

ECC Clearing and Settlement Services HUDEX

Summary

On **3 January 2018**, ECC will launch clearing services for Financial Power Futures contracts concluded on the Hungarian Derivatives Energy Exchange Zrt. (HUDEX).

In this Clearing Circular, we would like to provide information regarding the new products, the settlement processes and the preconditions for participation.

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Background

To comply with the new European Union financial market regulations (MiFID II) the current power derivatives market of HUPX will be transformed from a physical market into a regulated market for financial power derivatives. In addition the HUPX Group structure is synchronized by establishing HUDEX which is a 100%-owned subsidiary of HUPX Ltd.

HUPX will continue in offering spot trading (Day-Ahead and Intraday Market) in Hungary. HUDEX will offer Hungarian Financial Power Futures with the option of physical delivery (through HUPX Day-Ahead market).

Description of New Products

The specification and structure of the new financial HUDEX products remains unchanged in comparison to the HUPX futures products, only the settlement type will change from physically to financially settled.

HUDEX offers Base and Peak Power Future contracts for trading. These contracts will be setup as follows in the ECC clearing systems, EUREX Clearing and SMSS:

EUREX Product Code	ISIN Code	Name	ECC Product Group
F6B1	HU0006688209	Hungarian Base Week Future	HUDX_FT_POWER_HU
F6B2	HU0006688241	Hungarian Base Week Future	
F6B3	HU0006688191	Hungarian Base Week Future	
F6B4	HU0006688233	Hungarian Base Week Future	
F6B5	HU0006688274	Hungarian Base Week Future	
F6BM	HU0006688175	Hungarian Base Month Future	
F6BQ	HU0006688258	Hungarian Base Quarter Future	
F6BY	HU0006688217	Hungarian Base Year Future	
F6PM	HU0006688183	Hungarian Peak Month Future	
F6PQ	HU0006688225	Hungarian Peak Quarter Future	
F6PY	HU0006688266	Hungarian Peak Year Future	

The ECC product group will be used for invoicing from the ECC clearing and settlement system SMSS. Detailed information on the product setup is provided in the ECC Clearing Specification, which is available for download on ECC's website.

Preconditions for Participation

Clearing Members

The ECC clearing license for Clearing Members (CM) already covers clearing of the new contracts.

Non-Clearing Members

Non-Clearing Members (NCM) with an NCM02 Agreement including “All Markets” do not need to hand in another agreement. All other NCMs need to submit the NCM02a Agreement with approval of their CM to ECC Member Readiness.

In addition all NCMs currently admitted at the physical futures market of HUPX will be contacted directly by HUDEX with the request to sign a dedicated form which includes the application as a Trading Participant for HUDEX and the assignment by the NCM to transfer the open positions in physical HUPX to financial HUDEX products. This form need to be send to ECC latest by **27 October 2017**.

All ECC admission forms for HUDEX are available for downloading on the ECC website and need to be handed in completely to ECC latest on **27 October 2017**.

Open Interest

The HUPX Jan18 and Week1-2018 contracts which expire on 28 December 2017 will be the last contracts to be physically delivered by ECC throughout January 2018.

Any other open interest at ECC allocated to HUPX Physical Power Futures at year-end 2017 will be converted into HUDEX Financial Power Futures on 02 January 2018. The last trading day for HUPX physical futures will be 29 December 2017.

Trading Participants shall either assign ECC to transfer their open positions to HUDEX (see section above “Preconditions for Participation”) or close out all their open positions until 20 December 2017.

ECC reserves the right to request a close-out of such positions under its sole distinction at a later stage. Therefore, NCMs and CMs are advised to check their requirements regarding any positions not transferred to HUDEX in terms of operational and technical implications, as well as the legal consequences including those out of any bilateral agreement between the NCM and the CM.

Registration of Transactions for Clearing

The transactions concluded on HUDEX are imported into the EUREX system and integrated into the standard clearing processes for derivative contracts. Transactions are included in the EUREX data streams and in the EUREX reports as usual. In addition, the transactions can be retrieved via the ECC Member Area after 9:30 (CET) on the next ECC business day.

The transactions are processed in the ECC settlement system SMSS for invoicing purpose using the product groups mentioned above.

Expiry and Settlement

All products are settled financially. For open positions and new transactions a variation margin is calculated on every ECC business day. The settlement prices required to this end are determined by HUDEX in the product currency Euro and published in the EUREX system at approximately 07:00 pm (CET).

Invoicing

The invoicing of ECC clearing fees remains unchanged except for the above mentioned adjustment to the product group naming which are reflected in the invoices as well.

Margining

Open positions in the new products will be included in ECC's Cross Margining until contract expiry and will be calculated daily according to ECC's standard methodology¹. Margin parameters are updated and published daily in the SPAN² parameter file on ECC's website. The margin requirements will be reported in the SPAN margin class in the EUREX Report CC050 Daily Margin.

Pending on the regulatory approval it is planned to offer PRISMA Margining for HUDEX futures as well.

Fees

Clearing Fees are charged according to the ECC Price List (0.50 ct/MWh).

Emergency Member Stop

ECC offers its CMs the Emergency Member Stop functionality to technically support them in the event one or more of their respective NCMs need to be temporarily excluded from trading as quickly as possible. The respective stop limit for HUDEX is "STOP_HUDX". All details can be found within ECC Risk Management Services document.

¹ <http://www.ecc.de/ecc-en/risk-management/margining>

² SPAN[®] is a registered trademark of Chicago Mercantile Exchange Inc., used herein under license. Chicago Mercantile Exchange Inc. assumes no liability in connection with the use of SPAN by any person or entity.

EMIR Reporting

As HUDEX is a regulated market, the new financial futures contracts have to be reported under EMIR Art. 9. For members that have delegated EMIR Reporting to ECC, there is no need to become active, as ECC EMIR Data Services will automatically include HUDEX. Members who wish to delegate the reporting can find the respective form on the ECC website.

For HUDEX the MIC “HUDX” will be introduced in the EUREX Clearing FIXML trade messages and key reports. This MIC will also be used for EMIR Reporting to report the field “Venue of execution”.

Product Delisting at HUPX

The following physically settled HUPX power futures will be not available for trading after end of trading on 29 December and will be delisted afterwards:

- F8B1-5, F8BM, F8BQ, F8BY: Hungarian Power Base Load Futures
- F8PM, F8PQ, F8PY: Hungarian Power Peak Load Futures