Clearing approach for regional cooperation
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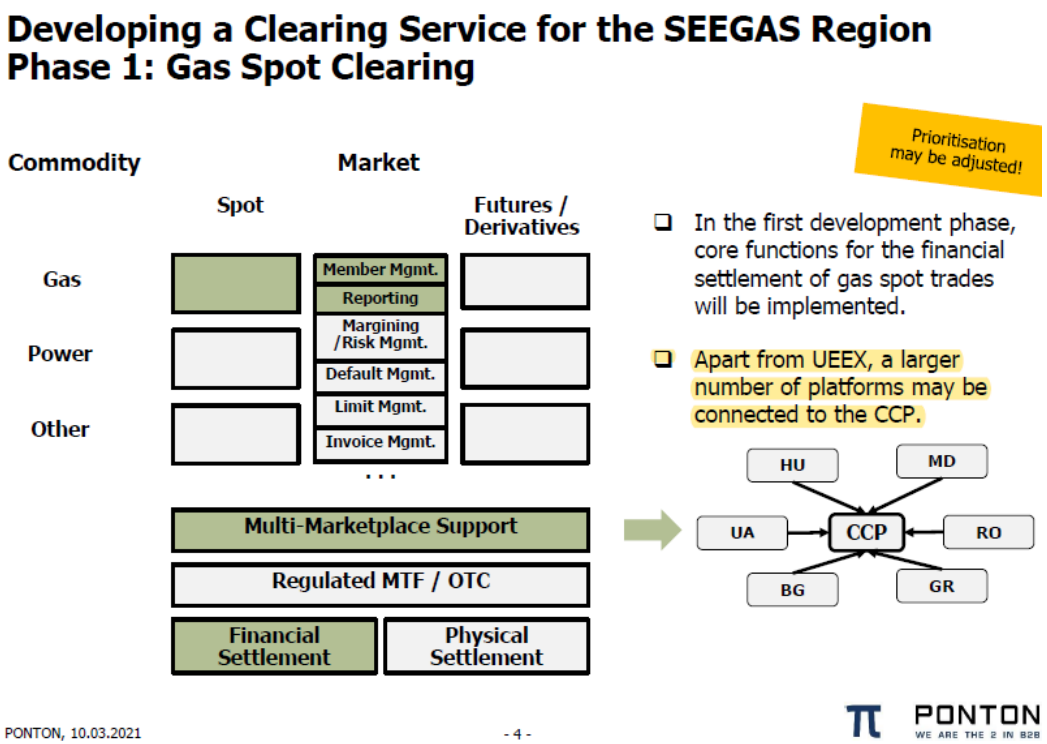
European gas hubs in SEE region – cooperation on clearing

- The general prerequisites for market integration are related to:

- Integration of trading **and post trading infrastructure between energy exchanges**
- Increased physical interconnection and flows in the region, mainly on behalf of TSO's
- EU support through general policies and particular programs - as SEEGAS
- National authorities through relevant institutions support for national market integration, mainly on behalf of the NRA's, energy Ministries and TSO's

The **cooperation regarding clearing in the region** is the basis for creating an increased market integration. ***Possible solutions for clearing identified in the region***:

Solution 1 –new clearing infrastructure scalable from local to regional – UKRAINE/PONTON



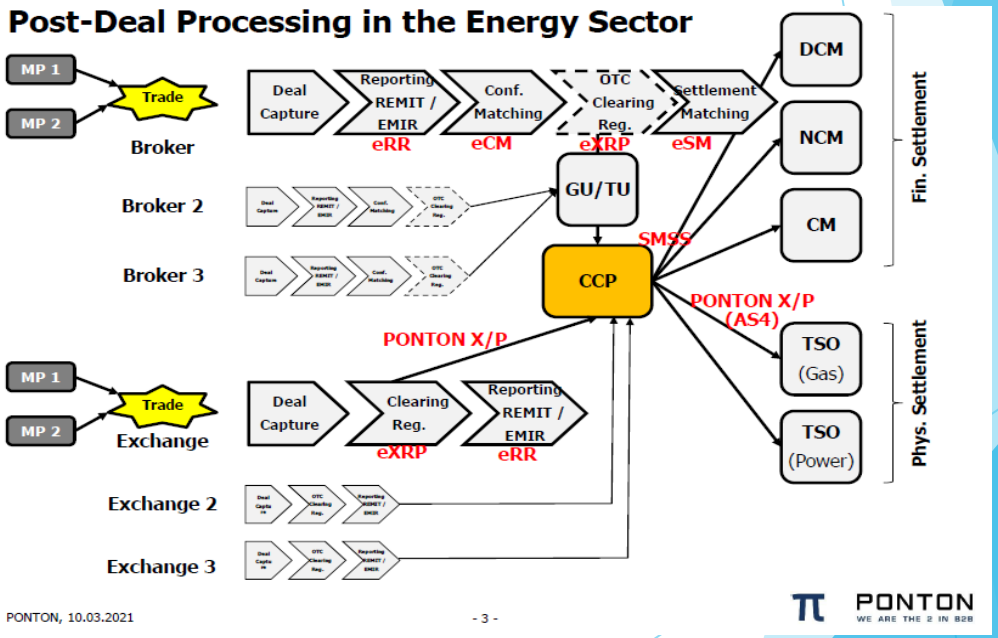
- Conceived as a **complete new clearing solution** in one hub with prerequisites to be duplicated to regional hubs
- **Focus on technology-** new implementation and IT infrastructure in the centre of the project
- **Multiple assets** designed to be accepted in clearing process, including financial instruments or other assets beyond gas
- Started as an local solution for an independent clearing houses with potential to be **replicated** and later on more easily integrated

*Source: Solution presented at **SEEGAS Platform – 2nd Stakeholder Meeting by PONTON related to Ukraine hub***

Solution 2 –clearing services provided by a regional clearing house (upgradable to EMIR)

- **One clearing house for all hubs**
- New implementation of a complete and complex project
- Dedicated to energy markets with wholesale energy markets and energy derivatives in the region
- Positive: *Creates perfect conditions for accelerated regional market integration*
- Negative: *Generates potential side effects on the identity of local exchanges/clearing houses*

Example of an expected post trading infrastructure to be achieved, from a professional perspective:



*Source: Solution presented at **SEEGAS Platform – 2nd Stakeholder Meeting** by PONTON related to **post trading in energy***

Solution 3 –regional clearing houses cooperation as a federalisation

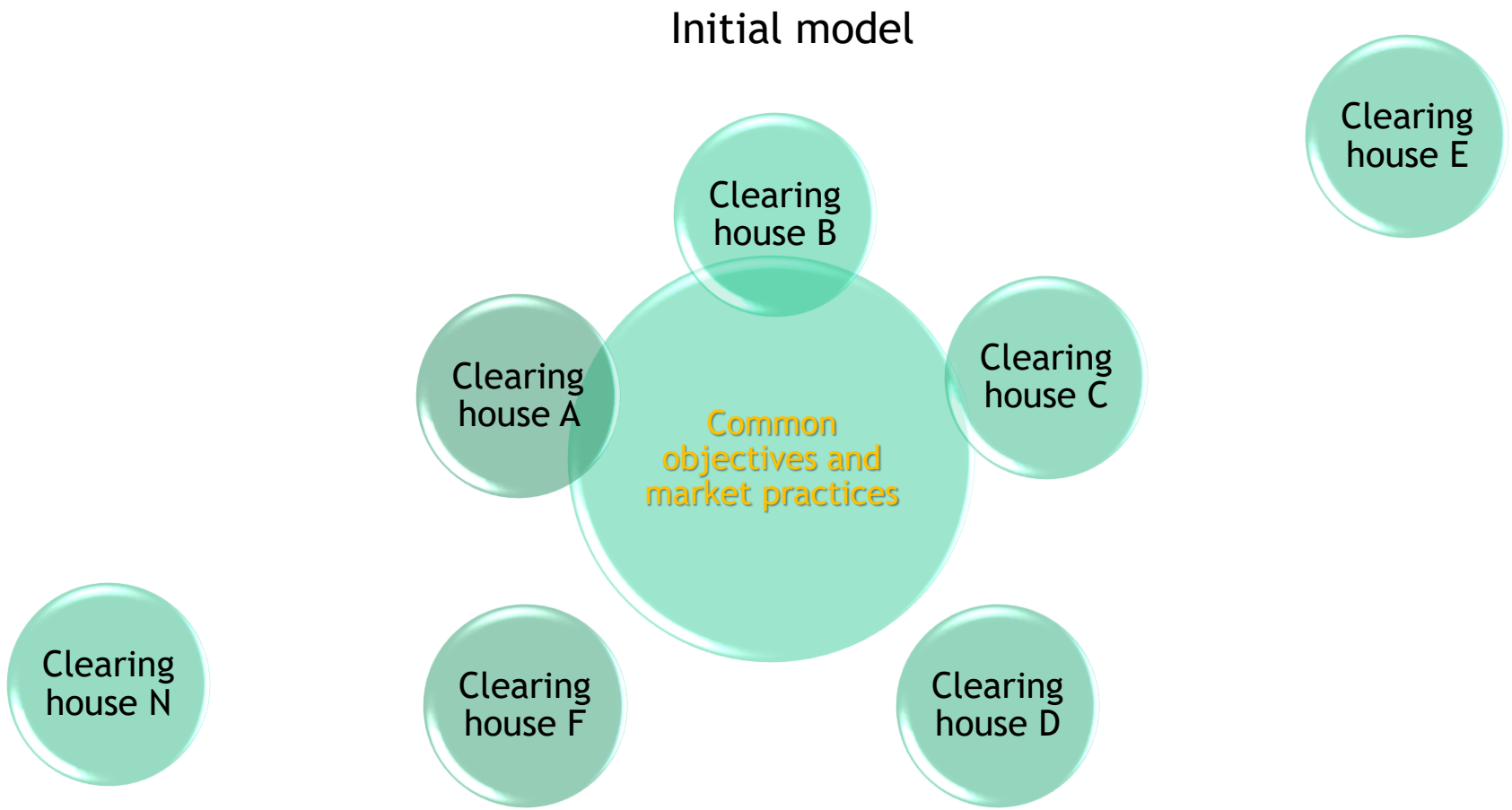
Optimal from BRM perspective

Basic characteristics:

- Cooperative approach between existing clearing house dedicated to wholesale energy markets with **specific practice alignments between markets**
- **Targeted approach on cooperation objectives** which bring most benefits for market participant with optimal allocation of resources from clearing houses
- **Minimal implementation** needed from each of the clearing houses involved with fast progress, focused on step by step visible results
- **Keeping each clearing house existing infrastructure**, systems and **independence** with minimum disruptive present market infrastructure
- **Creates premises for gradual approach to a further market integration on the post trading infrastructure**

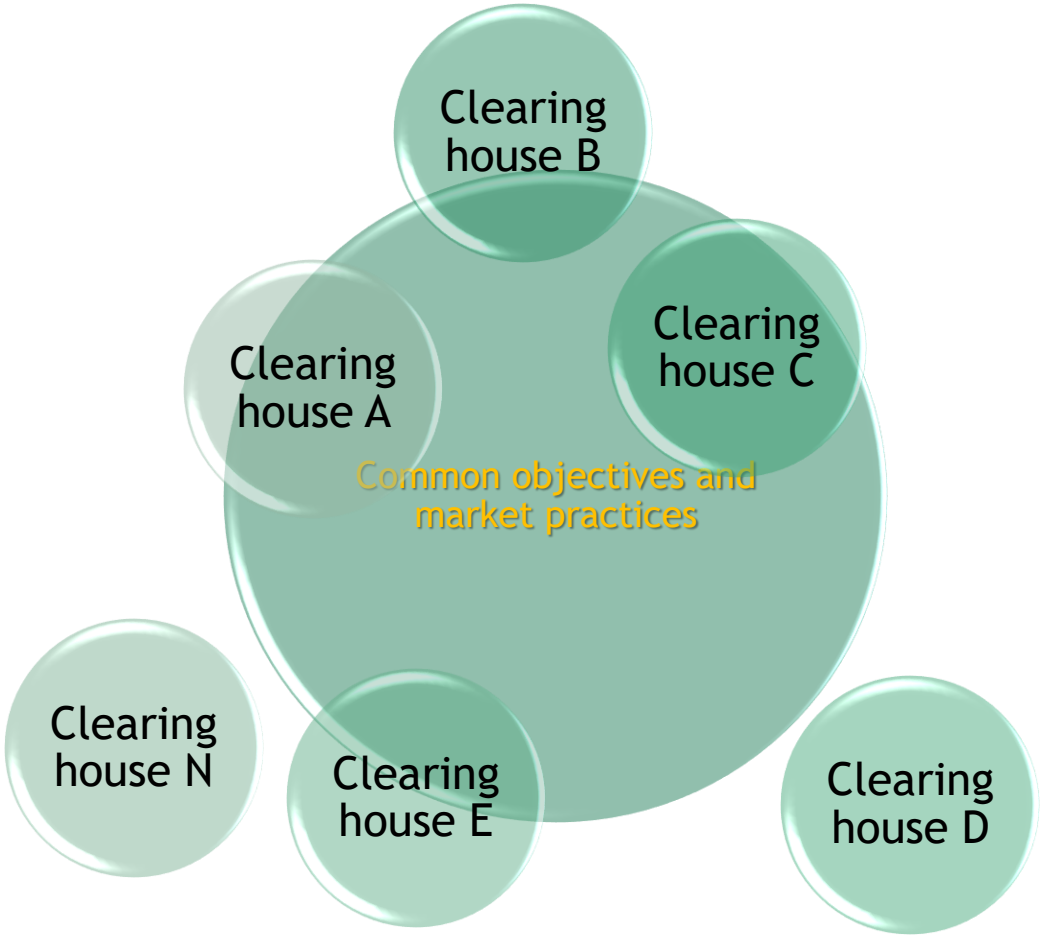
Small steps approach established through a potential Joint Venture agreement between market institutions!

Solution 3 –regional clearing houses cooperation as a federalisation



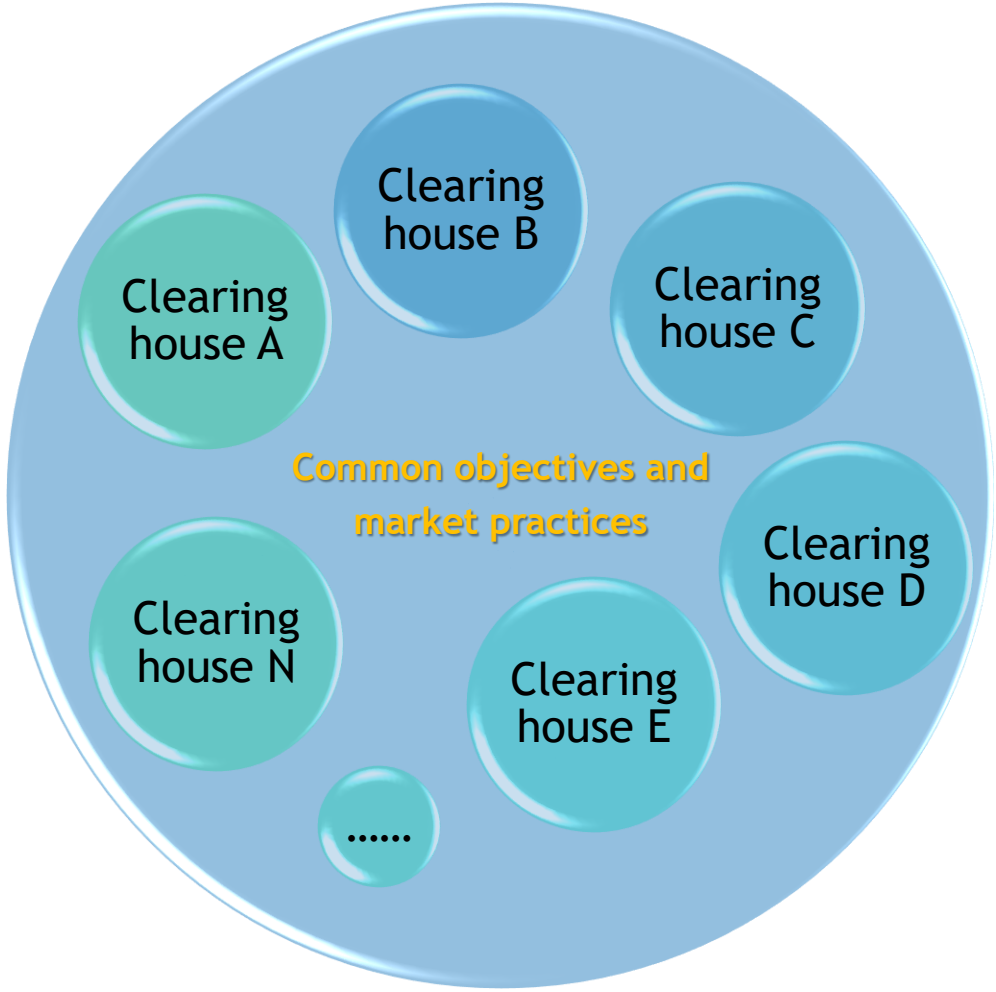
Solution 3 –regional clearing houses cooperation as a federalisation

Transitional model



Solution 3 –regional clearing houses cooperation as a federalisation

Optimal model



Solution 3

- *What could be the common objectives ?*

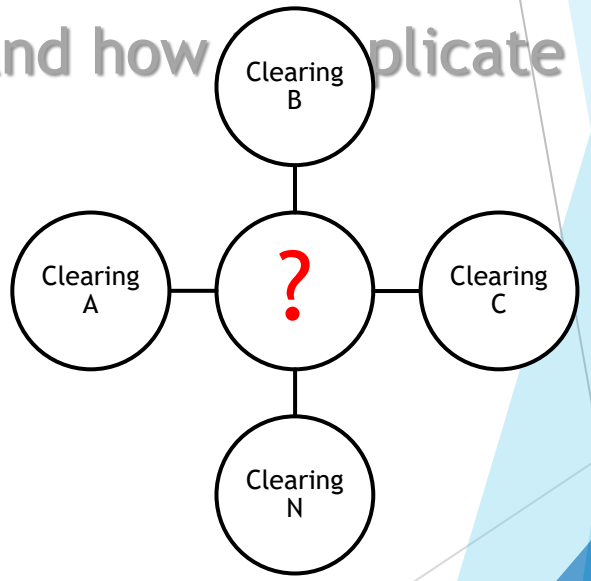
Solution 3


CCP type of functionalites implemented each market
Standard products
Product standardization between hubs
Cross margining on similar products
Regulation alignment
Common Settlement bank infrastructure
Mutual Member recognition
Commercial approach, incentives , data feed etc
Project common website
Trading interconnec tion
New products listing alignment
Spreads
Technical interconnection
Common Remit reporting
?
?

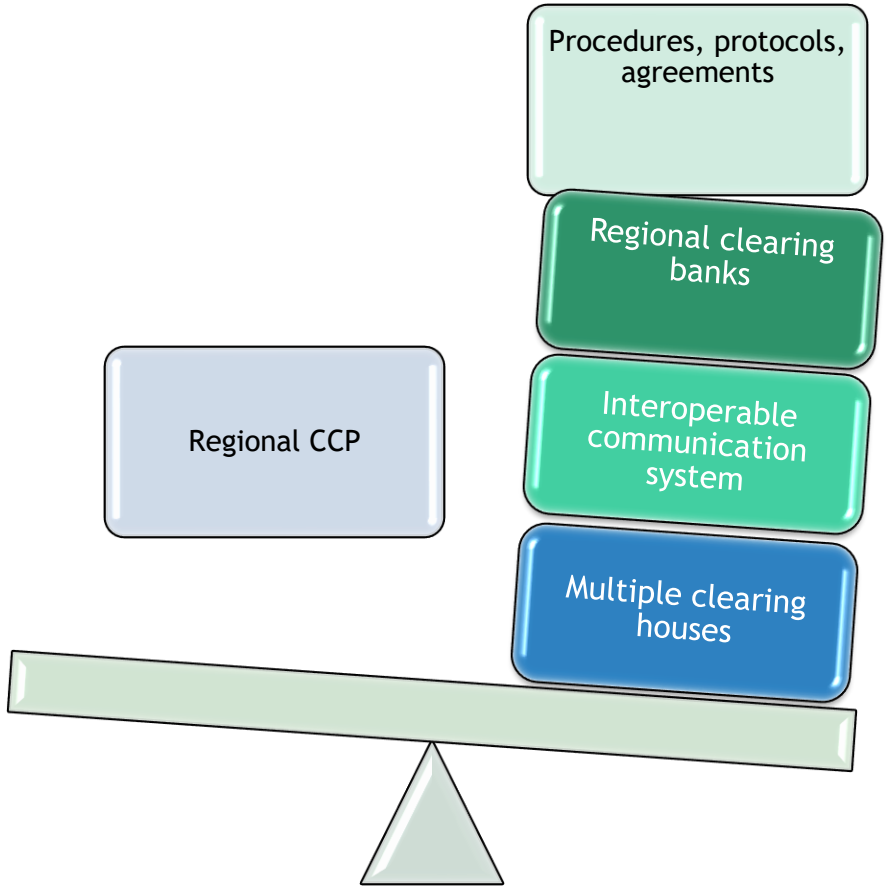
Solution 3

How could be centralized clearing organized without being a regional CCP ?

An analyses on the core of centralized system and how plicate it



Solution 3


Procedures, protocols, agreements
Regional clearing banks
Regional CCP
Interoperable communication system
Multiple clearing houses

Solution 3

Interoperable communication system

Deals with netting of positions

Initial margin netting

Delivery margin netting

Real time communication

Updating margin levels

…

Regional Clearing banks

Acts a GCM for common members

Cover daily Mark to Market – Variation Margin

Collect guarantees from the clients

Respond to margin calls from clearing houses

Manage the client relationship

…

Procedures,protocols agreements

Cover the alignment of practices between the independent clearing houses

Alignment of daily clearing operations: schedules, cut off times, etc

Cover default procedures

Establish protocols for communication for members and product mapping

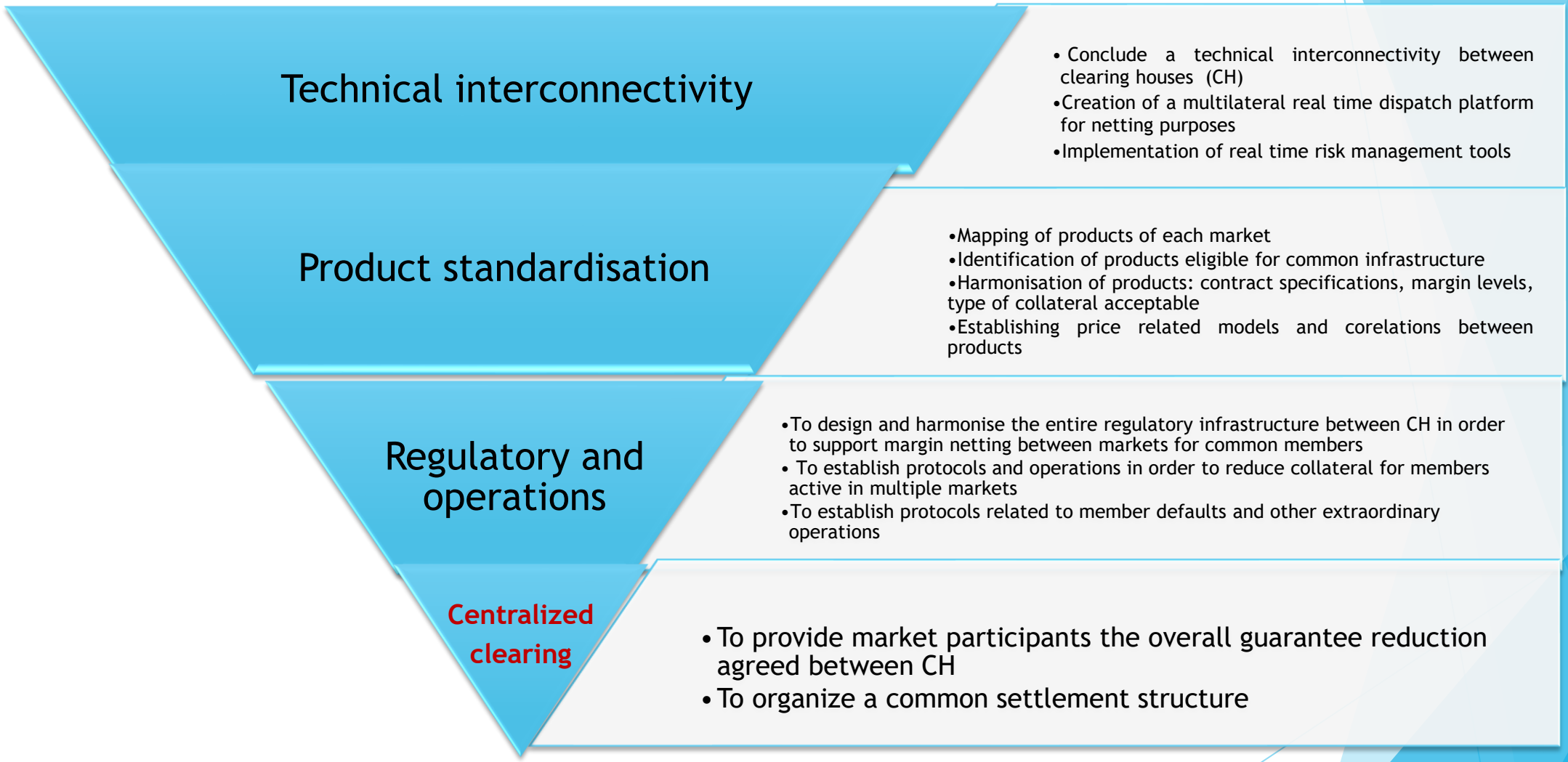
Design real time mechanism for supervision of cross border netting

…

Solution 3

What to prepare to do a centralized clearing ?

Solution 3


Technical interconnectivity
• Conclude a technical interconnectivity between clearing houses (CH)
•Creation of a multilateral real time dispatch platform for netting purposes
•Implementation of real time risk management tools
Product standardisation
•Mapping of products of each market
•Identification of products eligible for common infrastructure
•Harmonisation of products: contract specifications, margin levels, type of collateral acceptable
•Establishing price related models and corelations between products
Regulatory and operations
•To design and harmonise the entire regulatory infrastructure between CH in order to support margin netting between markets for common members
• To establish protocols and operations in order to reduce collateral for members active in multiple markets
•To establish protocols related to member defaults and other extraordinary operations
Centralized clearing
• To provide market participants the overall guarantee reduction agreed between CH
• To organize a common settlement structure

Solution 3

Potential model to position netting – a key piece in centralized clearing

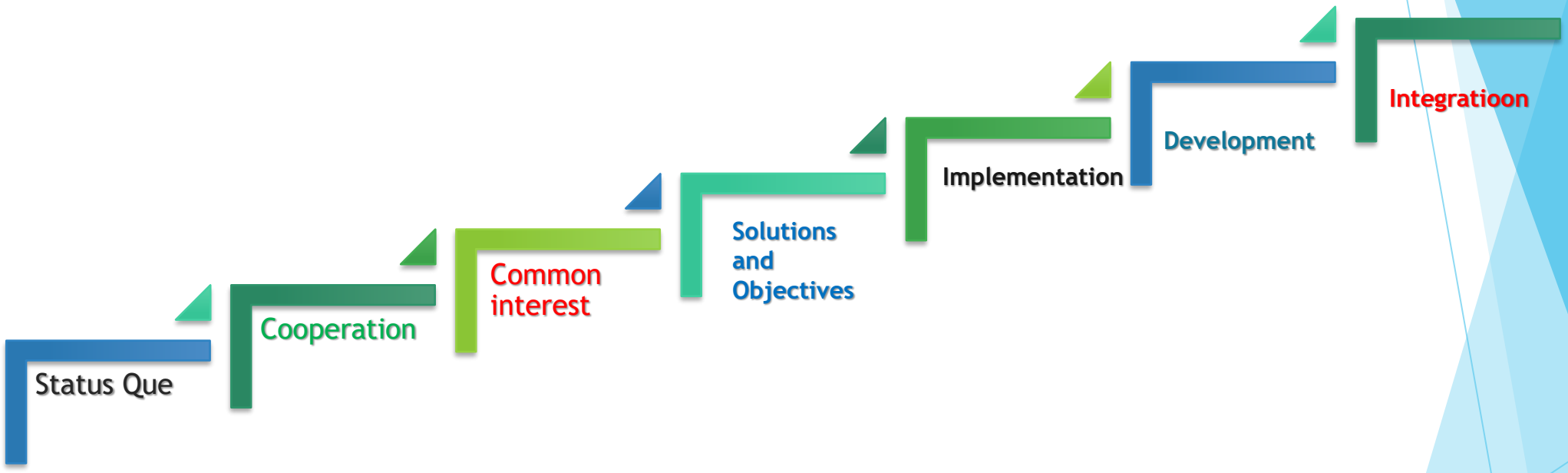
- Needs a CCP type of modelling at each clearing house
- Applicable for products that standardized and use Margining System
- First in/First Out principle applicable to apply discounted margin levels-based om trade history
- Priority in netting of transaction individual clearing house
- Keeps position risks at a bilateral level between 2 clearing houses on contract traded
- Compression rates are to be established and adjusted periodically

Solution 3 – model for netting the IM

	OPERATIONS					Balance sheet in local hubs										Balance Sheet REGIONAL										
Event timeline	Trade id	Contracts	Hub	Type of contract	Expiry	Net positions					Net position nominal value *(for example purposes the Initial Margin is set uniformly at equivalent of 100 Euros/contract - aprox 10% of contract notional value)*					Operat valid for netting regional	Positions compressed	IM discounted in hubs	Cross margining (set at 50%)	Discount nominal value (-)	Net positions in each hub reflected in nominal value and adjusted with the nominal discount aplicable					Net position /region
		Buy/Sell				RO	UA	PL	HU	Total	RO	UA	PL	HU	Total						RO	UA	PL	HU	Total	
T0	100ARO	10	RO	Forward	Month +1	10	0	0	0	10	1,000	-	-	-	1,000	*NO*					1,000	-	-	-	1,000	10
T1	101AUA	-5	UA	Forward	Month +1	10	5	0	0	15	1,000	500	-	-	1,500	*YES*	*5*	*RO/UA*	*50%*	*- 250*	750	250	-	-	1,000	5
T2	102APL	-4	PL	Forward	Month +1	10	5	4	0	19	1,000	500	400	-	1,900	*YES*	*4*	*RO/PL*	*50%*	*- 200*	550	250	200	-	1,000	1
T3	103AHU	5	HU	Forward	Month +1	10	5	4	5	24	1,000	500	400	500	2,400	*NO*					550	250	200	500	1,500	6
T4	104ARO	-1	RO	Forward	Month +1	9	5	4	5	23	900	500	400	500	2,300	*NO*					450	250	200	500	1,400	5
T5	105ARO	-1	RO	Forward	Month +1	8	5	4	5	22	800	500	400	500	2,200	*YES*	*5*	*RO/UA*	*50%*	*- 250*						
																YES	*3*	*RO/PL*	*50%*	*- 150*	400	250	200	450	1,300	4
																Yes	*1*	*PL/HU*	*50%*	*- 50*						
T6	106ARO	-1	RO	Forward	Month +1	7	5	4	5	21	700	500	400	500	2,100	*YES*	*5*	*RO/UA*	*50%*	*- 250*						
																YES	*2*	*RO/PL*	*50%*	*- 100*	350	250	200	400	1,200	3
																Yes	*2*	*PL/HU*	*50%*	*- 100*						
T7	107ARO	-3	RO	Forward	Month +1	4	5	4	5	18	400	500	400	500	1,800	*YES*	*4*	*RO/UA*	*50%*	*- 200*						
																YES	*1*	*UA/HU*	*50%*	*- 50*	200	250	200	250	900	0
																Yes	*4*	*PL/HU*	*50%*	*- 200*						
T8	108ARO	-4	RO	Forward	Month +1	0	5	4	5	14	-	500	400	500	1,400	*YES*	*5*	*UA/HU*	*50%*	*- 250*	0	250	400	250	900	4
T9	109ARO	-1	RO	Forward	Month +1	1	5	4	5	15	100	500	400	500	1,500	*NO*					100	250	400	250	1000	5
T10	110APL	5	PL	Forward	Month +1	1	5	1	5	12	100	500	100	500	1,200	*YES*	*5*	*UA/HU*	*50%*	*- 250*						
																YES	1	PL/RO	*50%*	-50	50	250	50	250	600	0

The table presents random trading scenario in some hubs for exemplification purposes only

Solution 3 – roadmap



Thank you!