

**NODAL EXCHANGE, LLC
REGULATORY CHART
EXHIBIT L-1**

CONTRACT MARKET CORE PRINCIPLES	EXPLANATIONS AND REFERENCES TO RELEVANT NODAL EXCHANGE DOCUMENTS, RULES AND AGREEMENTS
<p>Core Principle 1 – Designation as Contract Market: (A) <i>In General.</i>—To be designated, and maintain a designation, as a contract market, a board of trade shall comply with—</p> <ul style="list-style-type: none"> (i) any core principle described in this subsection; and (ii) any requirement that the Commission may impose by rule or regulation pursuant to section 8a(5). <p>(B) <i>Reasonable Discretion Of Contract Market</i>—Unless otherwise determined by the Commission by rule or regulation, a board of trade described in subparagraph (A) shall have reasonable discretion in establishing the manner in which the board of trade complies with the core principles described in this subsection.</p>	<p>All materials submitted with application of Nodal Exchange, LLC (“Nodal” or the “Exchange”) for designation as a contract market (the “Application”), including but not limited to the Rule of the Exchange (the “Rules”) provided in <u>Exhibit M</u> of the Application.</p> <p>Capitalized terms that are used in this <u>Exhibit L-1</u> without definition have the meaning ascribed to those terms in the Rules.</p>
<p>Core Principle 2 - Compliance with Rules: (A) <i>In General.</i>—The board of trade shall establish, monitor, and enforce compliance with the rules of the contract market, including—</p> <ul style="list-style-type: none"> (i) access requirements; (ii) the terms and conditions of any contracts to be traded on the contract market; and (iii) rules prohibiting abusive trade practices on the contract market. <p>(B) <i>Capacity of Contract Market.</i>—The board of trade shall have the capacity to detect, investigate, and</p>	<p>Pursuant to the Participant Agreement and Rule 3.1, Participants, Authorized Users and Authorized Brokers must consent to the jurisdiction of the Exchange before being granted access to the Exchange. Rule 3.3.7 also requires Participants to promptly provide information and documents reasonably requested by the Exchange and permits the Exchange to obtain such information or documents directly from any clearing member or from the clearing house. Pursuant to Rule 7.3.1, a Participant is required to cooperate with an Exchange investigation by making an appearance and making its books and records available to the Exchange.</p> <p>Rule 3.3 provides clear and transparent access criteria and requirements for</p>

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<p>apply appropriate sanctions to any person that violates any rule of the contract market.</p> <p>(C) <i>Requirement of Rules.</i>—The rules of the contract market shall provide the board of trade with the ability and authority to obtain any necessary information to perform any function described in this subsection, including the capacity to carry out such international information-sharing agreements as the Commission may require.</p>	<p>Exchange Participants. Rule 3.4 establishes minimum financial requirements for Exchange Participants to maintain the financial integrity of the Exchange. The Exchange will apply these criteria in an impartial manner.</p> <p>Rule 3.15 provides clear and transparent criteria and requirements for persons accessing the Exchange on behalf of Participants. The Exchange will apply these criteria in an impartial manner.</p> <p>Pursuant to Rule 3.12, Exchange fees will be made available on the Exchange’s web site.</p> <p>Pursuant to Rule 4.2, the terms and conditions of contracts offered to be traded on the Exchange will be set forth on the Exchange’s web site.</p> <p>Section VI of the Rules imposes an extensive Participant Code of Conduct designed to encourage ethical conduct and protect Participants from abusive, disruptive, fraudulent or noncompetitive conduct or trade practices. The rules include ethical standards (Rule 6.1) and prohibit several forms of prohibited conduct and trade practices including: price manipulation, fictitious, non-competitive or artificial transactions (Rule 6.2.3), market manipulation (Rule 6.2.4), market disruption (Rule 6.2.5), disruptive trading practices (Rule 6.2.7), rumors (Rule 6.2.8), false reports (Rule 6.2.9), wash sales (Rule 6.2.10), acts detrimental to the Exchange (6.2.12), supervision (Rule 6.2.13), disclosing order information (brokered trades only) (Rule 6.2.14), and pre-arranged, pre-negotiated and noncompetitive trades (Rule 6.3). <i>See also</i> Core Principle 4, below.</p> <p>The Exchange’s Regulatory Oversight Committee (“ROC”) will prepare</p>

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	<p>an annual report assessing the effectiveness, sufficiency and independence of the Exchange’s self-regulatory program, which report will describe the Exchange’s self-regulatory program and its expenses, staffing and structure; catalogue disciplinary actions taken during the year; review the performance of disciplinary committees and panels; and include any proposals to remedy unresolved regulatory deficiencies.</p> <p>The Compliance Department, in accordance with Rule 7.2.1, is responsible for ensuring that the Exchange’s Rules are followed. In accordance with Section IV of the Compliance Manual (<u>Exhibit O-1</u>), the Compliance Department’s Surveillance Team monitors overall activity on the Exchange on a real-time and post-trade basis. Specifically, the Surveillance Team views all trading activity on the Exchange, including auction orders, auction trades, and block trades, reviews the trades resulting from each auction, tracks the activity of specific traders, monitors price and volume information and is alerted to any trades that vary from prior marks by more than 5%. Under Rule 4.7.1, the Exchange may adjust trade prices or cancel (bust) trades under appropriate circumstances.</p> <p>Section V of the Compliance Manual outlines the Exchange’s trade practice surveillance, real-time monitoring and daily surveillance activities utilized by the Exchange’s compliance personnel in conducting surveillances for trade practice, market and financial violations. Section VI of the Compliance Manual describes the Exchange’s financial surveillance.</p> <p>Pursuant to Section VII of the Rules, the Compliance Department is also authorized to investigate trading activities on the Exchange, and initiate enforcement procedures to ensure compliance with the Rules. Pursuant to</p>

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	<p>Section 7.3.1 of the Rules, the Surveillance Team will commence an investigation upon the receipt of a request from Commission staff or upon the discovery or receipt of information that indicates a possible basis for a finding that a violation has occurred or will occur. Absent mitigating circumstances, the Surveillance Team must complete its investigation within twelve months after the date the investigation is opened. Permissible mitigating circumstances include the complexity of the investigation, the number of firms or individuals involved in as potential respondents, the number of potential violations to be investigate and the volume of documentation and data that must be analyzed. The Surveillance Team will submit a written report of each investigation to the Disciplinary Committee and maintain a log of all investigations and their disposition in accordance with Rule 7.3.2. Under Rule 7.3.2, investigations may be resolved through a warning letter; however, no more than one warning letter for the same potential violation may be issued to the same Participant during a rolling 12-month period.</p> <p>Pursuant to Rule 2.8, the Exchange may enter into information-sharing agreements, as the Commission may require, with any Person or body (including the Commission, the NFA, any Self-Regulatory Organization, any exchange, market, or clearing organization, or foreign regulatory authority).</p>
<p>Core Principle 3 - Contracts Not Readily Subject to Manipulation: The board of trade shall list on the contract market only contracts that are not readily susceptible to manipulation.</p>	<p>The Exchange’s power contracts are all financially settled and do not involve the physical delivery of power. The contracts settle to power prices published by the relevant Independent System Operator (“ISO”) or Regional Transmission Organization (“RTO”). Each contract specification outlines which ISO/RTO price(s) will be used for settlement and which hours will be used in the settlement calculation. ISO/RTOs</p>

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	<p>publish both Real Time (“RT”) and Day Ahead (“DA”) prices for each component of their Locational Marginal Price (“LMP”) – Energy, Congestion and Loss – at each location on their grid. Nodal offers contracts that settle to RT LMP, DA LMP, the Energy component of the LMP, and the Energy plus Congestion components of the LMP.</p> <p>For each contract, the Exchange specifies which hours during the month will be used for the calculation of the contract price. Contracts settle to the average of all applicable monthly hours. These periods are based on industry and ISO/RTO standards.</p> <p>Because ISOs/RTOs publicly publish their DA and RT prices on a same-day basis, the settlement of the contracts is transparent to the Exchange market. Most Exchange contracts go into final settlement three business days after the end of the contract month to ensure that any timely ISO/RTO corrections to posted prices will be reflected in the Exchange’s final settlement price. Contracts that settle to Energy plus Congestion settle five business days after month-end to incorporate the slightly later publication of some RTO zonal data.</p> <p>The ISOs/RTOs provide a marketplace for wholesale power and are subject to the jurisdiction of the Federal Energy Regulatory Commission (“FERC”), or the Public Utility Commission of Texas (“PUCT”) in the case of the Electric Reliability Council of Texas (“ERCOT”). The DA and RT markets that generate the prices to which the Exchange contracts settle are directly related to the physical generation, and demand for, electricity as well as the physical capacity constraints of the grid.</p> <p>The ISO/RTO DA and RT markets are well established and regulated</p>

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	<p>markets that are closely monitored by market monitoring units (“MMUs”) responsible to either FERC or, in the case of ERCOT, the PUCT. The MMUs continually review the DA and RT markets for signs of trading anomalies that might signal an intent to manipulate, and have the capacity to conduct investigations of potential manipulation and report manipulative activity to their regulator. The Commission assessed the ISO/RTO markets in a Notice of Proposed Order and Request for Comment proposing to exempt specified ISO/RTO transactions from certain provisions of the Act. See 77 Fed. Reg. 52137 (August 28, 2012) The Commission observed that even if RTO/ISO transactions serve as a source of settlement prices for transactions within the Commission’s jurisdiction, the RTOs/ISOs have monitoring systems to detect and deter manipulation in their markets that provide notification so that further investigation can be conducted. As a result of this guidance, the RTO/ISO prices are a trusted reference price for financial power transactions.</p> <p>As described above, all power contracts offered on the Exchange are financially settled to average prices based on external reference points monitored by FERC or the PUCT. Nodal contracts, therefore, are not readily susceptible to manipulation.</p> <p>Nodal’s Henry Hub gas contract is a financially settled contract based on the New York Mercantile Exchange (“NYMEX”) Henry Hub contract, a long-established and highly liquid contract that is traded under the Commission’s jurisdiction. The Nodal Henry Hub natural gas settles promptly upon publication of the final settlement price in the NYMEX market. The Exchange’s Henry Hub natural gas contract is financially settled based on a highly liquid, third-party product, and is therefore not readily susceptible to manipulation.</p>

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	<p>The contract specifications for the products traded on the Exchange are included as <u>Exhibit L-2</u> to this Application.</p>
<p>Core Principle 4 - Prevention of Market Disruption: The board of trade shall have the capacity and responsibility to prevent manipulation, price distortion, and disruptions of the delivery or cash-settlement process through market surveillance, compliance, and enforcement practices and procedures, including—</p> <p style="padding-left: 40px;">(A) methods for conducting real-time monitoring of trading; and</p> <p style="padding-left: 40px;">(B) comprehensive and accurate trade reconstructions.</p>	<p>Pursuant to Rule 2.4.4, the ROC will oversee the Exchange’s regulatory program on behalf of the Exchange, with the authority to monitor the regulatory program of the Exchange for sufficiency, effectiveness, and independence. The ROC will oversee all facets of the regulatory program, including: (a) trade practice and market surveillance; audits, examinations, and other regulatory responsibilities with respect to Participants (including compliance with, as applicable, financial integrity, financial reporting, sales practice, recordkeeping and other requirements) and the conduct of investigations; (b) reviewing the size and allocation of the regulatory budget and resources, and the number, hiring, termination, and compensation of regulatory personnel; (c) supervising the Chief Regulatory Officer of the Exchange, who will report directly to the Regulatory Oversight Committee; (d) recommending changes that would ensure fair, vigorous, and effective regulation; and (e) reviewing all regulatory proposals prior to implementation and advising the Board as to whether and how such changes may impact regulation.</p> <p>Section 6.2 of the Rules sets forth certain prohibited trading practices and specifically proscribes manipulation, price distortion and disruptive trading practices.</p> <p>The ROC, together with the Chief Regulatory Officer and Compliance Department, will implement the Exchange’s monitoring, surveillance and other enforcement functions. The Rules and the Compliance Manual provide the framework for the Exchange’s enforcement activities. As</p>

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	<p>described in Section V of the Compliance Manual, the Exchange’s trade practice surveillance system monitors trading activity on a real-time basis, and the Surveillance Team monitors trading activity on a real-time and post-trade basis. Section V.A.5 describes the process through which Nodal will collect, monitor and evaluate audit trail data to support its enforcement efforts.</p> <p>Pursuant to Rule 4.9.1, Participants that access the Exchange electronically are responsible for maintaining Audit Trail information for all electronic orders. Audit Trail information must be maintained for a minimum of five years and Participants must produce Audit Trail data in a standard format upon request of the Exchange.</p> <p>Pursuant to Section IV of the Compliance Manual, the Surveillance Team has access to information related to the Exchange’s contracts, including relevant contracts at other exchanges, news events and economic reports, and historical price and volume information. In addition, the Rules specifically contemplate information-sharing arrangements with other markets. See Rule 2.8.1.</p> <p>Several Exchange Rules impose risk management obligations for Exchange participants. As described in Rule 4.4.8, all awarded transactions generated by the Auction Engine are checked against the dollar amount set by the Participant’s Clearing Member establishing the maximum position risk that the Participant is allowed to assume on the Exchange. Rule 3.5.2 requires each Participant to monitor and enforce compliance with its internal risk limits and shall be responsible for all Orders and transactions effected on the Exchange.</p>

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	<p>Section VII of the Compliance Manual and Section VII of the Exchange Rules describe the Exchange’s compliance and enforcement procedures, which include inquiries, investigations, disciplinary proceedings, and provide for arbitrations related to Exchange activity.</p>
<p>Core Principle 5 - Position Limitations or Accountability:</p> <p>(A) <i>In General.</i>—To reduce the potential threat of market manipulation or congestion (especially during trading in the delivery month), the board of trade shall adopt for each contract of the board of trade, as is necessary and appropriate, position limitations or position accountability for speculators.</p> <p>(B) <i>Maximum Allowable Position Limitation.</i>—For any contract that is subject to a position limitation established by the Commission pursuant to section 4a(a), the board of trade shall set the position limitation of the board of trade at a level not higher than the position limitation established by the Commission.</p>	<p><u>Power Contracts</u></p> <p>The Exchange is proposing position accountability levels for its power contracts because the underlying cash market is federally regulated and not readily susceptible to manipulation. Position accountability levels are appropriate, and limits are not necessary, for markets where the threat of excessive speculation or manipulation is nonexistent or very low. All of the Exchange’s power contracts are cash-settled against prices that, as discussed more fully below, are determined in highly regulated cash markets. In addition, the overwhelming majority of Nodal’s power contracts have been listed for more than one year. <i>See</i> Commission Regulation 150.5(e) (contract market permitted to adopt position accountability, in lieu of position limits, when contract has been listed for twelve months). Nodal, therefore, submits that position accountability levels for the spot month, any single month and all months combined are more appropriate for its power contracts than position limits.</p> <p>Position accountability levels will allow the Exchange to take action to address concerns, whether raised externally or through the Exchange’s market surveillance program, about Exchange positions without disrupting the market with spot month position limits. <i>See</i> Rule 6.6.1 (persons holding positions above the position accountability level required to initiate and liquidate any such positions in an orderly manner; provide information regarding the nature of the position, trading strategy and, if</p>

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	<p>applicable, hedging information; and, if so ordered by the Nodal Compliance Department liquidate or not further increase those positions).</p> <p>All of the Exchange’s power contracts financially settle to hourly prices for power (or subcomponents thereof) generated by the Day Ahead or Real Time markets run by the RTOs/ISOs. The ISOs/RTOs provide a marketplace for wholesale power and are subject to the jurisdiction of the Federal Energy Regulatory Commission or, in the case of ERCOT, the Public Utility Commission of Texas. The DA and RT markets that generate the prices against which Exchange contracts are settled, therefore, are directly related to the physical generation, and demand for, electricity and the physical capacity constraints of the grid. Market participants’ well-deserved confidence in the integrity of the RTO/ISO markets has allowed the Exchange and others to develop and trade contracts based on RTO/ISO prices.</p> <p>The RTO/ISO DA and RT markets are well-established and highly regulated markets that are closely monitored by Market Monitoring Units responsible to either FERC or, in the case of ERCOT, the PUCT. The Market Monitoring Units continually review the DA and RT markets for signs of trading anomalies that might signal an intent to manipulate, and have the capacity to conduct investigations of potential manipulation and report manipulative activity to the appropriate regulator. Recognizing the effectiveness of this parallel regulatory regime, the Commission has proposed to exempt specified RTO/ISO transactions from certain provisions of the Act. <i>See</i> Proposed Order and Request for Comment on a Petition From Certain Independent System Operators and Regional Transmission Organizations to Exempt Specified Transactions Authorized by a Tariff or Protocol Approved by the Federal Energy Commission or the</p>

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	<p>Public Utility Commission of Texas From Certain Provisions of the Commodity Exchange Act, 77 Fed. Reg. 52138, 52146-47 (August 28, 2012) (even if RTO/ISO transactions serve as a source of settlement prices for transactions within the Commission’s jurisdiction, the RTOs/ISOs have monitoring systems to detect and deter manipulation in their markets).</p> <p>Further, and importantly, it should be noted that trading on the Exchange does not affect the DA or RT prices at the RTO/ISO markets. Because power cannot be stored, and because power prices can vary greatly based on transient conditions such as the weather and network outages, the price of a forward month contract traded on Nodal, or even the balance of the current month, trades independently from the price in the spot market.</p> <p>In addition, because power cannot be stored, and the ISOs and RTOs ensure that the delivered supply matches the demand for power at all times, typical concerns about spot month deliverable supply simply do not apply to power. Power is to that extent unique. In fact, the Exchange has found that very little trading occurs during the spot (current) month of a contract. Thus, any spot month limit would effectively become a single month limit as well, as market participants cannot assume that they will be able to close out a position prior to settlement.</p> <p>The proposed spot month and single month position accountability level of 500 lots will ensure that position accountability monitoring will be in effect for all positions with a notional value of \$7-10 million. (This assumes recent power price ranges of \$40-\$60/MWh.) The Exchange is also proposing an all-month position accountability level of 5,000 contracts.</p>

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	<p>The reportable level for all Exchange power contracts is set, consistent with Commission Regulation 15.03, at 25 lots. This level will ensure that the vast majority of open interest on the Exchange is reportable.</p> <p><u>Henry Hub Natural Gas Contract</u></p> <p>The Exchange’s cash-settled Henry Hub natural gas contract is, at 2,500 MMBTU, a quarter of the size of the physically settled Henry Hub contract traded on the New York Mercantile Exchange and identical to the size of the financially settled ICE Futures U.S. Henry Hub contract. Nodal is proposing spot month position limits and single month and all-months-combined position accountability and reportable levels commensurate with the levels that have been proposed by those other exchanges. The Exchange may grant exemptions from these limits for bona fide hedging activity.</p> <p><u>Aggregation of Positions</u></p> <p>Pursuant to Section V.B.(6) of the Compliance Manual, the Exchange system will aggregate positions held by related parties to monitor large trader position holdings. The procedures in Section V.B of the Compliance Manual describe the procedures utilized by the Surveillance Team to monitor trading activity involving large block trades and trading activities between related parties.</p> <p><u>Compliance</u></p> <p>The Exchange will sanction Participants for violating their obligations to observe position limits and/or position accountability levels pursuant to</p>

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	Section 7 of the Rules.
<p>Core Principle 6 - Emergency Authority: The board of trade, in consultation or cooperation with the Commission, shall adopt rules to provide for the exercise of emergency authority, as is necessary and appropriate, including the authority—</p> <p>(A) to liquidate or transfer open positions in any contract;</p> <p>(B) to suspend or curtail trading in any contract; and</p> <p>(C) to require market participants in any contract to meet special margin requirements.</p>	<p>The Exchange has adopted procedures and guidelines for implementing an emergency intervention in the market. Under Rule 4.1.3, the Board may implement Emergency Rules, subject to applicable provisions of the CEA and CFTC Regulations. Emergency Rules may require or authorize the Exchange, the Board, any committee of the Board, the Chief Executive Officer or any other Officer to take actions necessary or appropriate to respond to the Emergency, including, but not limited to, the following actions: (a) suspending or curtailing trading or limiting trading to liquidation only (in whole or in part); (b) extending or shortening the last trading date for Nodal Contracts; (c) providing alternative settlement mechanisms; (d) ordering the liquidation of Transactions, the fixing of a Settlement Price, or the reduction of positions; (e) extending, limiting or changing the Trading Hours; (f) temporarily modifying or suspending any provision of the Rules; (g) requiring Participants to meet special margin requirements; (h) imposing or modifying trading limits, price limits and/or position limits; and/or (i) any other action as directed by the Commission.</p> <p>Pursuant to Rule 4.1.3, before any temporary emergency procedures and rules (“Emergency Rules”) may be adopted and enforced, the Board must approve the enforcement of such Emergency Rule at a duly convened meeting. Directors may attend such a meeting by teleconference. If the Chief Executive Officer, or in his or her absence, another Officer determines that Emergency Rules must be implemented with respect to an Emergency before a meeting of the Board can reasonably be convened, then such Officer shall have the authority, without Board action, to implement any Emergency Rules with respect to such Emergency that he or she deems necessary or appropriate to respond to such Emergency. In</p>

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	<p>such circumstances, the Officer must convene a meeting as soon as practicable.</p> <p>Whenever the Exchange, the Board, any committee of the Board, or an Officer takes actions necessary or appropriate to respond to an Emergency, a duly authorized representative of the Exchange will notify Participants and the Commission as promptly as reasonably practicable.</p> <p>The Exchange will use reasonable efforts to notify the Commission prior to implementing, modifying or terminating an Emergency Rule. If such prior notification is not possible or practicable, the Exchange will notify the Commission as soon as reasonably practicable.</p> <p>Emergency actions taken pursuant to Rule 4.1.3 are subject to the conflict of interest provisions set forth in Rule 2.6.</p>
<p>Core Principle 7 - Availability of General Information: The board of trade shall make available to market authorities, market participants, and the public accurate information concerning—</p> <p>(A) the terms and conditions of the contracts of the contract market; and</p> <p>(B)</p> <p style="padding-left: 40px;">(i) the rules, regulations, and mechanisms for executing transactions on or through the facilities of the contract market; and</p> <p style="padding-left: 40px;">(ii) the rules and specifications describing the operation of the contract market’s—</p> <p style="padding-left: 80px;">(I) electronic matching platform; or</p>	<p>The Exchange posts general information, including its contract specifications and the Rules, on the Exchange’s web site: www.nodalexchange.com. The contract specifications for current Nodal Contracts have also been made publicly available through Exhibit L-2 to this Application. A copy of the Rules, any rule amendments, notices of non-confidential regulatory submissions and new product listings will be made available through the Exchange’s web site.</p> <p>The web site also contains a description of the auction process specifications, trade matching, and trade capture. A technical overview of the Exchange auction engine and examples of how the auction algorithm works in various trading scenarios is provided in Exhibit Q-1.</p>

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(II) trade execution facility.	
<p>Core Principle 8 - Daily publication of Trading Information: The board of trade shall make public daily information on settlement prices, volume, open interest, and opening and closing ranges for actively traded contracts on the contract market.</p>	<p>Consistent with Rule 4.4.10, the Exchange will publish daily information on settlement prices, volume, open interest and opening and closing ranges for actively traded Nodal Contracts on its web site. The Exchange will also publish the total quantity of Block Trades that are included in trading volume for each trading day.</p>
<p>Core Principle 9 - Execution of Transactions: (A) <i>In General.</i>—The board of trade shall provide a competitive, open, and efficient market and mechanism for executing transactions that protects the price discovery process of trading in the centralized market of the board of trade. (B) <i>Rules.</i>—The rules of the board of trade may authorize, for bona fide business purposes— (i) transfer trades or office trades; (ii) an exchange of— (I) futures in connection with a cash commodity transaction; (II) futures for cash commodities; or (III) futures for swaps; or (iii) a futures commission merchant, acting as principal or agent, to enter into or confirm the execution of a contract for the purchase or sale of a commodity for future delivery if the contract is reported, recorded, or cleared in accordance with the rules of the contract market or a derivatives clearing</p>	<p>Nodal operates an electronic trading facility that provides Participants with the ability to execute Auction Transactions from the interaction of multiple bids and multiple offers within a predetermined, nondiscretionary automated trade matching and execution algorithm. The Nodal Exchange Auction Engine Technical Overview, attached to this Application as <u>Exhibit Q-1</u>, describes the Exchange’s trading platform and price discovery process.</p> <p>Rule 5.5.2 allows the transfer of a Nodal Contract to another Clearing Member only upon notice to the Exchange and in accordance with the rules of the Clearing House.</p> <p>Rule 4.5 describes the rules governing Block Trades; Appendix A thereto provides the minimum block sizes for Nodal Contracts. The specific rules for executing block trades are provided in Rule 4.5.2, which requires fair pricing and prevents these trades from affecting Auction Transactions. Under Rule 5.1.2, Block Trades will be discharged and novated in accordance with the rules of the Clearing House.</p> <p>Rule 4.6 permits Participants to enter into exchange for physical and exchange for swap transactions, subject to compliance with the</p>

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<p>organization.</p>	<p>requirements of Rule 4.6.</p> <p>Rule 4.7 permits position transfers upon approval by the Exchange that are conducted for administrative purposes to move positions between Participant accounts or Clearing Member accounts where no change in ownership is involved. Position transfers do not contribute to any reported Exchange volumes, price, or trading range information.</p>
<p>Core Principle 10 - Trade Information: The board of trade shall maintain rules and procedures to provide for the recording and safe storage of all identifying trade information in a manner that enables the contract market to use the information—</p> <p>(A) to assist in the prevention of customer and market abuses; and</p> <p>(B) to provide evidence of any violations of the rules of the contract market.</p>	<p>The Auction Platform will maintain all information with respect to each order (whether or not such order results in a consummated trade) and each consummated trade, as well as all other information relating to the trade environment that determines the matching and clearing of trades (e.g., information from the clearing members indicating the number and types of contracts such Clearing Members will clear for Participants). As such, any order submitted to the Auction Platform can be tracked from the time it is entered into the system until the time that it is matched, canceled or otherwise removed.</p> <p>Procedures relating to Data Retention are contained in <u>Exhibit S</u> of this Application.</p>
<p>Core Principle 11 - Financial Integrity of Transactions: The board of trade shall establish and enforce—</p> <p>(A) rules and procedures for ensuring the financial integrity of transactions entered into on or through the facilities of the contract market (including the clearance and settlement of the transactions with a derivatives clearing organization); and</p>	<p>The Exchange has entered into a clearing arrangement with LCH.Clearnet Limited (“LCH”) as provided in the Clearing Agreement dated 27 November 2007 between LCH.Clearnet Limited and Nodal Exchange, LLC (<u>Exhibit T-1</u>).</p> <p>Rule 4.4.9 provides that all matched trades generated by the Auction Engine after the application of Trade Risk Limits give rise to binding Auction Transactions between the applicable Participants, which will be</p>

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<p>(B) rules to ensure—</p> <ul style="list-style-type: none"> (i) the financial integrity of any— <ul style="list-style-type: none"> (I) futures commission merchant; and (II) introducing broker; and (ii) the protection of customer funds. 	<p>automatically submitted to LCH for registration and novation, as described in Section V of the Rules. Rule 5.1.1, in turn, provides that all Auction Transactions shall be discharged and novated in accordance with the rules of LCH. Rule 5.1.2 similarly provides that Block Trades that have been submitted to the Exchange will be discharged and novated in accordance with the rules of LCH if the Block Trade will not cause any party to the Trade to exceed its Trade Risk Limit or, if the Participant already exceeds its Trade Risk Limit, if the Block Trade will reduce the Trade Risk Limit violation. As provided in Rule 5.2.1, all Participants must be an Individual Clearing Member or have an agreement with an FCM Clearing Member that guarantees such transactions and establishes an account for the Participant for the purpose of clearing the Participant’s Transactions through the Clearing House. A Clearing Member must guarantee and assume financial responsibility for all Nodal Contracts of each Participant guaranteed by it, and will be liable for all trades made by such Participant.</p> <p>Rule 3.4.1 requires a Participant that is not registered with the Commission as an FCM to maintain a net worth (excluding personal assets) of not less than \$1,000,000, immediately notify the Exchange if its net worth declines below \$1,500,000, and provide the Exchange with monthly financial statements until the Participants net worth exceeds \$1,500,000 for two consecutive months.</p> <p>Nodal does not have Participants that are registered with the Commission as FCMs. Rule 3.4.2 nonetheless provides that a Participant that is registered with the Commission as an FCM must remain in compliance with the minimum financial and related reporting requirements of Commission Regulations and further provides that a violation of those requirements shall be deemed to be a violation of the Rules of the</p>

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	Exchange. If an FCM were to become a Nodal Participant after Nodal’s designation as a contract market, Nodal would join the Joint Audit Committee, prior to admitting that applicant as a Participant, as a means of discharging Nodal’s obligations under Core Principle 11.
<p>Core Principle 12 - Protection of Markets and Market Participants: The board of trade shall establish and enforce rules—</p> <p>(A) to protect markets and market participants from abusive practices committed by any party, including abusive practices committed by a party acting as an agent for a participant; and</p> <p>(B) to promote fair and equitable trading on the contract market.</p>	<p>Section VI of the Rules protects the market and market participants from abusive, disruptive, fraudulent, noncompetitive and unfair conduct and trade practices. Improper conduct and trade practices will be investigated and adjudicated as described in Section VII of the Rules (Discipline and Enforcement). The Exchange will conduct a trade practice, market and financial surveillance monitoring program as described in the Compliance Manual. As described in the Compliance Manual, the Surveillance Team will conduct real-time surveillance and initiate inquiries and investigations relating to such surveillances.</p> <p>The procedures for executing trades on the Auction Platform, as described in the Rules and in <u>Exhibit Q-1</u>, promote fair and equitable trading on the Exchange.</p> <p><i>See also</i> Core Principle 2.</p>
<p>Core Principle 13 - Disciplinary Procedures: The board of trade shall establish and enforce disciplinary procedures that authorize the board of trade to discipline, suspend, or expel members or market participants that violate the rules of the board of trade, or similar methods for performing the same functions, including delegation of the functions to third parties.</p>	<p>Section VII of the Rules describes the disciplinary procedures of the Exchange that authorize the Exchange to discipline, suspend, or expel Participants that violate the Exchange’s Rules.</p> <p>As described in Section VII of the Compliance Manual, the Surveillance Team will conduct inquiries and investigations relating to real-time surveillance, trade practice, market and financial surveillance. In the event such investigations result in further disciplinary proceedings, Rule 7.3</p>

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	<p>provides procedures regarding informal disposition, service of notice, answers to charges, settlements, hearings, appeals, sanctions (which may include may include limitation or termination of trading privileges, censure, restitution, suspension and/or fines), summary actions and rights and responsibilities after suspension or termination.</p>
<p>Core Principle 14 - Dispute Resolution: The board of trade shall establish and enforce rules regarding, and provide facilities for alternative dispute resolution as appropriate for, market participants and any market intermediaries.</p>	<p>Section VIII of the Rules establishes rules concerning alternative dispute resolution, which provide for the resolution of disputes between or among Participants through JAMS, Inc. Under Section VIII, arbitration is available for all disputes, controversies, or claims among all Exchange users relating to Exchange activities, including Participants that may not be members of the National Futures Association.</p> <p>Arbitration will be conducted by an arbitrator operating in accordance with the provisions of JAMS Streamlined Arbitration Rules and Procedures in effect at the time of filing of the claim for arbitration.</p>
<p>Core Principle 15 - Governance Fitness Standards: The board of trade shall establish and enforce appropriate fitness standards for directors, members of any disciplinary committee, members of the contract market, and any other person with direct access to the facility (including any party affiliated with any person described in this paragraph).</p>	<p>Persons involved in the governance of, and persons trading on, the Exchange will be subject to fitness and eligibility criteria under the Rules. More specifically, Board members, individuals serving on a committee established by the Board, any Hearing Panel or Board of Appeals, as well as individuals holding a 10% or greater ownership interest in the Exchange, will be subject to fitness standards under Rule 2.3 while Participants will be subject to eligibility standards under Rule 3.3, and Authorized Users and Authorized Brokers will be subject to eligibility standards provided in Rules 3.7 and 3.15, respectively.</p> <p><u>Exhibit C</u> provides additional information regarding the appropriate fitness standards for the Board of Directors. Pursuant to Section X.A of the</p>

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	Compliance Manual, the Compliance Department is responsible for conducting due diligence investigations to enforce continued compliance with the fitness standards established in the Rules.
<p>Core Principle 16 - Conflicts of Interest: The board of trade shall establish and enforce rules—</p> <p>(A) to minimize conflicts of interest in the decision making process of the contract market; and</p> <p>(B) to establish a process for resolving conflicts of interest described in subparagraph (A).</p>	<p>Rule 2.1.4 is aimed at minimizing conflicts of interest by requiring at all times not less than 35% of the Directors (but not fewer than two individuals) be Public Directors. In addition, Rule 2.6 establishes rules to minimize conflicts of interest and a process for resolving conflicts of interest. Rule 2.5.1 separately limits the use and disclosure of material non-public information gained in connection with a member’s participation on the Board or any committee for any purpose other than the performance of his or her official duties as a member of the Board or committee.</p> <p>As described in more detail in Rule 2.4.4 and with respect to Core Principle 17 below, the Exchange will have a ROC that is composed solely of Public Directors. The ROC will oversee the Exchange’s regulatory program on behalf of the Board, which role includes supervising the Chief Regulatory Officer (Rule 2.4.4(c)) in minimizing conflicts of interest (Rule 2.6).</p> <p>Hearing Panels involved in the enforcement and adjudication process are subject to rules under Rule 7.3.8 regarding composition to preclude any group or class of industry participants from dominating or exercising disproportionate influence. Under that Rule, the Hearing Panel will be chaired by an individual qualified to be a Public Director and may include Participants.</p> <p>Rule 7.5 provides for appeal of a Hearing Panel’s decision to a Board of Appeals. Under that Rule, the Board of Appeals will be chaired by an</p>

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	individual qualified to be a Public Director and may include Participants.
<p>Core Principle 17 - Composition of Governing Boards of Contract Markets: The governance arrangements of the board of trade shall be designed to permit consideration of the views of market participants.</p>	<p>Organizational documents, including the Second Amended and Restated Limited Liability Company Agreement of Nodal Exchange LLC Agreement (the “Exchange LLC Agreement”), are provided in <u>Exhibit G</u>. Pursuant to the Exchange LLC Agreement, the Board of Directors shall consist of five directors, two of which will be Public Directors as defined in Commission Regulations. As such, 40% of the Board of Directors will be Public Directors.</p> <p>Pursuant to Rule 2.4.1, the Board has the three following standing committees: the Nominating Committee (Rule 2.4.2), the Exchange Participant Committee (Rule 2.4.3), and the Regulatory Oversight Committee (Rule 2.4.4). The charters for these Committees are attached as <u>Exhibits C-1, C-2, and C-3</u>.</p> <p>As described in Rule 2.4.2, the Nominating Committee consists of at least 51% Public Directors and will be chaired by a Public Director. The Nominating Committee is responsible for (i) identifying individuals qualified to serve on the Board, consistent with criteria established by the Board and any composition requirement established by the Commission; and (ii) administering a process for the nomination of individuals to the Board.</p> <p>As described in Rule 2.4.3, the Exchange Participant Committee consists of at least 35% Public Directors. The Exchange Participant Committee is responsible for (i) determining the standards and requirements for initial and continuing Participant eligibility, (ii) reviewing appeals of staff denials of Participant applications, and (iii) approving Rules that would result in</p>

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	<p>different categories or classes of Participants receiving disparate access to the Exchange. The Exchange Participant Committee may not, and may not permit the Exchange to, restrict access or impose burdens on access in a discriminatory manner, within each category or class of Participants or between similarly situated categories or classes of Participants.</p> <p>As described in Rule 2.4.4, the Regulatory Oversight Committee consists solely of Public Directors. The Regulatory Oversight Committee oversees the Exchange’s regulatory program on behalf of the Board.</p> <p>The initial composition contemplated for the Board is described further in <u>Exhibit B</u>. Fitness standards applicable to members of the Board are described in <u>Exhibit C</u>.</p>
<p>Core Principle 18 - Recordkeeping: The board of trade shall maintain records of all activities relating to the business of the contract market—</p> <p style="padding-left: 40px;">(A) in a form and manner that is acceptable to the Commission; and</p> <p style="padding-left: 40px;">(B) for a period of at least 5 years.</p>	<p>The Exchange’s recordkeeping program satisfies the relevant criteria set forth in § 1.31 of the Commission’s Regulations. Under Rule 2.4.4(a), the ROC will oversee all facets of the regulatory program, including compliance with recordkeeping requirements. Under Rule 2.7.1, the Exchange will (i) keep, or cause to be kept, complete and accurate books and records of accounts of the Exchange, including all books and records required to be maintained pursuant to the CEA and Commission Regulations, and (ii) retain all such books and records for at least five years, making such books and records readily accessible for inspection by the Commission and the U.S. Department of Justice during the first two years of such five-year period. Under Rule 9.3, the Exchange may record conversations and retain copies of electronic communications between Exchange Officials and Participants, their Authorized Users or other agents. Under Rule 4.1.2(b), the Exchange may adopt further procedures to record and account for Nodal Contracts.</p>

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	<p>Exhibit S describes the procedures for maintaining trade data for transactions on the Exchange. In addition, the Exchange maintains records of Board meetings in accordance with the Exchange LLC Agreement.</p>
<p>Core Principle 19 - Antitrust Considerations: Unless necessary or appropriate to achieve the purposes of this Act, the board of trade shall not—</p> <p>(A) adopt any rule or taking any action that results in any unreasonable restraint of trade; or</p> <p>(B) impose any material anticompetitive burden on trading on the contract market.</p>	<p>The Exchange’s Rules and policies have been designed to avoid unreasonable restraints of trade or the imposition of any material anticompetitive burden on trading.</p> <p>Under Rule 2.4.3, the Exchange Participant Committee may not, and may not permit the Exchange to, restrict access or impose burdens on access in a discriminatory manner, within each category or class of Participants or between similarly-situated categories or classes of Participants. Under Rule 4.4.8, the Exchange auction matches and awards orders based on an algorithm, without discrimination among different categories or classes of Participants. Moreover, pursuant to Rule 4.4.10, the Exchange will make public daily information on settlement prices, volume, open interest, and opening and closing ranges for actively traded contracts on the contract market. Trading information will be published on the Exchange website at the end of the day. See also Core Principle 8 and Core Principle 9.</p> <p>In addition, the Exchange has established an Antitrust Policy which sets forth policies to ensure full compliance with U.S. antitrust requirements. See Appendix A to this <u>Exhibit L-1</u>.</p>
<p>Core Principle 20 - System Safeguards: The board of trade shall:</p> <p>(A) establish and maintain a program of risk analysis and oversight to identify and minimize sources</p>	<p>The Exchange has developed a program of risk analysis and oversight to identify and minimize sources of operational risk, through the development of appropriate controls and procedures, and the development of automated systems that are reliable, secure, and have adequate scalable capacity as</p>

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<p>of operational risk, through the development of appropriate controls and procedures, and the development of automated systems, that are reliable, secure, and have adequate scalable capacity;</p> <p>(B) establish and maintain emergency procedures, backup facilities, and a plan for disaster recovery that allow for the timely recovery and resumption of operations and the fulfillment of the responsibilities and obligations of the board of trade; and</p> <p>(C) periodically conduct tests to verify that backup resources are sufficient to ensure continued order processing and trade matching, price reporting, market surveillance, and maintenance of a comprehensive and accurate audit trail.</p>	<p>described in <u>Exhibit V-1</u>. This program is described in <u>Exhibit V</u>, which includes information regarding the security of those systems, the Exchange’s risk assessment reviews, internal controls for operations, functional testing, security testing and capacity planning and testing.</p> <p>Section K of <u>Exhibit V-1</u> describes the Exchange’s emergency plan and includes a description of the back-up systems and emergency procedures that include recovery time objectives. Under the emergency plan, the Exchange has procedures to conduct failover tests twice a year to ensure that backup resources are sufficient to ensure continued order processing and trade matching, price reporting, market surveillance, and maintenance of a comprehensive and accurate audit trail. In addition, during an emergency, Exchange Rule 4.1.3 authorizes the Exchange to implement temporary emergency procedures and rules.</p> <p><i>See also</i> Core Principle 6.</p> <p>See <u>Exhibit V-1</u> – Technology Questionnaire.</p>
<p>Core Principle 21 - Financial Resources:</p> <p>(A) <i>In General.</i>—The board of trade shall have adequate financial, operational, and managerial resources to discharge each responsibility of the board of trade.</p> <p>(B) <i>Determination of Adequacy.</i> —The financial resources of the board of trade shall be considered to be adequate if the value of the financial resources exceeds the total amount that would enable the contract market to cover the operating costs of the contract market for a</p>	<p>The Exchange has adequate financial, operational, and managerial resources to discharge each responsibility of the Exchange. As required by Commission Regulations, the financial resources of the Exchange exceed the total amount that would enable the Exchange to cover its operating costs for a 1-year period, as calculated on a rolling basis.</p> <p>See <u>Exhibit E</u> and <u>Exhibit I-1</u> – Financial Statements (Audited).</p>

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1-year period, as calculated on a rolling basis.	
<p>Core Principle 22 - Diversity Of Board of Directors: The board of trade, if a publicly traded company, shall endeavor to recruit individuals to serve on the board of directors and the other decision-making bodies (as determined by the Commission) of the board of trade from among, and to have the composition of the bodies reflect, a broad and culturally diverse pool of qualified candidates.</p>	Not applicable.
<p>Core Principle 23 - Securities and Exchange Commission: The board of trade shall keep any such records relating to swaps defined in section 1a(47)(A)(v) open to inspection and examination by the Securities and Exchange Commission.</p>	Not applicable.