Clearing approach for regional cooperation
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15.06.2021
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

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

Initial model

- Clearing house A
- Clearing house B
- Clearing house C
- Clearing house D
- Clearing house E
- Clearing house F
- Clearing house N

Common objectives and market practices
Solution 3 - regional clearing houses cooperation as a federalisation

Transitional model

Common objectives and market practices

- Clearing house A
- Clearing house B
- Clearing house C
- Clearing house D
- Clearing house E
- Clearing house N
Solution 3 - regional clearing houses cooperation as a federalisation

Optimal model

- Clearing house A
- Clearing house B
- Clearing house C
- Clearing house D
- Clearing house E
- Clearing house N
- ......
Solution 3

What could be the common objectives?
Solution 3

- Standard products
- CCP type of functionalities implemented each market
- Cross margining on similar products
- Regulation alignment
- Mutual Member recognition
- Commercial approach, incentives, data feed etc
- Project common website
- Trading interconnection
- New products listing alignment
- Technical interconnection
- Common Remit reporting
- Common Settlement bank infrastructure
- Product standardization between hubs
- Spreads
- ?
- ?
Solution 3

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

An analysis on the core of centralized system and how to replicate it
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
...
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 on 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

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<th>Event timeline</th>
<th>Trade id</th>
<th>Contra cts</th>
<th>Hub</th>
<th>Type of contract</th>
<th>Expiry</th>
<th>Net positions</th>
<th>Net position nominal value (for example purposes the Initial Margin is set uniformly at equivalent of 100 Euros/contract - approx 10% of contract national value)</th>
<th>Operat valid for netting regional</th>
<th>Position s compressed</th>
<th>IM Discounted in hubs</th>
<th>Cross margining (set at 50%)</th>
<th>Discount nominal value ($)</th>
<th>Net positions in each hub reflected in nominal value and adjusted with the nominal discount applicable</th>
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The table presents random trading scenario in some hubs for exemplification purposes only.
Solution 3 - roadmap

Status Que

Cooperation

Common interest

Solutions and Objectives

Implementation

Development

Integration
Thank you!