on a monthly basis within the first five (5) Clearing Days after the expiry of the previous calendar month. Payment shall be made within 14 days of the date of the invoice. Upon late payment, default interests of 1 % per month shall accrue.

## 7 AGREEMENTS AND JURISDICTION

### 7.1 Introduction

The Clearing Rules and any actions and omissions taken in connection with it are subject to Norwegian law.

### 7.2 Legal framework

Central counterparty activities (clearing operations) are subject to the Securities Trading Act of 29 June 2007 No. 75 (the "Securities Trading Act"). The specific provisions for clearing operations are set out in Chapter 13 of the Securities Trading Act.

The Securities Trading Act stipulates that clearing operations can only be conducted by a clearing house authorised by the Norwegian Ministry of Finance. Oslo Clearing is authorised to operate as a central counterparty (CCP) for financial derivatives. Oslo Clearing applied to the Financial Supervisory Authority of Norway on 19 June 2009 to extend its licence to include clearing of equity market instruments.

Oslo Clearing is a participant in the securities settlement system operated by VPS (VPO NOK), which is authorised pursuant to Section 4-1 of the Act on payment systems. The Payment Systems Act implements in Norwegian law the provisions of Directive 98/26/EC on Settlement Finality in Payment and Securities Settlement Systems.

Oslo Clearing will require collateral for Margin Requirements and contributions to a Clearing Fund as specified by the Clearing Rules. Collateral may be applied in accordance with the Financial Collateral Agreements to be entered into between each Clearing Member and Oslo Clearing. Such agreements are subject to the provisions of the Financial Collateral Act of 26 March 2004 No. 17, which implements in Norwegian law the Directive 2002/47/EC on Financial Collateral Arrangements.



## **7.3 Clearing Rules and Clearing Membership Agreement**

Oslo Clearing's rules for clearing of trades in equity instruments set out the rights and responsibilities of Clearing Members and Oslo Clearing respectively. The Clearing Rules are made up of the General Terms supplemented by appendices that regulate particular matters and ancillary agreements. Clearing Members accept and adhere to the Clearing Rules by signing the Clearing Membership Agreement described in Section 2.3 of the Rules.

The Clearing Member shall enter into following agreements with Oslo Clearing:

- *Clearing Membership Agreement*
- *Financial Collateral Agreements, and Appendices to Financial Collateral Agreement* respectively for collateral to satisfy the Margin Requirement and the Clearing Fund Contribution
- *Schedule A or B (if applicable the Clearing Member's Settlement Agent) to Appendix 7*

In a addition a GCM shall issue an NCM Declaration (Appendix 8) on behalf of the NCMs for which it shall perform clearing services for.

## 8 APPENDIX 1 – ACCOUNT STRUCTURE EXAMPLES

This Appendix gives examples of possible account structure set ups. The examples show various possibilities of how to set up the Clearing Account, Margin Account and the related Collateral Account(s). In addition to the Collateral Account shown in these examples, all members must also set up Collateral Accounts related to deposits to the Clearing Fund.

If the members choose to set up an account structure which separates between house and client trades, Oslo Clearing will separate between the house and client trades based on the information available in the feed from the market place. This is the only form of trade separation that is possible per market place participant.

### 8.1 DCM

#### 8.1.1 One Clearing Account



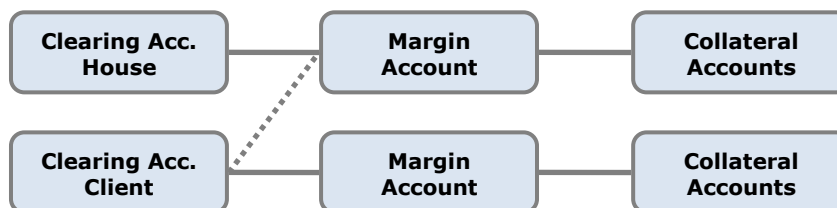
The member may clear all trades through the same clearing account. The member will only need one Margin Account with related Collateral Accounts. This is the simplest form of account setup a member can have.

#### 8.1.2 House and Client Clearing Accounts



The member may choose to clear house and client trades separately, but still utilise the same margin account for both. The member may then set up a Margin Service Account in order to have reports on what margins are calculated with respect to the client transactions.

#### 8.1.3 Segregated House and Client Clearing Accounts



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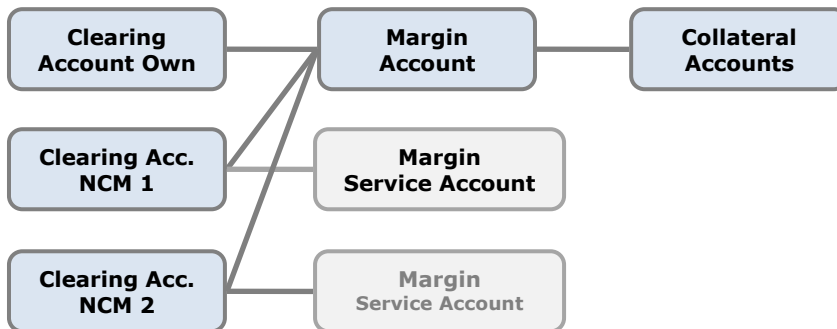
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The member may choose to client trades separately from house trades with segregated margin calculations and Collateral Accounts for the client trades. In this set up excess collateral from the house account may cover margins on the client account, but not vice versa.

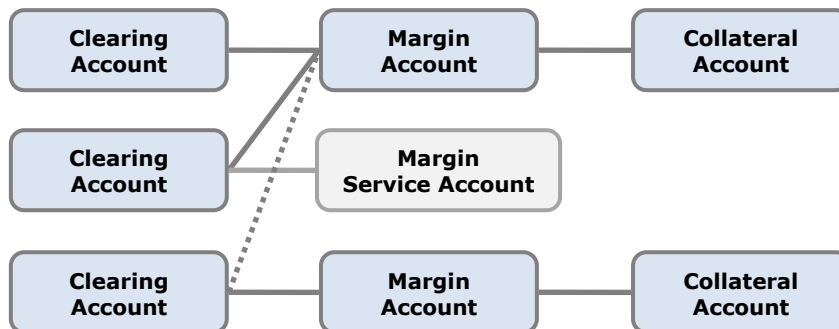
## 8.2 GCM

### 8.2.1 Non-segregated accounts



A GCM may set up one account per NCM and one account for own trades (or one per house/client). The GCM may use the same Margin Account for all trades cleared. The GCM may then set up a Margin Service Account per NCM in order to have reports on what margins are calculated on the NCM transactions.

### 8.2.2 Segregated accounts



A GCM may segregate some (or all) of his NCM accounts. The NCMs will then have the opportunity to have their collateral segregated from the GCM and the other NCMs collateral. The GCM may use excess collateral from his own collateral accounts to cover margins on the segregated NCM accounts, but not vice versa.