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SPECIAL REPRINT

meet the new dco on the block: nodal clear

LCH.Clearnet is about to take another big hit from the US energy sector. Power futures exchange, the Nodal Exchange, recently received CFTC approval to operate its own DCO. So, out goes LCH, in comes Nodal Clear. Following a similar path as did ICE many years ago, as a startup back in '09, Nodal partnered with LCH to offer cleared derivative transactions. Unlike ICE, however, which early on chose the path to growth through acquisition, Nodal's growth strategy has been more organic. The exchange parent filed for Nodal Clear's DCO status less than a year ago. We have a sense that once the firm officially switches on Nodal Clear later Oct. 19, its growth trajectory will accelerate significantly. We caught up with founder and CEO Paul Cusenza recently to discuss the new clearing services and what's next for the upstart futures exchange. (We noted that the term 'upstart' exchange isn't necessarily a negative tag; we'd read ICE described this way up until and shortly after it acquired the NYSE.) Upstart, indeed.

"It's the next step, the next big thing," he says. "It's one thing to be an ECM and another to be a regulated DCO. We'll soon be a true, vertically integrated US exchange clearinghouse, which should make matters a bit simpler for us and our members." LCH.Clearnet, since it's based in London, means that it must comply with

rules and regs from the CFTC and the Bank of England. "The complexities were obvious. Having our own clearinghouse, based in the US, is simply a lot cleaner, for everybody," he says.

For example, introducing new products should be "fairly straightforward," he says. Read, a lot faster than in the past. "Looking ahead to 2016 and beyond, we're looking to expand and broaden our product offerings significantly ..." He noted that Jeff Sprecher's ICE was in a similar situation back in 2008, when they too were LCH-clearing customers. "Jeff's been quoted on many occasions that before he brought clearing in-house, his product slate was fairly small. But once he combined the key elements of clearing and the exchange under one roof, his product offering broadened significantly, very rapidly." True enough. ICE, of course, now operates a global network of exchanges and clearinghouses, covering just about every asset class, from power to FX, from New York to Singapore.

Cusenza says the plan is to clear futures and options on Nodal Exchange. But, what sort of futures and options? How many new asset classes are on the horizon? "It will take time to progress ... and introduce anything like that (non-power or energy contracts), so it won't happen

immediately. But one would suspect ... I mean, it would be logical for us to consider such things, and expand our offerings, to meet customer needs. It was one of the key reasons for us wanting to be a vertically integrated operation."

He wouldn't be much more specific than that, but when pressed, he admitted that (our words) "stuff that flows" is much more interesting to him right now than "stuff that grows." Says Cusenza: "We are an energy exchange after all, and, our owners have a key interest in the energy sector generally. We have a natural inclination in that sector ... but we're not precluded from going beyond it."

He says that his customers have many common sets of needs, regardless of where they may be based, and so "this is a good chance to deepen that relationship." *We note that Nodal Exchange does a bit of business in Ontario, Canada, and as such, so should the new clearinghouse, right? So, we speculate that FX may be a near-term offering as well (makes sense to us anyway). Cusenza would not confirm this, however.*

Check out the details at www.nodalexchange.com. Look for the new clearinghouse to lift off on Oct. 19.