

part of eex group



Application form Emission Rights as Margin Credit

13.07.2018

Leipzig

Ref. 007

Release 003

Preliminary remark

The application for the consideration of deposited emission rights in connection with the calculation of the margin-requirement consists of the following steps:

1. Please fill in the application form and sign it in a legally binding manner:
 - i. For the *Applicant*, which must be admitted as a Trading Participant at ECC
 - ii. For the cooperating *Clearing Member*, in case the Applicant is a Non-Clearing-Member
2. Send this application to:

European Commodity Clearing AG
 Clearing & Settlement
 Augustusplatz 9
 D-04109 Leipzig
 Germany

Phone: +49 (0)341 24680-444
 Fax: +49 (0)341 24680-409
 E-mail: MemberReadiness@ecc.de

3. ECC shall decide on the application regarding consideration of emission rights in the calculation of the margin-requirement in its free discretion and, if so decided, implement a respective process without a need for explicit declaration of acceptance.

Application

We hereby apply for the consideration of emission rights deposited by the Applicant at ECC in determining the Applicant's or, in case the Applicant is a Non-Clearing-Member, the cooperating Clearing Member's margin-requirement for the Applicant.

Applicant

Company name:	Member-ID:
	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text" value="E"/> <input type="text" value="X"/>

Contact Person
Contact Person
Telephone number
Fax
E-Mail

Cooperating Clearing Member

(only required if applicant is a Non-Clearing Member)

Company name:	Member-ID:
	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text" value="E"/> <input type="text" value="X"/>

Contact Person
Contact Person
Telephone number
Fax
E-Mail

Please note: In case the Applicant is a Non-Clearing Member of ECC, the form should first be completed and signed by the Applicant, sent to the cooperating Clearing Member for completion and signing, and then sent to ECC by the cooperating Clearing Member.

Setup

The following section needs to be completed by the Applicant.

(Required) Please select the type of change requested.

- ☐ New setup
- ☐ Change existing setup
by (Date)
- ☐ Deletion of existing setup
by (Date)

(Required) Please select the types of emission rights to be considered.

- ☒ EUA – European Union Allowances

Limits

The following section needs to be completed by the cooperating Clearing Member, in case the Applicant is a Non-Clearing Member of ECC.

(Mandatory) Please select the upper boundary for margin-credit granted in relation to the current Margin requirements determined by ECC for the Applicant.

- ☐ Margin-credit shall be granted up the current **Initial Margin requirement for Spot** markets plus the current **Collateral Value of an existing Covered Short Position**¹ in the respective Emission Rights future product (EMIR Art. 46 (2)) ("Spot + Derivatives")

Example: If the current Initial Margin Spot Market (IMSM) is determined at 500.000 € and the current Collateral Value of a covered short position in emission futures is 200.000 € the margin-credit from emission rights will not exceed 700.000 € at this time.

- ☐ Margin-credit to be capped by the current **Initial Margin requirement for Spot** markets ("Spot only")

Example: If the current Initial Margin Spot Market (IMSM) is determined at 500.000 € the margin-credit from emission rights will not exceed 500.000 € at this time.

- ☐ Margin-credit to be capped by current **Collateral Value of an existing Covered Short Position**¹ in the respective Emission Rights future product (EMIR Art. 46 (2)) ("Derivatives only")

Example: If the current Collateral Value of an existing covered short position in emission futures is 500.000€ the margin-credit from emission rights will not exceed 500.000 € at this time.

The amount of margin-credit is granted **up to 20%** of the Total Initial Margin requirement.

- ☒ Usage of emission rights as margin-credit to be capped by a **Relative Limit** of % of the current **Total Initial Margin** requirement for Spot and Derivatives.

Example: With a value of 20% defined here, and the current Total Initial Margin requirement with Initial Margin Spot Market (IMSM) and Initial Margin Derivatives Market (SPAN) determined at 1.000.000 €, the margin-credit from emission rights will not exceed 200.000 € at this time.

(Optional) If required, please provide any additional limits for the amount of margin-credit granted. Multiple limits can be selected; the lowest of all selected limits is applied.

- ☐ Usage of emission rights as margin-credit to be capped by an **Absolute Limit** of: EUR.

Example: With a value of 500.000€ the margin-credit from emission rights will never exceed 500.000€.

¹ A "Covered Short Position" consists of a Net Short Position in a Future product (i.e. „Delivery obligation for a number of emission rights at a defined time in the future“) matched by a respective number of eligible emission right already booked in ECC custody.

Process Description

ECC continuously monitors the amount of emission rights booked in the internal inventory accounts of ECC trading participants.

The number of emission rights eligible for calculating margin-credit is the minimum amount of emission rights booked in the internal inventory account over the blocking period of 105 days² based on the *historic end-of-day balance* of each day in the blocking period.

All known but yet-to-be settled trades and transfer requests are considered in a *projected balance* which is included in the minimum calculation outlined above.

Example: If the minimum amount of emission rights booked at ECC over the blocking period is 10,000 but the projected balance at the end of the next ECC business day is 8,000, then 8,000 will be used as the number of eligible emission rights.

Using the number of *eligible emission rights*, the current market value of this position, the applicable haircuts, and risk management limits, a monetary value ("margin-credit") is calculated, combined into the current margin-requirement, and published into the ECC margining system.

Increased margin-credit caused by *increased* eligible balance, *higher* market value of emission rights, or similar may result in a *reduced overall margin-requirement*. This may free up other deposited collateral accepted by ECC for margining purposes, i.e. cash or securities.

Reduced margin-credit caused by reduced eligible balance, *lower market* value of emission rights, more restrictive risk management conditions, or similar may result in an *increased overall margin-requirement* that must be fulfilled through other collateral accepted by ECC for margining purposes, i.e. cash or securities.

² The "blocking period" is defined as the number of days that emission rights need to be booked in the internal inventory account at ECC, before these first can be used as a basis for credit in the calculation of the margin-requirement. This implements legal requirements from the German insolvency ordinance. At present the blocking period is defined to be *105 days* but may be subject to change.

Declarations

1. This application and the options contained herein relate to the calculation of the margin-collateral to be provided to ECC by the Applicant or, in case the Applicant is a Non-Clearing-Member, the cooperating Clearing Member for the Applicant's activities.
2. ECC will calculate the amount of margin-credit granted in its free discretion but in accordance to the limits expressed herein. Margin-credit will be booked as a premium towards the Initial Margin Spot Market and any surplus will be distributed proportionally according to current initial margin-requirements across all relevant derivatives market account groups of the Applicant.
3. In case the Applicant is a Non-Clearing Member of ECC, the cooperating Clearing Member will pass on a reduction or an increase in the margin-requirement to the Applicant as a revised margin-requirement to be fulfilled by the Applicant in a form of collateral accepted by the Clearing Member. According to ECC Clearing Conditions, margin collateral deposited by the Applicant at the Clearing Member must not be lower than margin collateral requested by ECC for the Applicant.
4. ECC may suspend or terminate the consideration of the Applicant's emission rights in determining the margin-requirement at any time and in its free discretion.
5. In case the Applicant is a *Non-Clearing Member of ECC*, the Applicant needs to ensure that sufficient replacement collateral in a form accepted by the Clearing Member is deposited *at the cooperating Clearing Member*, before emission rights used as collateral can be transferred:
 - a. From ECC's registry account to another non-ECC registry account, or
 - b. From the Applicant's internal inventory account at ECC to another internal inventory account, unless this is due to settlement of a Spot Market or Derivatives Market transaction

The cooperating Clearing Member may request from ECC by telefax a temporary suspension of the Applicant's transfers of emission rights before 12 noon CET on the day of the intended transfer, in case this is necessary to secure claims against the Applicant. ECC will not verify this precondition.
6. In case the Applicant is a *Clearing Member of ECC*, the Applicant needs to ensure that sufficient replacement collateral in a form accepted by ECC for margining purposes (cash, securities) is deposited *at ECC* before any transfer as per No (5) can be carried out.
7. The Applicant shall be entitled but not legally bound to provide emission rights as a basis for determining a margin-credit hereunder.

This document shall be governed by the laws of Germany.

DATA PROTECTION DECLARATION

The undersigned assures that he has fully informed the contact persons named in connection with the contract, the exchange membership relationship or other legal relationships about the transfer of their personal data and that he has brought to their attention the DATA PROTECTION DECLARATION which can be found on our company websites.

On behalf of the *Applicant*:

Place	Date dd.mm.yyyy	Company stamp and legally binding signature(s)
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On behalf of the cooperating *Clearing Member* (only if Applicant is a Non-Clearing Member):

Place	Date dd.mm.yyyy	Company stamp and legally binding signature(s)
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