

Chapter 6: Credit Risk Management

Industry Guide to the I-SEM

6. Credit risk management

6.1 Collateral requirements with SEMOpx

Note: These requirements are specific to SEMOpx and do not apply to other NEMOs that might be designated in the I-SEM.

As part of the registration process, participants are admitted to the European Commodity Clearing (ECC) as either a non-clearing member or a direct clearing participant.

Non-clearing member

Each participant appoints a clearing member—a bank that is a member of the European Commodity Clearing (ECC) clearing house—who settles with SEMOpx on behalf of the participant. The ECC acts as a central counterparty for all payments in the market and guarantees payments in the event of a default by a participant. The ECC assesses the collateral requirements of each clearing member and ensures it holds adequate security to protect against default. Each clearing member then imposes similar obligations on the participant.

6. Credit risk management

Direct clearing participant

This membership class allows participants to participate in the ex ante markets without appointing a clearing member. Instead, the participant appoints a settlement bank, who settles with SEMOpx and guarantees payments in the event of a default by a participant. The participant can nominate either a trading limit or a collateral amount. The ECC then assesses the collateral amount (for a nominated trading limit) or the trading limit (for a nominated collateral amount).

6. Credit risk management

6.2 Collateral requirements with SEMO

Collateral requirements for the BM and CM are established at the participant level—netting the collateral requirements for all supply and generation units registered by the participant.

Credit management is in the form of credit cover provided by a qualified bank. SEMO draws on the participant's credit cover to cover any defaults. SEMO monitors the exposure of every participant and can request an increase in credit cover if required. If a request to increase a participant's credit cover is not complied with, then the participant can be suspended from the market.

6.3 Collateral requirements with JAO

Collateral with JAO can be as cash (held in a bank account) or via a letter of credit. The collateral is considered for all trading with JAO, which may be on multiple European borders. Before considering auction bids, the participant's credit cover is checked and bids above the level of collateral may be excluded.