The background of the slide is a light gray world map. Overlaid on the map are several groups of business professionals in various colored suits, appearing to be in discussion or meetings. The map is centered on the Atlantic Ocean, with North and South America on the left and Europe and Africa on the right.

NCM vs. DCP access model Decision Guide

European Commodity Clearing AG
April 2024

Disclaimer

This document contains information on the access options for trading participants to spot markets which are cleared and/or settled by European Commodity Clearing AG (ECC), i.e. the Non-Clearing Member (NCM) and the Direct Clearing Participant (DCP) model.

ECC is indifferent with regard to the Participant's choice of access model.

The document is intended to support the participants in deciding which access model is best suited for the respective trading profile.

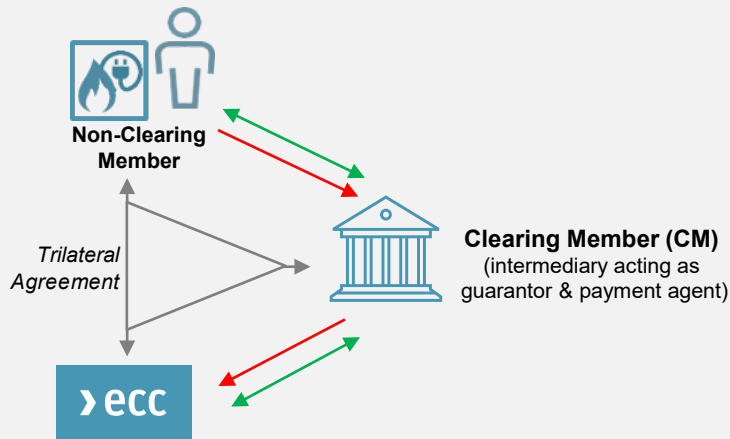
ECC recommends taking the company's long-term trading strategy into account when making the choice for a particular access option. For example, if a company is initially aiming to enter a spot market but would also like to trade derivatives in the foreseeable future, we recommend considering the NCM model directly in order to avoid switching between models. Switching between the DCP and the NCM model is possible; however, the company should be aware that such switch requires considerable effort from the trading participant.

Additional advice on the choice of access model can be provided by the key account managers of the ECC partner exchanges.

Access to clearing at ECC: Two clearing models

Non-Clearing Member (NCM) model

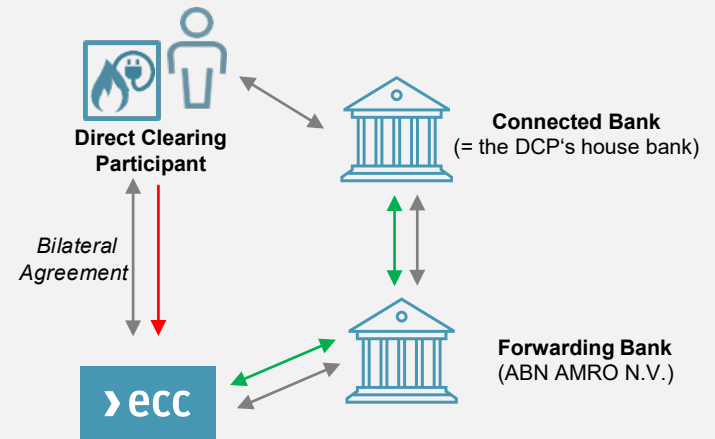
for spot and derivatives markets



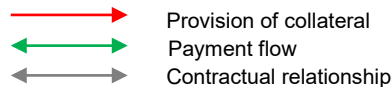
The participation in clearing as a Non-Clearing Member requires involvement of an intermediary – a **Clearing Member**. Only financial institutions can become Clearing Members at ECC. A Clearing Member is **liable towards ECC** for the obligations arising from trading activities of its NCM.

Direct Clearing Participant (DCP) model

for spot markets only



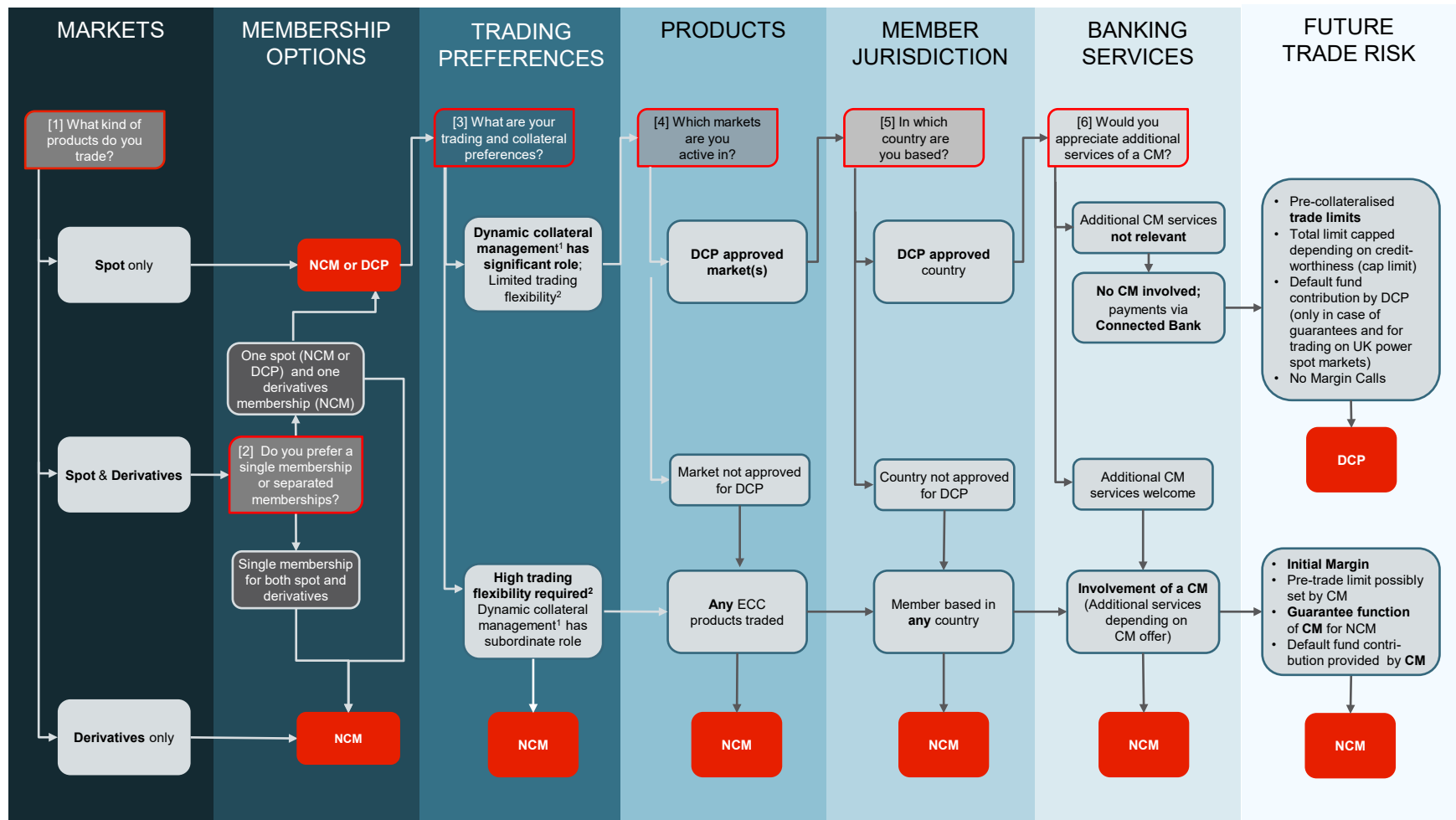
Direct Clearing Participants maintain a **direct business relationship** with ECC. No additional guarantor is involved. Payments for purchases/sales are processed through ECC's payment bank (**ABN AMRO Bank**) and the member's bank (**Connected Bank**).



NCM and DCP in comparison

		Non-Clearing Member (NCM)	Direct Clearing Participant (DCP)
General differentiation		The NCM is in a business relationship with a Clearing Member . ECC's risk exposure resulting from an NCM's trading activities is covered through margins (Post-trade risk approach).	A DCP has direct access to ECC without a Clearing Member. ECC's risk exposure resulting from a DCP's trading activities is covered through collateralised pre-trade limits (Pre-trade risk approach).
Markets		All markets – spot & derivatives	Spot only
Bank		Clearing Member (CM) Guarantee & payment function	Connected Bank or ABN AMRO N.V. Payment function only, no guarantee function
Interest payments		Depending on the offering of the CM	No interest payments for cash collateral
Risk Management	Margining	Yes	No
	Limit	Voluntary, set by CM (or NCM)	Mandatory, set by ECC
	Prefunding	No collateralisation towards ECC but potentially towards CM	Collateralisation of pre-trade limit in advance with collateral accepted by ECC
	Collateral	Collected by CM, CM accepted collateral	Deposited by DCP, only ECC-accepted collateral
	Default Fund Contribution	CM obligation	DCP obligation

Which ECC membership option fits best for which trading participant profile?



¹ Dynamic collateral management:

The DCP model empowers trading participants to engage in transactions within a predefined financial risk exposure, constrained by the provided collateral. Clients have the autonomy to determine and adjust their collateral placement with ECC based on their evolving trading patterns.

² Trading flexibility :

In the NCM model, trading participants have the freedom to negotiate limit settings with their chosen CM, shaping the desired level of trading flexibility. Unlike NCM, DCP members face restrictions through pre-trade limits calculated from their collateral, limiting their ability to enter market orders. This makes the DCP model less suitable for customers who regularly have urgent purchasing needs and are dependent on price-independent orders.

Typical trading profiles for ECC access options

Trading profiles with Non-Clearing Member (NCM) model as potentially preferred membership option

- Client that does not meet the DCP requirements (available markets, accepted jurisdiction)
- Client that easily has access to a CM, as this offers a higher level of freedom for trading and additional banking services
- Client that regularly has an urgent purchasing position independent of the price-level, therefore trading market orders*
- Client that wants to negotiate freely about the level and type of collateral deposited with the CM
- Client that can negotiate interest payments for cash collateral provision with the Clearing Member
- Client that has a need for very high limit (According to ECC's standard procedure, the highest cap limit is currently set at 75 mn EUR for clients with very good creditworthiness)

Trading profiles with Direct Clearing Participant (DCP) model as potentially preferred membership option

- Client that meets the DCP prerequisites (available markets, accepted jurisdiction)
- Client that primarily acts as seller at positive prices
- Client, who does not rely on price-independent orders (market orders)*
- Client, for whom dynamic collateral management in accordance with trading patterns is highly relevant
- Client that is very cost-sensitive and willing to give-up additional CM services
- Client that can accept that it is not possible for ECC to pay out interests on cash collateral
- Small and medium sized client for whom the specified cap limit is sufficient (amount of the provided cap limit depends on ECC's assessment of the DCP's creditworthiness)

*Market orders on spot markets:

A market order is an instruction to immediately buy or sell a spot market product immediately at the current price. Before the order is forwarded to the order book, the order is checked against the available pre-trade limit of the trading participant. As the market order does not contain a price, the price for the market order is set at the "Price Limit". For NCMs, this Price Limit can be defined by the Clearing Member. For DCPs, the Price Limit is set by ECC. ECC sets the Price Limit at the highest or lowest technically possible price of the trading system, irrespective of the current price level of the product. This can lead to an extensive utilisation of the DCP's trading limit.