



# Clearing Services and Liquidity

## Lessons learnt from Western European Markets

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# The macro picture

- Energy is key to the economic development in each and every market
- Efficient energy markets lead to economic welfare for the entire society
- Natural gas will play a pivotal role for the economic development in the SEE region for this decade
- Two dimensions of “*gas infrastructure*” will matter for SEE region:
  - selected pipeline infrastructure to better connect the region
  - regulatory framework for the markets
- Both *infrastructure* elements will be investments for the future of pipeline systems, being it natural gas for now or hydrogen for the later years

# The role of exchanges

- Organization of a liquid and reliable market place, where market participants can manage their asset and portfolio risks
- Standardization of rules and procedures within this organized market
- Establishment of transparent price references
- Offering of clearing services to manage credit risk

## Market View:

The SEE market has a huge potential ....

..... but liquidity will not evolve without a proper **clearing functionality**

### The South-Eastern European Market

- Market area connecting gas flows from Western Europe (NL, N, UK, global LNG) via CEGH to Russia, Ukraine, Turkey and the Mediterranean region
- Region is fragmented into many national markets and will only develop as a hub
- Market with a multitude of players and different currencies

### Risk patterns of the SEE Market

- Availability of gas is of less importance due to ample supplies
- Biggest risks are price risks and counterparty credit risks

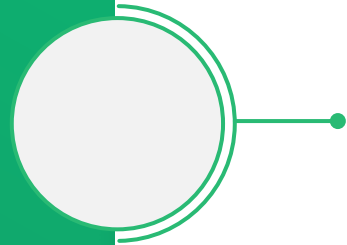
### Market participants needs and expectations

- Reliable market place for managing risks
- Liquid products, diversity of market participants
- Safe and entrusted legal framework
- Low total costs for trading
  - Internal costs to set-up and operate markets
  - Transaction costs
- New markets need to leverage with existing internal systems

# Efficient Clearing Framework

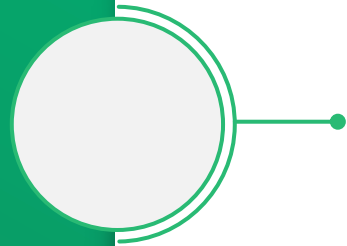
The establishment of appropriate clearing frameworks may appear burdensome at first sight ....

..... but this is inevitable for an efficient market design and liquidity.



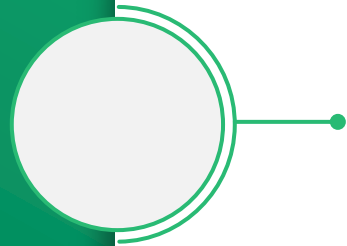
## European Markets need a European Framework

- Harmonisation of energy market rules (3<sup>rd</sup> package)
- Implementation of financial services regulation (EMIR, MiFiD, MiFiR)
- Proven frameworks will reduce implementation costs for market participants and clearing houses
- Established frameworks are pre-requisite for clearing banks to offer services



## Clearing Infrastructure needs scale

- Clearing houses need size to justify implementation costs
- Financial security of clearing houses increases with diversification of their business and the avoidance of cluster risks
- Clearing banks need size to offer services for clearing
- Participants need access to multitude of clearing banks to manage costs of trading



## Simultaneous work as the biggest challenge for the SEE

- Work on regulatory framework to establish clarity for the environment of clearing services
- Work on design of clearing solutions for the market participants

## Key Learnings for the SEE region

- SEE has the obvious potential to develop from a niche market to one of the important global gas price reference points
- Harmonization of regulatory framework is mandatory prior to any evolution of a liquid tradable hub
- Clearing is a necessary requirement due fragmentation of national markets and multitude of players
- But Clearing Offering alone will not bring liquidity
- Classical chicken and egg - it needs harmonization of energy and financial market frameworks PLUS clearing functionality to get started
- Total costs and scaling effects matter for both, for market participants and for clearing houses
- For the start of clearing services in SEE some custom-made approaches may be required

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