Clearing Services and Liquidity

Lessons learnt from Western European Markets

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South-European Gas Platform (SEEGAS)
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 (3rd 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 to the 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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