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ECC Clearing Circular 38/2023

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News

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Update calculation method for Additional Margin for Balance of the Month contracts (AMBO)

Summary

As of 27 October 2023, the calculation of the Additional Margin (AMBO) for physically settled monthly gas future contracts in delivery will be adjusted.

Currently, the AMBO is calculated using the equivalent SPAN Initial Margin requirement. This will be changed, calling only the relevant open financial settlement risk of the remaining days and potential delivery risks.

The change will be active from 27 October 2023 impacting the margin call for the 30 October 2023. The calculation results can be found in the report CC750 Daily Margin in the margin class AMBO as usual without changes to margin classes or the margin call procedures.

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New Calculation Method

The AMBO is calculated for physically settled monthly gas futures in delivery, also called BOM (Balance-of-the-month) contracts, on the day of expiry. The calculation method will be changed starting 27 October 2023 covering now the netted sum of outstanding payments and potential delivery risks:

$$AMBO = \max\left(0\,,\ \sum_{c\ in\ \{EUR,GBP\}} \left(\sum_{i\ \epsilon\{1,\ldots,n\}\ :\ Curr(i)=c} SP_i * RCS_i * P_i * DRF_i(P_i) \right) /\ adjxr(c, EUR) \right)$$

where for n BOM contracts in the margin account and BOM contracts $i = 1, \ldots, n$

- SP_i is the settlement price of the BOM contract i that has already been fixed before the delivery month started.
- P_i is the position of the BOM contract i in the margin account. In contrast to the current AMBO model, we use the actual (not absolute) position size. ($P_i > 0$ for long positions and $P_i < 0$ for short positions)
- RCS_i is the remaining contract size for the BOM contract i that will be settled on the last settlement day
- DRF_i is the delivery risk multiplier also used in spot margining to reserve a portion of the financial exposure to cover delivery risk
    - $DRF_i(P_i) = 1$ for long positions
    - $DRF_i(P_i) = 1$ for short positions and underlying market without delivery risk
    - $DRF_i(P_i) < 0$ for short positions and underlying market with delivery risk. Hereby, we use the same parameter also used in the Spot Margining Model as Margin Parameter for Current Exposure Spot Market (CESM) & Initial Margin Spot Market (IMSM) that can be found in ECC Risk Parameters file on ECC Website.
- $adjxr(c, EUR),\ c \in \{EUR, GBP\}$ is the adjusted exchange rate transforming calculated amounts into EUR in case $c = GBP$. In case the aggregated amount is positive, the adjusted exchange rate for debits is used. For negative amounts, the adjusted exchange rate for credits is used.