

NOS Clearing

ESCB-CESR recommendations
Self assessment as of 30 June 2010

Final version (revision October 2010)

Answers to the key questions of Recommendations for Central Counterparties (CCPs) [Norway]

Responding institution: [NOS Clearing ASA] as [CCP]

Name of the entity assessed: [NOS Clearing ASA]

The information provided in the answers is accurate as of [30.06.2010].

Any enquiries should be sent to [rm@nosclearing.com].

1. INTRODUCTION

This self-assessment is carried out as the annual response to the reporting request of xxx.2009 from Finanstilsynet (The Financial Supervisory Authority of Norway, FSA).

In this document some abbreviations are used:

CCP: Central Counter Party

CSD: Central Securities Depository

C&S: The Clearing and Settlement Department of NOS

DnBNOR (DnB NOR Bank ASA): A Norwegian bank operating as collateral and settlement bank on behalf of NOS.

FSA: The Financial Supervisory Authority of Norway (Finanstilsynet)

ICT: Regulations on the use of information and technology (IKT forskriften av 21.05.2003)

Imarex: Imarex ASA - NOS' parent company

IME: International Maritime Exchange ASA - regulated market place, incorporated in Norway and operating out of Oslo and through a subsidiary in Singapore, listing of commodity derivatives takes place and where clearing with NOS is an option.

LoC: Letter of Credit, issued by qualifying banks

MD: Managing Director of NOS

NOS: NOS Clearing ASA

PLCA: Public Limited Company Act

RM: The Risk Management Department of NOS.

RR: Rulebook

STA: The Norwegian Securities Trading Act

2. BACKGROUND

2.1 History

NOS was established in 1987 as a clearing house for the Norwegian equity derivatives market. Norwegian listed derivatives are traded at the Oslo Stock Exchange, and NOS was the clearing house for this market since its origin in 1990. NOS cleared both listed and OTC equity derivatives, stock borrowing and lending contracts. NOS sold the financial derivatives clearing business to the VPS (the Norwegian CSD) in September 2006.

In November 2001 NOS started offering of clearing services to the international maritime freight derivatives market in cooperation with Imarex. NOS has been offering clearing services to the international bunker fuel oil derivatives market since December 2005.

In September 2006 NOS and Imarex merged ownership, creating the Imarex Group (Imarex ASA). In 2007 NOS introduced clearing for the seafood and energy markets. In 2010 NOS introduced clearing for the UK NBP gas market and the market for Swedish EI-certificates.

2.2 Ownership and Governance

NOS is an independent clearing organisation. The parent company, Imarex ASA, is a Norwegian public limited liability company listed on the Oslo Stock Exchange. According to the Norwegian STA, significant ownership in a clearing house requires eligibility. A list of the 20 largest shareholders in Imarex ASA and the members of the board are shown on www.imarex.com.

NOS has a licence as a clearing house according to the Norwegian STA, and is subject to supervision by the Norwegian FSA which is the public supervisory authority for the Norwegian financial sector.

NOS is a recognized Multilateral Clearing Organization (MCO) by the US Commodity Futures Trading Commission (CFTC).

NOS has a Control Committee appointed by the general meeting of NOS. The Control Committee reports annually to the company's general meeting and the Norwegian FSA. The members of the committee are shown on the company's website.

2.3 Markets

NOS is a clearing house for the global commodity derivatives market.

NOS is clearing derivatives (futures and options) on indices in global freight, fuel oil, seafood and energy products. The clearing model is based on direct clearing membership or clearing through general clearing members (ie. financial institutions representing clients towards NOS).

Cleared freight derivatives are either traded on the International Maritime Exchange (IME) or OTC (i.e. reported for clearing by different brokers). The clearing members are freight industry players such as shipowners, charterers, energy-companies, traders, funds and financials (banks).

Cleared fuel oil derivatives are either traded on the International Maritime Exchange (IME) or OTC (i.e. reported for clearing by different brokers). The clearing members are similar to the freight clearing members.

Cleared seafood derivatives are traded on the Fish Pool exchange and the clearing members are producers, exporters, importers, smokeries and retailers.

Cleared energy derivatives are traded OTC. The clearing members are utilities, industrial consumers, traders and financials (banks).

Ultimo H1 2010 there was 292 clearing members.

There is no mutual responsibility between the members, and there is no mutual clearing fund. To become a clearing member the applicant must post base collateral according to the financial strength of the company and the size of the clearing activities undertaken.

2.4 Capital Base

The Norwegian STA provides a capital requirement, stating that a clearing house shall have sufficient risk capital according to the risk exposure with a minimum of MNOK 50 in liable capital. There are also strict regulations of the investment management of the clearing house capital. NOS is continuously stress testing the open positions and evaluating the required risk capital. NOS has an equity capital of 318 MNOK (as of 30.06.2010). In addition, NOS has established insurance coverage to cover clearing member default. The coverage through insurance is 75 MUSD.

2.5 Collateral and Settlement Account (cash account)

NOS operate a multiple account systems for the handling of segregated collateral and settlement. The primary system is for the USD denominated freight (and fuel) market, where NOS has the largest exposure.

- **USD Collateral and Settlement Account:** An account structure where the cash collateral is being held and all settlements are concluded. The Collateral and Settlement Accounts are held with NOS' settlement bank – DnBNOR, Cayman Islands administered by DnBNOR, New York. The settlement bank undertakes the debit and credit transactions on the clearing members' Collateral and Settlement Accounts. The accounts are segregated accounts in NOS' name where NOS is the account holder and identified as holding the particular clearing member's collateral. The cash deposited by the customer is pledged to NOS. The accounts are regulated by the Appendix 3 to the Rulebook.

The secondary system is for the energy and seafood markets, where NOS' exposure is lower than in the freight market.

- **EUR, GBP, SEK and NOK Collateral and Settlement Account:** An account where the cash collateral is being held and all settlements are concluded. The Collateral and Settlement Account is held with one of NOS' Settlement Banks, allowing the member to choose his own bank. The accounts are in the members own name, and are pledged to NOS.

Due to the above mentioned segregation of credit risk pertaining to the various markets, this document will further on deal with collateral and settlement only where NOS has a significant risk – the USD denominated freight market.

3. OUTLINE OF THIS SELF-ASSESSMENT

This self-assessment follows the structure of the ESCB-CESR document of May 2009. For each recommendation the recommendation and the key questions are displayed, followed by NOS' statements and answers to the questions. The key questions are not answered one by one in sequence, however the statements answers all questions. For each recommendation NOS has categorised our own view of the compliance with the recommendation according to the categories used in the ESCB-CESR document.

4. ANSWERS TO THE KEY QUESTIONS OF THE RECOMMENDATIONS

Recommendation 1: Legal risk

A CCP should have a well founded, transparent and enforceable legal framework for each aspect of its activities in all relevant jurisdictions.

Key questions

- 1. Are the laws and regulations governing the operation of a CCP and the rules, procedures and contractual provisions for its participants clearly stated, internally coherent and readily accessible to participants and the public?*

Norwegian CCPs are regulated by the STA, chapter 13 and regulations given with title in the STA or the Financial Supervision Act. NOS is a licensed clearing house and is subject to supervision by Finanstilsynet, the Financial Supervisory Authority of Norway (FSA). These rules are clear and accessible.

NOS has developed its own Rulebook (RR) with appendices which provide the detailed regulation of the services offered. The RR is publicly available through NOS' website and may also be requested in paper copies. The contractual provisions for the participants follow from the RR and the membership agreements which are part of the RR. The RR becomes binding to the participants through their membership.

Commodity derivatives markets are international markets with clearing members in many jurisdictions including offshore jurisdictions. Mandatory law in their respective home state will apply to the dealings of the respective clearing members and NOS.

It is NOS' opinion that the RR is including the rights and obligations incumbent on the clearing members under the regulatory framework, is consistent, easily accessible and easy understandable for the clearing members and the public.

The RR is a private law document not intended to accommodate for all mandatory laws relevant. The IMX web pages provide information on approved domiciles, i.e. jurisdictions from where members are accepted, and an overview of the regulatory positions of IMX and NOS, however they do not provide the full details of the regulations.

The strength in the centralised trading and clearing model is that these legal matters are the primary responsibility of the market place and clearing house. Consequently, an individual clearing member may in

principle limit his legal analysis of relevant mandatory laws to his home state laws, while NOS is responsible for handling relevant legal matters with respect to the other clearing members and their jurisdictions. Simultaneously this requires attention to such matters within the market place and clearing house.

2. *Does the legal framework demonstrate a high degree of assurance that there is a clear and effective legal basis for:*

- *The CCP to act as counterparty, including the legal basis for novation or open offer or any other legal concept in relation to all cleared products.*
- *The timing of assumption of liability as CCP.*
- *Netting arrangement, acceleration and termination of outstanding obligations*
- *The CCP's interest in collateral (including margin) that a participant pledges or transfers to the CCP and prevents the defeat of such interest by the participant or a third party*
- *Default procedures.*
- *Finality of transfers of funds and financial instruments.*
- *Other significant aspects of the CCP's operations, risk management procedures and related rules vis-à-vis all participants including – if applicable – assets provided by non-clearing participants.*

The CCP to act as counterparty – the timing of assumption of liability as CCP

The clearing of commodity derivatives is organised as a central counterparty clearing.

- An electronic transaction reported to NOS within clearing hours shall be a cleared contract in accordance with the provisions set out for that market, see the RR 4.3.2.
- An electronic transaction reported to NOS outside clearing hours shall be subject to approval by NOS before being confirmed as a cleared contract, see the RR 4.3.3. Confirmation of clearing of such an electronic transaction will be made available by NOS once the transaction is approved and recorded by NOS.
- Clearing of other trades (OTC and bilateral) is subject to approval by NOS before being confirmed as a cleared contract, see the RR 4.4.

Consequently there is a very high degree of assurance with respect to the legal basis for NOS' automatic or possible entry as central counterparty and the time when this takes place.

Netting arrangements

Contractual Netting Arrangements

The RR does arrange for the netting of contracts registered with NOS.

- The registration on the individual clearing account is a net position registration ("contract netting" or "netting by novation") where purchased contracts are netted against sold contracts in the same series and vice versa, cf. the RR Chapter 5.
- Furthermore, the margin requirements in Chapter 6 are calculated for all contracts registered on the clearing account.

- The RR provides for payment netting/settlement netting cf. Section 5.3 onwards. An important aspect in this regard is that most contracts cleared by NOS are cash settled.
- Finally, there are proper contractual mechanisms in place for close-out netting cf. the RR Section 7. Close-out netting implies that NOS may effect Close-Out Contracts (or alternatively perform compulsory settlement without Close-Out trading) in the event of a default by a clearing member. This operation will include a contractual netting by novation where the new contract is netted against an open position (so the contractual balance is reduced or eliminated to zero) where after all monetary claims are due for payment and netted/set off to a single net amount.

The enforceability of close-out netting provisions is an important premise for net security calculation: Without a secure basis for close-out netting for all contracts and claims in the event of default the clearing house cannot practice net margin calculation.

- The RR also contains provisions on set-off of all obligations and claims against the relevant defaulter in connection with any release of cash security.

The effectiveness of the contractual netting provisions in the RR is a matter of English law as the RR is subject to the laws of England and Wales. NOS used a well reputed UK law firm to write the RR and to undertake major revisions. Based on legal advice NOS, is of the opinion that the contractual provisions on netting are enforceable between NOS and the relevant clearing members outside insolvency and bankruptcy proceedings.

Netting upon insolvency – insolvency law matters

A common procedure in international clearing houses is to perform close-out netting in respect of default and insolvency. After commencement of insolvency or bankruptcy proceedings or similar proceedings, any netting/set-off will normally fall within the scope of mandatory laws in the home state of the relevant clearing member.

The important legal matter is whether the relevant home state law provides for netting/set-off also where the clearing member is insolvent and the insolvency estate established, and to secure enforceability for netting effected prior to insolvency.

- Norwegian insolvency law provides for enforceability of written agreements with netting provisions for freight derivatives including close-out netting arrangements, cf. the STA Section 14-3 cf. Section 14-1 (commodity derivatives) and the Financial Collateral Act 2004.
- An EEA directive provides for close-out netting arrangements in financial collateral arrangement cf. the Financial Collateral Directive. This directive does however not include commodity derivatives. Consequently, the enforceability of netting provisions in the event of insolvency is still subject to home state regulation. Please be advised that provisions on automatic close-out netting may be required in certain European jurisdictions.
- NOS has collected legal opinions for a number of jurisdictions where NOS has clearing members. Some of these legal opinions do not properly address netting upon insolvency. NOS has a process to collect relevant legal opinions and amend its close-out netting models to the extent this is relevant in terms of actual positions and trading activity.

The CCP's interest in collateral (including margin) that a clearing member pledges or transfers to the CCP

Generally, NOS is of the opinion that the risk related to the immediate effectiveness of the pledge under the Collateral and Settlement Account Agreement (CSAA) and letters of credit is rather limited. The CSAA provides NOS with effective contractual remedies on a call for payment, as the clearing members' account are sub-accounts in the operating bank with no contractual relationship between the member and the settlement bank. NOS is the account owner and fully authorised vis a vis the settlement bank to dispose of the funds. The bank has no veto while the clearing member is contractually prohibited from issuing instructions to the bank. Similarly, the Letter of Credit (LOC)/on-demand guarantee form is a standard international banking document.

The potential risk is thus not that NOS will not be in position to draw upon the security arrangements for immediate payment, but that defaulting clearing members eventually may later on challenge the draw-down in a court of law, claiming this is invalid under applicable mandatory laws in their home state. The international laws regulating such matters are complicated and even if home state mandatory law should be applicable in its own right, it is not clear that this will have to be applied in proceedings outside the home state and where New York law or English law has been agreed to.

See below for matters on the finality of pledges and finality of payments

Default procedures

As for the default procedures, NOS is of the opinion that the RR provides for swift and effective legal default procedures, most notable close-out trades and enforcement of security document.

Finality of payment – a matter of enforceable security rights

All contracts where NOS takes on significant exposure (the USD denominated freight market) are cash settled through the collateral and settlement accounts established as sub-accounts in the settlement bank. Consequently, the settlement system is an intrabank settlement.

The finality of transfer of payments in the intrabank settlement is a matter of mandatory or non-mandatory background law in relevant jurisdictions:

- Due to the fact that the USD margin account is in a branch of a Norwegian bank, questions have been asked to what extent Norwegian law, New York law, Cayman Island law or clearing member home state laws or combinations thereof will be relevant for the matter of finality in case of insolvency of a member (i.e. whether the settlement bank under certain conditions will be allowed or required to reverse payments that are already effected and notified).
- To the extent there is coverage for a cash settlement in the form of credit balance on collateral and settlement account or a guarantee, a settlement against NOS can be effected independent of the insolvency of a clearing member, and correspondingly no reversal of payment may take place.

| |
|---|
| <p>3. <i>Are the rules, procedures and contracts of the CCP enforceable when a CCP participant, a linked CCP or an interoperable CCP or a participant in a linked or interoperable CCP defaults or become insolvent? Is there a high degree of assurance that actions taken under such rules and procedures may not later be stayed, avoided or reversed?</i></p> |
|---|

We refer to the above discussion regarding netting upon insolvency.

Reversal of pledges effected prior to insolvency

Above we have concluded that the security arrangement with pledged account and letters of credit also provide finality to payments, to the extent the security rights are enforceable upon insolvency. In this respect we note however that insolvency laws in a number of jurisdictions include provisions where after the insolvency estate of a member may challenge transactions effected in a time period prior to insolvency proceedings.

Some jurisdictions include “objective” standards and time frames, i.e. that all payments and new pledges within three months of insolvency proceedings are invalidated, or all pledges and payments following factual insolvency. Alternatively, or additionally, one may find subjective criteria, most relevant the knowledge of insolvency or the fact that the receiver should have known that the pledge or payer was insolvent.

In the EEA area this matter has been regarded as a legal obstacle to well functioning financial markets, leading to the implementation of the Finality Directive and finally the Financial Collateral Directive, see the Norwegian Financial Collateral Act Section 5.

Letters of Credit/on-demand guarantees is in this respect the better instrument as an insolvency estate will not be in position to challenge payments collected from third parties.

4. *Is there a significant level of cross-border participation in the CCP? Has the CCP determined whether there are other jurisdictions relevant for determining the adequacy of the legal framework? Has the legal framework been evaluated for the other relevant jurisdictions? Do laws and rules support the design of any cross-border arrangement and provide adequate protection to both CCPs in the operation of the arrangement? Are there conflicts of law issues and, if so, have they been addressed? Have cross-border collateral arrangements been evaluated?*

There is a significant level of cross-border participation in the derivatives markets. NOS has examined other jurisdictions relevant for determining the adequacy of the legal framework and evaluated its legal framework for the other relevant jurisdictions. NOS collect new legal opinions before accepting members from jurisdictions previously not covered. Clearing activities have disclosed that some relevant questions, i.e. bankruptcy issues, are still challenging to assess. However, the exposure towards members from these jurisdictions is considered low and subject to close monitoring. In addition, the legal framework is taken into consideration when NOS is determining the exposure limit for each member. Thus, NOS may limit the risk towards members from jurisdictions where there is uncertainty regarding certain types of legal issues. Notwithstanding the above, NOS continuously collect and review legal opinions for relevant jurisdictions.

5. *Does national law allow for the CCP to be designated according to the Settlement Finality Directive? If so, have the relevant authorities actually designated the CCP?*

Norway is a member of the EEA having transposed the Settlement Finality Directive.

NOS is a dedicated clearer for the global shipping markets with direct members for several jurisdictions and many from outside the EEA. NOS has evaluate the application procedure and approval mechanism in the Settlement Finality Directive and found this to be less natural having regard to NOS' global client mass. NOS has, however, obtained legal certainty for its clearing arrangements through thorough investigation of local legal regimes. There are in addition special provisions in Norwegian law ensuring that NOS' netting and settlements as a general rule cannot be reversed by Norwegian authorities.

NOS has a sound legal framework and does not offer its services to companies from jurisdictions that may entail significant legal uncertainty or risk or NOS or NOS other members.

6. ***How many jurisdictions govern the proprietary and the contractual aspects of a CCP? Are the applicable laws identical to the law governing the CCP?***

There are three jurisdictions that govern the company and the clearing and settlement business. For the corporate governance the Norwegian laws applies, the RR is under the UK law while the margin accounts in DnB NOR NY branch is under US law.

Assessment of observance
Broadly observed

Recommendation 2: Participation requirements

A CCP should require participants to have sufficient financial resources and robust operational capacity to meet obligations arising from participation in the CCP. A CCP should have procedures in place to monitor that participation requirements are met on an ongoing basis. A CCP's participation requirements should be objective, publicly disclosed, and permit fair and open access.

Key questions

1. *Does the CCP establish requirements for participants' financial resources and creditworthiness? If so, how? What factors are considered (for example, size, clearing for indirect participants products cleared)? Does the CCP assess participants' operational capability? If so, how? What factors are considered (for example, sufficient level of relevant expertise, necessary legal powers and business practices, arrangements to meet payment obligations, risk management policies, staffing, internal audit of risk controls and IT systems)? Does a CCP establish requirements for clearing members to participate in default management processes of OTC derivatives to ensure timely resolution of a large and complex portfolio?*

NOS credit risk policy covers in detail all the questions asked in this section. The minimum capital requirement for members is 1 MUSD, however companies with a licence from and under supervision by the FSA or similar organisation may have lower capital requirement. NOS analyse such issues as owners, history and resources, company structure, size and complexity of the business, and legal matters, as well as operational capability, the size of the organisation, previous experience in trading and risk management and the division of responsibilities (risk management to be independent from trading). Furthermore the liquidity sources and banking arrangements are evaluated. General clearing members, i.e. members who clear trades for clients, are required to be licensed by, and subject to supervision from a relevant public or similar independent authority.

Information from applicant is supplemented by information from independent third parties such as Lloyd's MIU, Infospectrum and Dun & Bradstreet. Based on the aforementioned information the member is assigned an internal classification. The internal classification is again used to establish relevant exposure limits.

There are rules that require members to participate in default management process for certain products.

2. *Does the CCP monitor that participation requirements are met on an ongoing basis? If so, how? Through access to regulatory reports or directly? Are reports sufficiently timely to be useful for monitoring purposes? Under what conditions can the CCP suspend and terminate participants' membership? What arrangements does the system have in place to facilitate the suspension and orderly exit of participants that no longer meet the participation requirements?*

The members are continuously monitored by the RM and the C&S in order to ensure that all day-to-day margin and settlement requirements are met and that the general performance of the member is adequate. With respect to financial and other membership requirements, NOS collects audited financial statements for each member minimum annually, and where applicable or deemed appropriate, not audited interim financials may be requested as well. According to the RR NOS may at any time request the member to submit relevant information as NOS may require. NOS may suspend and terminate the membership if the membership requirements are not met. In addition, NOS may increase the base collateral requirement to compensate (temporarily) for reduced financial strength of the member or to extend the exposure limit for the member. A member that does not comply with the membership requirements may also be declared in default and all default procedures may be executed.

3. *Are participation requirements objective and do they permit fair and open access? Do they limit access on grounds other than risks set out in EU law? Are participation requirements, including arrangements for orderly exit of participants, clearly stated and publicly disclosed?*

Access is not limited for any other grounds than risk. The requirements are objective and permit fair and open access. All participation requirements and arrangements for orderly exit of participants are stated in the RR and the credit primer which are available through NOS website.

Assessment of observance
Observed

Recommendation 3: Measurement and management of credit exposures

A CCP should measure its credit exposures to its participants at least once a day. Through margin requirements, other risk control mechanisms or a combination of both, a CCP should limit its exposures to potential losses from defaults by its participants in normal market conditions so that the operations of the CCP would not be disrupted and non-defaulting participants would not be exposed to losses that they cannot anticipate or control.

Key questions

1. *How frequently does the CCP measure its exposures to its participants? Does the CCP have the capacity to measure exposures intra-day? How timely is the information on prices and positions that is used in these calculations?*

NOS measure its counterparty exposure on a continuous basis. The margin requirement is recalculated in real time following clearing of new trades. Changes in exposure are reported on screen and by automatic e-mail messages. Margin requirements are calculated based on closing prices for the preceding day. Simulation tools can be used to simulate margin and expected settlements based on the latest market prices.

2. *How does the CCP limit its exposures to potential losses from defaults by its participants? Does the CCP use margin requirements and other risk control mechanisms in a way which ensures that closing out any participant's positions would not disrupt the operations of the CCP or expose non-defaulting participants to losses that they cannot anticipate or control?*

Based on the financial- and operational capacity of the member, NOS establishes exposure limits for each member. The exposure limit is expressed as the margin requirement limit less the closing cost of options, i.e. the member may not have positions resulting in exposure for the portfolio to exceed the exposure limit. The exposure limit may, according to the credit policy, be increased if the member posts additional base collateral to cover the increased exposure.

Assessment of observance
Observed

Recommendation 4: Margin requirements

A CCP should to the greatest extent feasible impose margin requirements to limit its credit exposures to participants. These requirements should be sufficient to cover potential exposures that the CCP estimates to occur until the liquidation of the relevant positions. The models and parameters used in setting margin requirements should be risk-based and reviewed regularly.

Key questions

1. *Are margin requirements imposed where feasible? What is the intended coverage of margin requirements? Are they sufficient to cover at least 99 % of the price movements that the CCP estimates to occur in the interval between the last margin collection and the time the CCP estimates it will be able to liquidate the relevant positions? What are these price estimations based on? What is the time interval over which potential price movements are measured? Is the interval consistent with a reasonable assumption about how quickly a defaulting participant's positions could be closed out? How does the CCP validate the models and parameters used to determine the margin levels consistent with the intended coverage? How frequently does it review and validate the models?*

The intended coverage is 99,8% of all estimated price changes over the closing period for the relevant product. The closing period is scaled according to the liquidity of the relevant product. The closing period may vary from 2 to 5 days and shall reflect the estimated time it will take to close positions in the relevant product.

The models and parameters used are validated by the use of back-testing. Breach of margins is monitored and reported in real time. Breaches bring about a reconsideration of the margin level. The review and validation of the models is a continuous process.

2. *Does the CCP have the policy, the authority and operational capacity to demand margin intraday to maintain the desired coverage? Under what circumstances?*

NOS has the authority and operational capacity to demand margin intraday. NOS can decide to collect extraordinary margin according to the provisions in the RR (in general, intraday margin calls are to be used when there is large, unexpected market movements).

3. *What types of assets does the CCP accept as margin? What types are actually held? How frequently are the assets revalued? Are haircuts applied that adequately reflect the potential for declines in asset values between the last revaluation and liquidation?*

NOS accepts bank guarantees and cash as margin. Haircuts are not applied. Bank guarantees are only accepted from minimum A-rated banks approved by NOS.

Assessment of observance

Observed

Recommendation 5: Other Risk Controls

A CCP should maintain sufficient available financial resources to cover potential losses that exceed the losses to be covered by margin requirements. For this purpose, the CCP should develop plausible scenarios and conduct stress tests accordingly. At a minimum, a CCP should be able to withstand a default by the participant to which it has the largest exposure in extreme but plausible market conditions.

Key questions

1. *Does the CCP maintain sufficient financial resources to cover potential residual losses that exceed the losses to be covered by margin requirements? Has the CCP developed scenarios of extreme but plausible market conditions for this purpose and conducted stress tests accordingly? What scenarios are evaluated? Do the scenarios include the most volatile periods that have been experienced by the markets for which the CCP provides services? Does the CCP at least have sufficient resources in the event of default by the participant with the largest exposure? Has the potential for multiple simultaneous defaults been evaluated? Are stress tests performed at least monthly, with a comprehensive reconsideration of models, parameters and scenarios occurring at least annually? Does the CCP have a clear policy on actions to be taken in the event stress testing results indicate resources are not likely to be adequate to meet its obligations resulting from a default? Has it adhered to that policy? Is the policy made available to participants and authorities?*

According to NOS' margin policy, the margin posted by each member towards NOS shall be sufficient to cover possible loss over a realisation period within a probability of 99.8%. The margin parameters for the different instruments are monitored on a continuous basis to make sure that the condition is met.

When stress testing, NOS is analysing the effect on the members' portfolios in market scenarios beyond the 99,8% margin level. In the stress test, margin parameters are adjusted to take into account higher

volatility and reduced liquidity. In general, the most volatile periods within the last 500 trading days are included when assessing? the stress test parameters. However, where applicable, changes in fundamental factors are taken into account, ref extreme but plausible, when setting the stress test parameters.

NOS performs stress tests simulating different market scenarios affecting the different market segments. NOS uses two market scenarios, extreme rise in market prices and extreme fall in market prices. For each portfolio, plausible combinations of different market scenarios for different market segments are evaluated.

In the stress test model, the effect of simultaneous default of the largest member, along with two more, is evaluated.

Stress tests are run on a daily basis, or more frequently if needed. A formal report from the stress tests is delivered monthly to the FSA, the Control Committee and the Board of directors. Comprehensive reconsideration of models, parameters and scenarios is performed on a continuous basis.

The NOS stress test has never indicated a need for increased financial resources.

If such a situation should occur NOS has two approaches available:

- to reduce the risk exposure either through the collection of more margin, reduce time laps between margin calls, limit amount of clearing of specific counterparties or
- to access potential sources for additional clearing capital either by capital paid in or through guarantees or insurance.

2. *What are the types and values of resources that the CCP has available to cover losses from participants' defaults? Is there a high degree of assurance that the CCP will be able to draw on those resources for the anticipated value in the event of a participant's default? How is the use of the resources by the CCP ordered? Do the CCP's rules prohibit them from being used to cover operating losses or losses from other CCP activities?*

Losses from a participants' default will be covered by NOS' equity capital. NOS equity capital is held in the form of bank deposits, the value and availability is secured. The equity capital is 323 MNOK by 30.06.2010. The "own fund" (cf. STA 13-2) was at the same time 323 MNOK as well.

In addition, NOS has an insurance agreement with Swiss Re to cover member default. The total coverage is 75 MUSD.

As NOS is a public limited company, there are no limitations on using NOS equity capital to cover operating losses.

3. *Are any of the resources that the CCP is relying upon to cover losses from defaults not immediately available to meet the CCP's obligations? If so, has the CCP obtained committed credit lines subject only to presentment that allows it to borrow against those assets? If so, can those lines be drawn upon sufficiently quickly to ensure that the CCP can meet its obligations when due? Do the CCP's rules ensure that the resources posted by a defaulter are used prior to other financial resources in covering losses?*

Relative to the capital required as estimated by the stress tests, all resources NOS is relying on are readily available to cover losses from defaults.

Assessment of observance
Observed

Recommendation 6: Default procedures

A CCP's default procedures should be clearly stated, and they should ensure that the CCP can take timely action to contain losses and liquidity pressures and to continue meeting its obligations. Key aspects of the default procedures should be publicly available and tested regularly.

Key questions

1. *Do the CCP's default procedures state clearly what constitutes a default? If a default occurs, do the CCP's default procedures provide it with authority to promptly close out or manage the positions of a defaulting participant and to apply the defaulting participant's collateral or other resources? Do the CCP's procedures, or mechanisms other than those of the CCP, permit the transfer or (as an alternative) liquidation of the positions and margin of customers of the defaulting participant? Do the procedures empower the CCP to draw promptly on any financial resources?*

The RR clearly states what constitutes a default. NOS has the authority to promptly close out or manage the positions of a defaulter at the defaulter's risk and expense. According to the RR, NOS may undertake close out trades or any other trading to eliminate or limit the risk in the defaulters portfolio. The collateral is either cash deposits or guarantees. The cash is readily available. The guarantee banks are obligated to pay the amount demanded by NOS valued same day as the demand. NOS financial resources are cash deposits only.

2. *Does the legal framework provide a high degree of assurance that the decisions to liquidate or transfer a position, to apply margin or to draw down liquidity resources in the event of the insolvency of a participant would not be stayed or reversed? Does national insolvency law permit identification and separate treatment of customer and proprietary assets?*

As to the degree of assurance that the decision to employ default actions will not be reversed or stayed, please refer to answers provided to recommendation 1, key question 2 above.

Cash collateral is deposited in the collateral and settlement accounts which are established for this purpose. Members' deposits are held in dedicated sub accounts for each member. Proprietary assets of NOS are not commingled with assets of members. The participating banks may not set-off any claim towards NOS against the collateral and settlement accounts. Norwegian insolvency law permits identification and separate treatment of customer and proprietary assets.

3. *Has the CCP analysed the effects which its default management procedures may have on the market? Does the CCP's management have internal plans for implementing its default procedures? Does the plan maintain a measure of flexibility for the CCP in deciding how best to implement its default procedures? Does the plan address the need for coordination in cases where more than one CCP, authority or a separate market operator is involved? How frequently is the plan reviewed?*

NOS has not analysed the effect which its default procedures may have on the market, because the procedures are general and any default portfolio may be very different from another. NOS has internal plans for implementing its default procedures. These are integrated as part of the clearing procedures. The plan maintains flexibility for the CCP in deciding how to best implement default procedures. It consists of a set of checklists to cover different types of default and different aspects of default, and notification procedures are integrated. The plan is tested on a regular basis.

4. *Are the key aspects of the default procedures publicly available?*

Key aspects of the default procedures are available as they form parts of the RR published on NOS' website and in NOS' 'Credit primer' – a document describing many aspects of clearing with NOS.

Assessment of observance
Observed

Recommendation 7: Custody and investment risks

A CCP should hold assets in a manner whereby risk of loss or of delay in its access to them is minimised. Assets invested by a CCP should be held in instruments with minimal credit, market and liquidity risks.

Key questions

1. *At what types of entities is collateral held? Does the CCP verify that these entities' procedures and practices conform to Recommendation 12 of the RSSS? If so, how? Does the CCP confirm that its interest in the securities can be enforced and that it can have prompt access to the securities in the event of a participant's default, even if these securities are held in another time zone or jurisdiction? Does it monitor the financial condition of its custodians on an ongoing basis?*

All cash collateral is held on a NOS account in a number of selected banks. Cash is deposited in the members sub accounts. Only NOS can dispose of the member's cash deposits. Collateral not paid in as cash is provided through guarantees from banks approved and monitored by NOS. The guarantee banks will, according to the LoC, pay the amount demanded by NOS valued the same day as they received the demand.

2. *How is cash invested? Are investments secured? What standard does the CCP use to ensure that obligors are highly creditworthy? What standard does the CCP use to ensure that investments have minimal market and liquidity risks? Does the CCP invest its own capital or margin that it intends to use for risk management purposes in its own securities or those of its parent company.*

Cash is held in bank accounts, please see above. Banks are monitored both as issuers of guarantees and deposit holders. NOS does only accept banks with an acceptable rating (minimum A-) to hold cash or provide a bank guarantee. NOS' own funds are generally held as cash deposits in 3 or more Norwegian banks.

3. *Does the CCP consider its overall exposure to an obligor in choosing investments? Are investments limited to avoid concentration of credit risk exposures? How?*

NOS monitors the exposure, as a total, towards any one organisation. In the monitoring process all cash exposure is taken into account, both those held by the customer pledged towards NOS and NOS' own funds. Bank exposure is evaluated regularly based on exposure reports. The fact that cash collateral in the freight market – where NOS has its largest exposure - may only be deposited in one bank, DNB NOR, contributes to concentration of exposures. However, according to the collateral and settlement account agreement (between NOS and the member) the clearing member bears all risk of loss with respect to funds held on the member's behalf in the settlement bank. Hence, NOS is exposed to an indirect risk as the members must replace collateral if the bank fails. To diversify this risk, members may use, and NOS accepts, bank guarantees from approved banks meeting the required rating. Furthermore, in the more recent energy and seafood markets, members may post collateral with other NOS approved banks, which is reducing concentration risk, and will continue to do so when these markets grow in significance relative to the freight market.

Assessment of observance
Observed

Recommendation 8: Operational risk

A CCP should identify sources of operational risk, monitor and regularly assess them. The CCP should minimize these risks through the development of appropriate systems, and effective controls and procedures. Systems and related functions should be (i) reliable and secure, (ii) based on sound technical solutions, (iii) developed and maintained in accordance with proven procedures and (iv) have adequate, scalable capacity. The CCP should have appropriate business continuity and disaster recovery plans that allow for timely recovery of operations and fulfillment of a CCP's obligations. Systems should be subject to frequent and independent audits.

Key questions

1. *Does the CCP have a process for actively identifying, monitoring, assessing and minimising its operational risk, including risks arising from its outsourced operations and its other activities? Are operational risk policies and procedures clearly defined?*

Regulations on clarification of control responsibility, documentation and verification of internal control (internal control regulations) is given with title in the Financial Supervision Act and imposes duty on

routines and procedures for identifying, controlling and handle risk associated to the operations hereunder operational risk. NOS is subject to the internal control regulation and is supervised in this respect by the FSA and the Internal Auditor.

According to the internal control regulation the board shall provide guidelines for the internal control, while the MD is responsible for the documentation of the control, that it is carried out and monitored in an efficient way. At least once a year an overall risk assessment is carried out.

NOS has analysed the different processes carried out in the clearing operations, and identified the inherent operational risks. The risk analysis identifies the different risk aspects facing the clearing house, and the different sources of these risks. This does both cover own and outsourced activities. Any incident that might affect clearing house risk will be recorded in a database both describing the incident itself, the cause and the worst case effect and the seriousness of the matter.

The activities of NOS are also regulated by the "Regulations on the use of information and communication technology (ICT)". The ICT lays down regulations on continuity requirements, disaster recovery plans, outsourcing etc. NOS has a business continuity plan that ensures that critical information is recovered and processing continued on a backup site. The plan is tested periodically. There is no direct interaction between NOS' systems and the systems of participants.

2. *Are there adequate management controls and sufficient (and sufficiently well qualified) personnel to ensure that procedures are implemented appropriately? Are operational reliability issues reviewed regularly by senior management, including review by persons not responsible for the relevant operations? Is there an internal audit function and does it review operational risk controls?*

The management attention is high. The management is well qualified to ensure that procedures are implemented and reviewed appropriately. The internal audit function reviews operational risk controls.

3. *Does the CCP have a business continuity and disaster recovery plan that addresses events posing a significant risk of disrupting operations? Do plans ensure that critical information can be recovered in a timely manner? Do plans allow the CCP to extend operating hours if this ensures safe and complete settlement in a case of emergency? Do plans provide, at a minimum, for the recovery of all transactions at the time of the disruption to allow systems to continue to operate with certainty? Does the business continuity and disaster recovery plan allow for resumption of operations quickly enough so that the CCP can meet its obligations on time? What is the planned resumption time? Does the system operator have a second processing site? Is the business continuity and disaster recovery plan regularly reviewed and tested with participants? Have appropriate adjustments to operations been made based on the results of such exercises?*

In case of delayed processing, operating hours may be extended and alternative procedures may be used. Resumption time varies with the extent of the disruption, with failover at a maximum of twenty minutes. . Please see also last paragraph of question one.

4. *How many times during the last year has a key system failed? What is the most common cause of failures? How long did it take to resume processing? How much transaction data, if any, were lost? How does the CCP ensure the integrity of messages? Does the CCP have capacity plans for key systems and are key systems tested periodically to determine if they can handle stress volume?*

There were no critical stops in key systems last twelve months.

Integrity is ensured by using a messaging system, encrypted and with guaranteed delivery of messages. All messages, both in and out of NOS' systems, are persisted and backed up.

We have continuous follow up on capacity usage and we have a system architecture suitable for determining stress symptoms and expansion of capacity if deemed necessary. No symptoms of capacity problems have been identified.

5. *5. Does the CCP outsource operations? If so, have the relevant authorities been informed? Does the CCP monitor that service providers meet the relevant standards? How? Are appropriate change management procedures in place giving the outsourcing authority the power to require, control and approve changes to the outsourced services?*

NOS has only outsourced the platform operation, i.e. hardware and basis software. Application development, maintenance and operation are in house.

Assessment of observance
Observed

Recommendation 9: Money settlements

A CCP should employ money settlement arrangements that eliminate or strictly limit credit and liquidity risks. If central bank money is not used, steps must be taken to strictly limit cash settlement risks, that is, credit and liquidity risks stemming from the use of banks by a CCP to effect money settlements with its participants. Funds transfers to a CCP should be final when effected and rely on efficient and safe payment systems.

Key questions

1. *Does the CCP use the central bank model or the private settlement bank model?*

NOS has established a private settlement agreement with DnBNOR which operates an intrabank settlement system on behalf of NOS. This, as earlier stated, pertains to the USD, GBP and SEK denominated markets, For NOK denominated seafood market, some client accounts are outside the DnB NOR structure, but still a private model.

2. *Do the CCP's legal agreements with its settlement agents(s) provide that funds transfers to its accounts are final when effected? Do the CCP's regulatory, contractual and legal frameworks clearly define the moment when the CCP's and clearing participants' reciprocal payment obligations are extinguished? Do the laws of the relevant jurisdictions support these provisions? Do the payment systems for the currencies used support intraday finality? Does the CCP routinely confirm that funds transfers have been effected as and when required by those agreements? Is the payment system used by a CCP safe and sound and does it observe the CPSIPS?*

The freight markets involve participants from a number of jurisdictions and NOS is taking into consideration that payments executed after commencement of insolvency proceedings may in principle be reversed by the insolvency estate established in some of these jurisdictions. The settlement agreement with the bank, and the settlement account agreements with the participants are intended to provide finality, as all collateral and settlement accounts are organised as sub-accounts in the name of NOS. The purpose is to secure finality of transfers within the system of collateral and settlement accounts.

Finality is further supported by NOS' pledged security rights in the margin account of each participant. To the extent there is cover for a debit order in the credit balance on a pledged margin account, then a fund transfer to NOS within the system cannot be reversed with negative effect for NOS (as that would simply mean a re-transfer to the account pledged in favour of NOS).

Consequently, any transfer of funds to NOS within the settlement system is final provided the funds paid into the system constitute valid and enforceable collateral, and provided the settlement bank is solvent.

The payment system does support intraday finality as the cash settlement for all accounts is conducted simultaneously once a day.

NOS routinely confirms that funds transfers have been effected. NOS produces an account statement for the member's settlement account after the end of each month. In addition, the member may verify the balance of the account on the daily summary report produced by NOS.

The payment system used by NOS is safe and sound and observes the CPSIPS.

3. *If the private settlement agent model is used, does the CCP establish and monitor strict criteria for the agents used that address their creditworthiness, access to liquidity, and operational reliability? If the private settlement agent model is used, does the CCP actively monitor the concentration of exposures among the settlement agents, and routinely assess its potential losses and liquidity pressures from a settlement agent's failure? If several currencies or assets are used by the CCP to receive and make payments, does the CCP assess the liquidity pressures that may stem from their use?*

NOS performs a strict credit analysis prior to engagement with any settlement agent or client. NOS monitors the settlement agents on a continuous basis. All freight payments are executed in USD. NOS foresees no liquidity issues related to NOS settlements.

4. *Has the CCP defined criteria in terms of creditworthiness, access to liquidity and operational reliability that settlement banks should meet? Does the CCP monitor the concentration of payment flows among the settlement banks and assess its potential losses and liquidity pressure if the settlement bank with the largest share of settlement defaults?*

Ref. above. All members hold cash deposits and LoCs in the settlement bank, and the risk for liquidity pressure is considered non-material.

Assessment of observance
Observed

Recommendation 10: Physical deliveries

A CCP should clearly state its obligations with respect to physical deliveries. The risks from these obligations should be identified and managed.

NOS has physical delivery in only one market, the Swedish EI-cert market. Delivery versus payment is incorporated in the routines and the members are given settlement instructions.

Assessment of observance
Observed

Recommendation 11: Risks in links between CCPs

CCPs that establish links either cross-border or domestically to clear trades should design and operate such links so that they effectively reduce the risks associated with the link. It should evaluate the potential sources of risks that can arise from the linked CCP and from the link itself. It should ensure that the risks are managed prudently on an ongoing basis. There should be a framework for co-operation and co-ordination between the relevant regulators and overseers.

Assessment of observance
Not applicable

Recommendation 12: Efficiency

While maintaining safe and secure operations, CCPs should be cost-effective in meeting the requirements of participants.

Key questions

1. *Does the CCP have in place procedures to control costs (for example, by benchmarking its costs and charges against other CCPs that provide a similar service and by analysing the reasons for significant differences)? Does the CCP have in place procedures to regularly review its pricing levels against its costs of operation? Does the CCP have in place procedures to review its pricing levels against those of other CCPs providing for comparable services?*

NOS is a public limited company which objective is to provide return on shareholders' capital. The clearing takes place in a competitive market and the cost of clearing is compared by NOS, as well as by our members, with those of competitors. Furthermore, banks may offer services in competition with NOS' clearing services.

The price level is reviewed when found appropriate.

2. *Does the CCP regularly review its service levels (for example, by surveying its participants)? Does the CCP have in place procedures to regularly review operational reliability, including its capacity levels against projected demand?*

Conducting business in a competitive environment, NOS is continuously reviewing its service level, operational reliability and capacity.

Assessment of observance
Observed

Recommendation 13: Governance

Governance arrangements for a CCP should be clear and transparent to fulfil public interest requirements and to support the objectives of owners and relevant participants. In particular, they should promote the effectiveness of a CCP's risk management procedures.

Key questions

1. *What are the governance arrangements for the CCP? What information is publicly available about the CCP, its ownership and its board and management structure?*

As a public limited company, NOS is governed through the Norwegian Public Limited Companies Act (PLCA). The PLCA and the STA impose requirements to the clearing house's governance. STA Chapter 13 sets requirements regarding the board (consisting of at least 5 members), the "person who effectively directs clearing operations", the control committee (consisting of at least 3 members), a suitability clause for substantial owners of NOS. As an institution subject to supervision by the FSA, NOS is also regulated by provisions given by the FSA, most importantly the internal control regulation and the ICT.

FSA has also given regulations regarding the control committee, and internal control imposing among others the requirement of appointing an internal auditor.

The owners take part in the decision process through the rules governing public limited companies. Through the general meeting the shareholders do exercise the highest authority of the company (PLCA Section 5-1). The members of the board are elected by the general meeting. The STA section 13-1 requires that board members, MD and others who direct clearing operations have relevant qualifications and work experience and be of good repute. In addition, shareholders with a substantial holding in the clearing house have to be deemed fit to ensure sound and prudent management of the clearing house.

Laws and regulations covering the clearing house are available through the FSA website. Information regarding NOS, NOS' Board of directors, control committee and management is available on NOS' website.

2. *Is there a clear separation in the reporting lines between risk management and other operations of the CCP? How is this separation achieved? Is there an independent risk management committee?*

Risk Management is a separate department of the clearing house independent from sales and clearing services. The Risk Manager reports directly to the MD. There is no Risk management committee at NOS, but the Control Committee of NOS has an oversight responsibility.

3. *What steps are taken to ensure that management and the board have the adequate skills and incentives to achieve the CCP's objectives of delivering sound and effective services and to meet related public interest requirements? What are the mechanisms the board has in place to ensure that the objectives include delivering sound risk management and meeting related public interest requirements? How is management and the board made accountable for their performance? How is the composition of the board determined? Are there mechanisms to ensure that the board contains suitable expertise and takes account of all relevant interests? Are reporting lines between management and the board clear and direct? Is the board responsible for selecting, evaluating and if necessary, removing senior management? Does the Board include independent board members? Are there participants committees and are their decisions and suggestions adequately reported to the Board?*

Regarding ensuring the adequate skills and incentives please refer to answer under key question 1 above. The board members are elected by the general meeting. The board is responsible for appointing the MD, and thereby responsible for the evaluation and if necessary removal. The reporting lines between the Board and the MD are clear and direct. All other staff engagement is the responsibility of the MD. The Board has one independent Board member. There is no participant committee.

4. *Are the CCP's objectives, those responsible for meeting them and the extent to which they have been met disclosed to owners, relevant market participants, and public authorities? What are they?*

NOS is a public limited company adhering to the reporting requirements stated for such organisations. All press releases, annual reports and interim reports are published on NOS' web-site.

5. *Do the governance arrangements enable identification of possible conflicts of interest? Are the categories of conflicts of interest peculiar to the CCP described and what are they? Once a conflict of interest has been identified, what kind of resolution procedure is to be applied? Has that procedure been already used, in what circumstances, and has it proven efficient?*

The 'Rules of procedures' for the Board and the regulations governs the handling of conflicts of interest. Conflict of interest is very rare and has not been handled for long time,

Assessment of observance
Observed

Recommendation 14: Transparency

A CCP should provide market participants with sufficient information for them to identify and evaluate accurately the risks and costs associated with using its services.

Key questions

1. *Does the CCP disclose to market participants its rules and regulations, relevant laws, governance procedures, risks, steps taken to mitigate risks, the rights and obligations of participants and the costs of using the CCP services? Does the CCP make clear when and in what circumstances it assumes counterparty exposure and any restriction or limitations on its fulfilment of its obligations? Does the CCP disclose appropriate quantitative information on its clearing, netting and settlement activities? Does the CCP provide market participants with sufficient information on default procedures and stress testing? Does the CCP disclose information on the main statistics and, where relevant, the latest audited balance sheet of the CCP? Does the CCP publicly and clearly disclose its risk exposure policy and risk management methodology as dined under Recommendations 1-11? Does the CCP disclose the way in which it determines prices and therefore its exposure vis-à-vis its participants?*

NOS publishes information on the organisation of the clearing house, the board members, the control committee members and shareholders, etc. on its website. Rules and Regulations are also published there, as well as fee lists which are appendices to the RR. The RR states when the clearing house assumes counterparty exposure as well as restrictions and limitations on its fulfilment of obligations. Quantitative information on NOS' clearing is published on the website in connection with the quarterly results, while members get such information daily. Unaudited financial information is published quarterly. Audited financial information is available from the public register. The information of default procedures are covered by the RR. In addition, NOS publishes different publications available to members and the public explaining the NOS clearing model.

2. *How is information made available? Is the information available through the internet? In what language or languages? In what form?*

Information is made available through the website or in reports published to members. All information is in English.

3. *Has the CCP completed and disclosed the answers to the key questions set out in this report? Are there regular reviews to ensure that the information contained in the disclosures remains current, complete and accurate?*

This document represents the answers to the key questions in this report. NOS will decide on what form the content of this report will be made available on the NOS' website. This information will be regularly reviewed, and particularly in connection with major changes such as new releases, etc.

Assessment of observance

Broadly observed

Recommendation 15: Regulation, supervision and oversight

A CCP should be subject to transparent, effective and consistent regulation, supervision and oversight. In both a national and a cross borders context, central banks and securities regulators should cooperate with each other and with other relevant authorities regarding the CCP. Such cooperation should also ensure a consistent implementation of the recommendations.

Key questions

1. *How is the CCP regulated/supervised/overseen? Describe the laws that authorise and govern the CCP's operation, the applicable regulatory bodies and their respective authority for the CCP's operation. Do the securities regulator and central bank have sufficient legal capacity and resources (including experienced staff and funding) to carry out effective regulation and oversight?*

NOS is regulated by the STA and is subject to supervision by the Norwegian FSA. The FSA and all organisations subject to supervision by it are regulated through the Financial Supervision Act. This act regulates the obligations of the FSA as well as the obligations of those institutions regulated by the FSA. The Central Bank's role in supervision is with respect to issues relevant for financial stability and operation of settlement systems in the domestic currency Norwegian "kroner" – NOK.

The FSA is a governmental body organisationally reporting to the Ministry of Finance. Their duties are fully paid for by all institutions under supervision. The scale of its staff and operations is given by the Ministry of Finance.

2. *Are the objectives, responsibilities and main policies of the securities regulator, central bank clearly defined and publicly disclosed? Are the regulations, roles and policies written in plain language so that they may be fully understood by CCPs and their participants?*

The FSA publishes information regarding their work and basis for its operations on its website. The regulations, roles and policies are in plain language so that they may be fully understood by the CCPs and their Norwegian participants. The main acts are translated to English, and most of the central provisions, but there are limitations to information published in English.

3. *Are there different forms of cooperation in place amongst relevant authorities, both nationally and across borders in order to ensure consistent implementation of the Recommendations?*

There is a formal cooperation agreement between the Central Bank and FSA regarding the supervision of payment- and settlement systems. The FSA has entered into coordination agreements with a number of foreign supervisory authorities in the financial sector. These agreements make it possible for the supervisors to exchange information gathered in their supervisory work, provided that the information requested is for supervisory causes.

4. *What information is the CCP required to provide, including information on operations that have been outsourced? How frequently is this information provided? Are there specific information requirements for participants' defaults and CCP financial difficulties? Is the CCP required to report significant events, such as rule changes, outages and changes in risk management procedures?*

NOS is required to provide financial reports and exposure reports on a quarterly basis. In addition, any event that may influence NOS' capital substantially in a negative direction shall be reported to the FSA.

Such reporting shall take place at an early stage, and the FSA shall be kept informed of the development. The FSA undertakes on-site inspections on a regular basis. NOS is required to report significant events, such as offering of clearing services to new markets. Rule changes are publicised. However, NOS is obliged to have a Control Committee which reports to the FSA on a regular basis, and is obliged to report any major events affecting the risk of the clearing house.

5. *Do the relevant authorities co-operate with each other both nationally and across border in order to ensure that each relevant authority is able to discharge its respective duty? Do the home country authorities consult other authorities that may claim a special interest? Are there unresolved differences in the assessment of the home country authorities and that of other authorities that may claim a special interest? Do the relevant authorities experience limitations to access the information and data deemed necessary to exercise their tasks? Do relevant authorities have contact channels and processes in place to ensure continuity of communication?*

As seen from NOS, it seems that the relevant authorities co-operate well. Currently there are no issues related to access to information or questions related to foreign authorities.

Assessment of observance
Observed

5. ASSESSMENT MADE BY NOS

| Assessment category | Recommendations |
|---------------------|------------------------------------|
| Observed | 2, 3, 4, 5, 6, 7, 8, 9, 12, 13, 15 |
| Broadly observed | 1, 14 |
| Partially observed | |
| Non-observed | |
| Not applicable | 10, 11 |
| Not assessed | |

6. ACTION POINTS

| | |
|------------------|---|
| 14. Transparency | <ul style="list-style-type: none"> NOS will publish the CESR-ESCB self-assessment report, or an abstract of it, on our website which will make more information easily accessible. General review of documents describing clearing in NOS |
|------------------|---|

7. GLOSSARY AND LINKS

| | Links |
|--|--|
| Central Bank of Norway | www.norges-bank.no |
| Commodity Futures Trading Commission of USA, (CFTC) <i>has recognised NOS as a Multilateral Clearing Organisation (MCO) allowing USA members to clear through NOS.</i> | www.cftc.gov/ |
| DnBNOR (DnB NOR Bank ASA): <i>A Norwegian bank operating as collateral and settlement bank on behalf of NOS.</i> | www.dnbnor.com |
| Imarex ASA, <i>parent company of NOS. Public limited company listed on the Oslo Stock Exchange.</i> | www.imarex.com |
| International Maritime Exchange, <i>Authorised Market Place for commodity derivatives owned by Imarex NOS ASA.</i> | www.exchange.imarex.com |
| Finanstilsynet, <i>The Financial Supervisory Authority of Norway</i> | www.finanstilsynet.no |
| RR: <i>abbreviation for NOS' different Rules, Regulations and agreements.</i> | www.nosclearing.com |
| Swiss Reinsurance Company, <i>provider of insurance coverage for clearing member defaults</i> | www.swissre.com |