



Legal Issues of Risk Management of Power Exchanges

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Energy Exchanges – Potential Liabilities

Structure Related Risks

Operation Related Risks

Financial Risks

Structural & Operational Issues (indicatively)

Structural Issues

- Firmness of Trades
 - ✓ Firmness of bids/offers (e.g. art. 47(5) and art. 59 (6) Reg.2015/1222)
 - ✓ Firmness of cross border capacity (e.g. art. 70 Reg. 2015/1222)

- Finality of Transactions
 - ✓ No legal right of rescission
 - ✓ No legal right of cancellation by third party (e.g. insolvency)

- Clearing/Settlement Structure
 - ✓ Legal Effect of Clearing & Settlement
 - ✓ Clear and back to back Relationships of Clearing and Non Clearing Members/Participants
 - ✓ Address legal issues (e.g. mark out area of disputes, limiting insolvency impact on trades, payment/set-off, collateral)

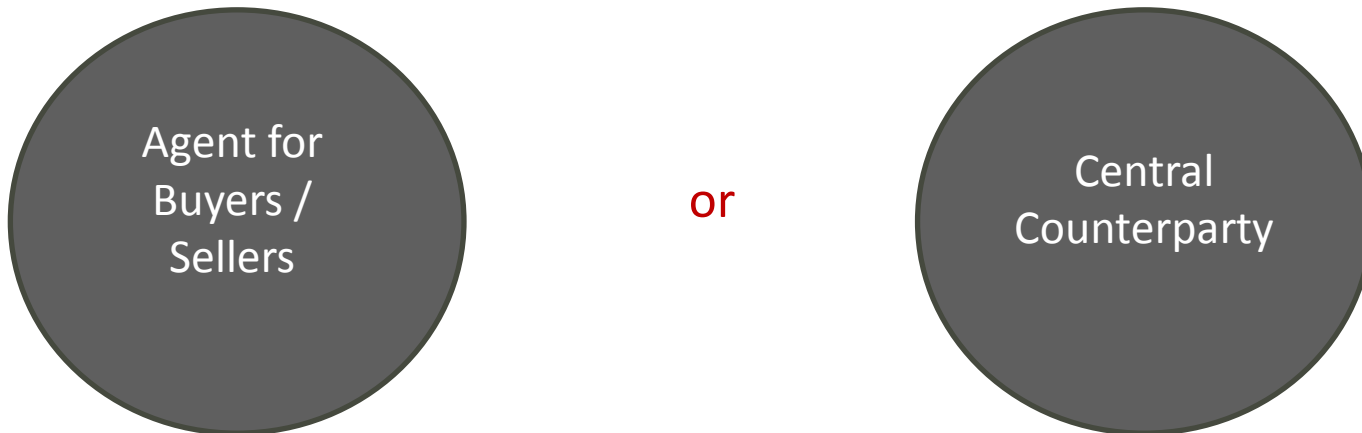
Structural & Operational Issues (indicatively)

Operational Issues

- Operation of procedures & Reduction of margin of errors
- Information flows and clear description of responsibilities/liabilities of Market Operator, Participants, TSOs and other parties
(the “*What if*” scenaria)
- Business Interruption Risk Management Analysis
- Crisis Recovery System

Financial Risk – Clearing and Settlement

Role of Market Operator



- EU Reg. 2015/1222 – Market Operator will act as Central Counterparty
- Shipping Agents

Financial Risk – Clearing and Settlement

Counterparty Risk

- Creditworthiness of Participants
 - ✓ Criteria
 - ✓ Who is responsible for payment: participants/ Clearing Members / Non Clearing Members
 - ✓ Limits in trading
- Collateral
 - ✓ Type of collateral (funds, guarantees, LoC and other tradeable instruments)
 - ✓ Timing/frequency of Clearing & of Replenishing Margin
 - ✓ Level of Exposure
 - ✓ Portfolio spreads: collateral efficiency

Financial Risk – Clearing and Settlement

- Default Management

- ✓ Collateral
- ✓ Defaulting participant's contribution to Default Fund
- ✓ Other Participants' contributions to Default Fund
- ✓ Clearing House's own resources

Thank you

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