



News

▶ **ECC Clearing Circular 38/2016 | 2016-08-26**

Introduction of ECC Direct Clearing Participant Model

Summary

From 01 September 2016 onwards ECC will offer a Direct Clearing Participant Model (DCPM) for specific spot markets.

This Clearing Circular contains information regarding the general set-up of the model, the settlement processes and the criteria for participation.

Physical Settlement

Financial Settlement

Risk Management

Information Technology



Contact:

European Commodity Clearing AG

Clearing & Settlement

Tel.: +49 341 21 56 – 444

clearing@ecc.de

www.ecc.de

Augustusplatz 9 | 04109 Leipzig | Germany

DCPM Introduction

The publication of the Clearing Conditions Release in Circular 34 on the 15 July 2016, introduced a new membership category, Direct Clearing Participant Clearing Member (DCP CM). DCP CMs have direct access to the clearing of spot markets without a Clearing Member.

The requirements to become a DCP CM are stipulated under article 2.1.3 of [ECC's clearing conditions](#). One of the prerequisites is that only companies based in a country approved by ECC for DCP Clearing can be admitted. ECC will communicate the list of approved countries on the [website](#) in the upcoming weeks. The following table shows a schedule for the current legal opinions on solvency that have been sought for each country.

| Domestic Country of DCP CM | DCP readiness approval |
|---|-----------------------------|
| Germany | Received August 2016 |
| Netherlands | Expected end of August 2016 |
| Belgium, France | Expected September 2016 |
| United Kingdom, Ireland and others ¹ | To be determined |

¹ Interested customers based in UK or a country which is not DCP eligible yet can contact directclearing@ecc.de for further information and status updates.

Please note: The countries in which the DCP CM is located and not the countries in which the markets operate are relevant for the legal opinions.

The DCP membership is only available for spot markets with a pre-trade limit system accepted by ECC which will continuously be extended. ECC will communicate further enhancements of markets in further clearing circulars.

Initially the DCP Model will be offered for the following markets and products:

| Market | Product Name |
|--------------|---|
| APX Power NL | Dutch Power Day-Ahead and Intraday TenneT |
| BELPEX | Belgian Power Day-Ahead and Intraday Elia Belgian Power Strategic Reserve Elia |

Clearing Process

Financial Settlement

All payment transactions will be processed via a settlement account which the DCP CM has to open at a Settlement Bank approved by ECC. The respective prerequisites for holding and operating the account need to be defined individually with the settlement bank within the settlement bank agreement. One main precondition to operate a settlement account is the granting of a Power of Attorney (PoA) to ECC by the DCP CM.

All spot market transactions will be imported into ECC's settlement system (SMSS) using the ECC member ID of the DCP CM (e.g. ABC EX).

The values of the transactions concluded and requested cash collateral adjustments are netted into one net payment amount per DCP CM at the accounting cut at 16:00 CET (payment group EUR_1600) on every ECC business day. In this process, all new transactions which have been concluded since the last booking cut until the current booking cut will be included and financially settled on the next ECC business day (the “payment date”). Transactions which are concluded after the current booking cut are settled on the ECC business day after tomorrow.

An exemption applies for intraday transactions concluded on the M7 trading system: In case of a net payment to the DCP CM from transactions in this system the net payment will always be deferred by an additional ECC business day. Any deferred payments can be used by ECC as collateral in case of a default of the DCP CM.

The collection of a net debit amount will be done through a so called “Request of Transfer” SWIFT message (MT101) around 8:00 CET on the payment date which is the TARGET2 day following the ECC business day. For that reason, each DCP CM is obliged to adequately fund the dedicated settlement account at his Settlement Bank in advance.

The credit of a net payment amount to the dedicated settlement account will be initiated by ECC on the payment date shortly after successful cash settlement of all ECC Clearing Members. The final booking on the settlement account is dependent on the payment cycle of the DCP CM's Settlement Bank.

All payments – including the deferred payments - will be reported to the DCP CM in the Payment Detail report (see next section).

Reporting

The exact payment amount and value date are provided within ECC reports on spot market transactions. It is possible to subscribe to various reports in XML and PDF format and to export transaction data online via the ECC Member Area.

More information and examples can be found on ECC's [website](#) and further information on the report subscription is available in the [ECC Member Area User Guide](#).

Risk Processes

Limitation

A DCP CM can only carry out transactions up to the amount of a total limit. This total limit has to be collateralized before trading. The total limit is capped depending on the financial strength of the DCP CM.

ECC uses the Creditreform rating and the equity of the DCP CM to determine the capped amount. Further information on mapping between rating and equity to the limit cap will be published on [ECC's website](#) in the upcoming days.

Limit Management

A DCP CM requests a total limit from ECC as part of the admission process to become a trading participant at the respective spot market. If the DCP CM requires admission to multiple markets ECC requires clarification of the following form of the DCP CM:

1) The DCP CM defines a limit amount per market which ECC will use to calculate the corresponding total collateral amount required from the DCP CM.

2) The DCP CM defines the collateral amount which he is able to provide and a percentage distribution across the required markets. ECC will then calculate the total limit amount per market.

All required information for the limit distribution process can be set by the member using the form "O09 Limit Adjustment Form". For submission of the form as well as support on the limit management process please contact ECC on the following email address: directclearing@ecc.de.

The limits are reapplied by the respective exchanges on a daily basis when a collateral adjustment or a new preferred limit allocation is requested by the DCP CM. ECC reserves the right to adjust the limits per account for different payment cycles, e.g. weekends or holidays. On every ECC business day the establishment, adjustment or allocation of the total limit can be applied.

The DCP CM can see their limits broken down by market on the ECC Member Area. More information is available in the ECC Member Area User Guide.

Collateral Management

To cover margin requirements DCP CMs can only provide trading participant collateral as defined in article 3.5.10 and 5.1.2 of [ECC's Clearing Conditions](#). Currently ECC accepts cash and guarantees in Euro as collateral for DCP CMs.

All collateral for a DCP CM will be booked at a delivery account in ECC's settlement system SMSS. For each margin type and respective currency one delivery account will be setup. The member can monitor the balance of his collateral accounts via ECC's online Member Area.

| SMSS Collateral Account | Description |
|-------------------------|---|
| HLDNG_CASH_MRGN_EUR | Cash deposited at ECC in the collateral account and in currency Euro. |
| HLDNG_CASH_FUND_EUR | Cash deposited at ECC in the clearing fund account and in currency Euro. |
| HLDNG_CASH_CAP_EUR | Credit limit given in currency Euro determining the total trading limit. |
| GUARANTEE_XXXX_EUR_DMS | Guarantee provided from an accepted guarantor – guarantee amount will be booked at the collateral account |

Cash Collateral payments resulting from adjustments of collateral or limit are shown in ECC's payment reports and will be settled according to the financial settlement process for DCP CMs. The cash amounts will be pledged to ECC and transferred to or from ECC's EUR account at the Deutsche Bundesbank.

For an increase of collateral the respective amount will be considered within the next booking cut at 16:00 CET and the new collateral balance will be processed in the collateral account on the next TARGET2 day after successful cash settlement of all ECC Clearing Members. After successful processing, ECC will enter the adjusted limit in ECC's clearing system SMSS which is effective after confirmation by the respective exchange trading system.

In case of a requested decrease of collateral ECC has to check the impact on the limit of the DCP CM. A decrease of the limit would occur with immediate effect. The cash amount that will be considered in the booking cut is that amount which would result in a payment in three TARGET2 days.

Please consider these timelines when requesting an adjustment of your collateral or limits. A change of collateral could reduce the trading capacity of a DCP CM.

Default Fund

DCP CMs are further required to contribute to the ECC clearing fund according to section 3.8 of the [ECC Clearing Conditions](#). Accepted collateral for the ECC clearing fund is Euro cash only. In case of a DCP CM's default, its collateral and clearing fund contribution are used to cover the resulting shortfall. If that is not sufficient, ECC's dedicated own resources of currently 7.5 million EUR and subsequently the default fund contribution of all other DCP CMs are used. As last resort the remaining clearing fund is used. Details can be found in section 3.8.3 of the [ECC Clearing Conditions](#).

A minimum default fund contribution of a DCP CM is defined as a percentage of its total trading limit.

ECC performs daily stress tests for the simultaneous default of a DCP CM and its biggest guarantor which should be covered by the DCP CM's clearing fund contributions. If the maximum calculated shortfall exceeds the DCP CM's clearing fund contribution including ECC's dedicated own resources, the amount of exceedance is allocated to the DCP CM as an additional clearing fund contribution proportional to their current shortfall.

Admission

The following requirements are necessary for admission by ECC:

- completion of a Know-Your-Customer (KYC) Questionnaire if requested by ECC and passing of the ECC KYC assessment or other applicable access policies of ECC
- completion of a corresponding Settlement Bank Agreement with a cooperating Settlement Bank and ECC (if applicable)
- approval as a Trading Participant for at least one ECC approved spot market where the DCP Model is available
- conclusion of a balance group agreement with the respective TSO

ECC Forms

To become a DCP CM you have to provide the following forms:

- DCP 01 (Application for Admission as DCP Clearing Member)
- TP Form (Trading Participant Form as proof of ability for physical delivery towards ECC)
- T10 Form (Setup user ECC Member Area)
- O09 Limit Adjustment Form
- O10 Cash Collateral Form

For further information please contact: memberreadiness@ecc.de.

Settlement Bank

The settlement banks approved by ECC will be listed on ECC's homepage with their respective contact details.

The first settlement bank which was approved by ECC by now is ABN Amro Bank N.V. as an international bank with substantial expertise and high credit standing. For opening a settlement account please contact:

C.A. (Cas) Huith | Head of Escrow & Settlement UK
ABN AMRO | Escrow & Settlement

Tel: +44 (0) 20 3192 9419 | Mobile: +44 (0) 79 1894 2758

E-Mail: caspar.huith@uk.abnamro.com

Fees

The following fees will be charged by ECC to DCP CMs:

| Fee type | Amount |
|---|--|
| Participation of DCP-Clearing Members in clearing at several spot markets | 12,500 € p.a. |
| Participation of DCP-Clearing Members in clearing for spot markets for single country | 9,000 € p.a. |
| Variable Fee | ECC Clearing fee for respective spot market transactions |
| Collateral Adjustment Fee (waived until 31.12.2016) | 100€ / 70£ per collateral payment |
| Limit Adjustment Fee (waived until 31.12.2016) | 100€ / 70£ per limit adjustment |

The fee table is already included in the [ECC Price List](#) which is available on the website. Fees are settled via the Settlement Bank of the DCP CM according to the outlined financial settlement process. For further details please see our [website](#).