



European Commodity Clearing AG

Benefits of Integrated Clearing

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Benefits of Integrated Clearing

Agenda

- Functions of clearing & settlement
- Different structures of clearing & settlement
- What is integrated clearing?
- Benefits of integrated clearing

Benefits of Integrated Clearing

Specification of Clearing & Settlement phases (value chain)

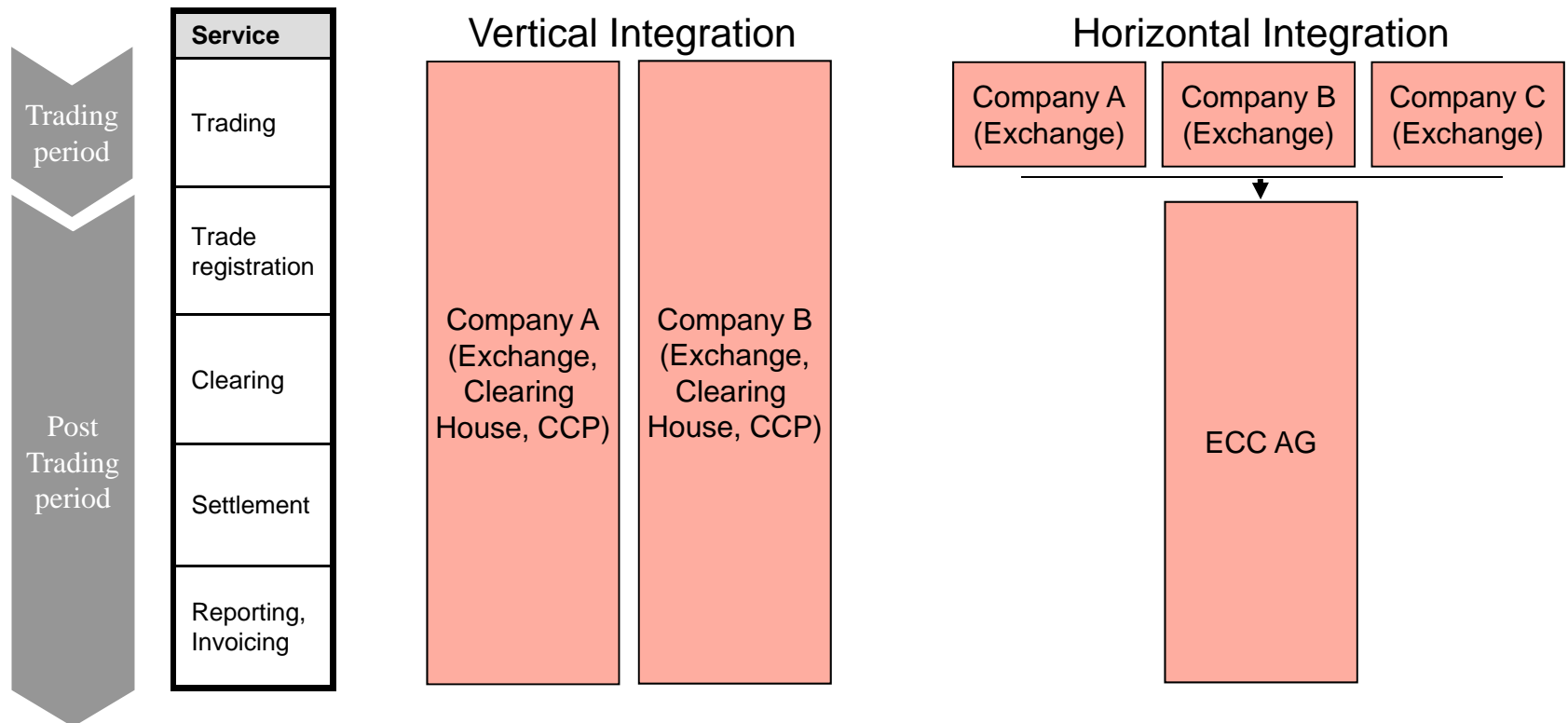


Service		Description
Trading		<ul style="list-style-type: none"> Order and quote management Execution of trades
Trade registration		<ul style="list-style-type: none"> Acquisition of trade data Reconciliation of the terms of transaction
Clearing	Risk management	<ul style="list-style-type: none"> Counterparty risk mitigation; CCP interposes itself in every contract becoming buyer to every seller and seller to every buyer Margining
	Exposure netting	<ul style="list-style-type: none"> Calculation of bilateral balance of each market participant against the CCP
Settlement	Settlement netting	<ul style="list-style-type: none"> Calculation of multilateral cash and securities net balances Calculation of physical deliveries with regard to commodities
	Settlement instructions	<ul style="list-style-type: none"> Calculation of the instructions for transferring cash and securities Interaction with the cash payment system Dispatching of physical deliveries to respective TSOs (scheduling)
Reporting, Invoicing		<ul style="list-style-type: none"> Distribution of Reports and Invoices

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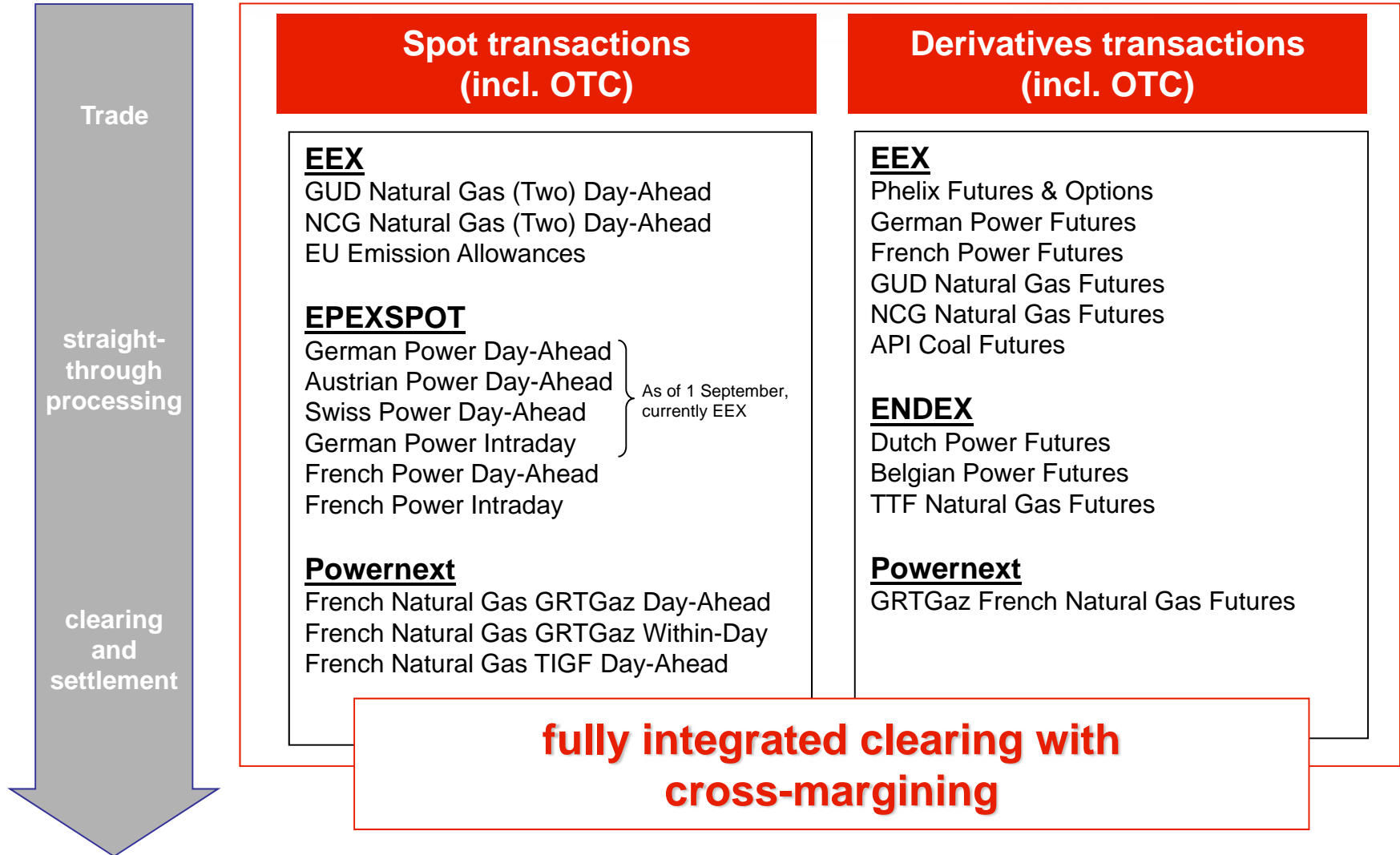
Structure of Clearing & Settlement industry in general

- Full **vertical integration** between trading and post-trading processes (also known as vertical 'silos'): Stock exchange controls all the phases of the value chain.
- **Horizontal integration**: A number of companies (different from exchange) offering services in the post-trading period.



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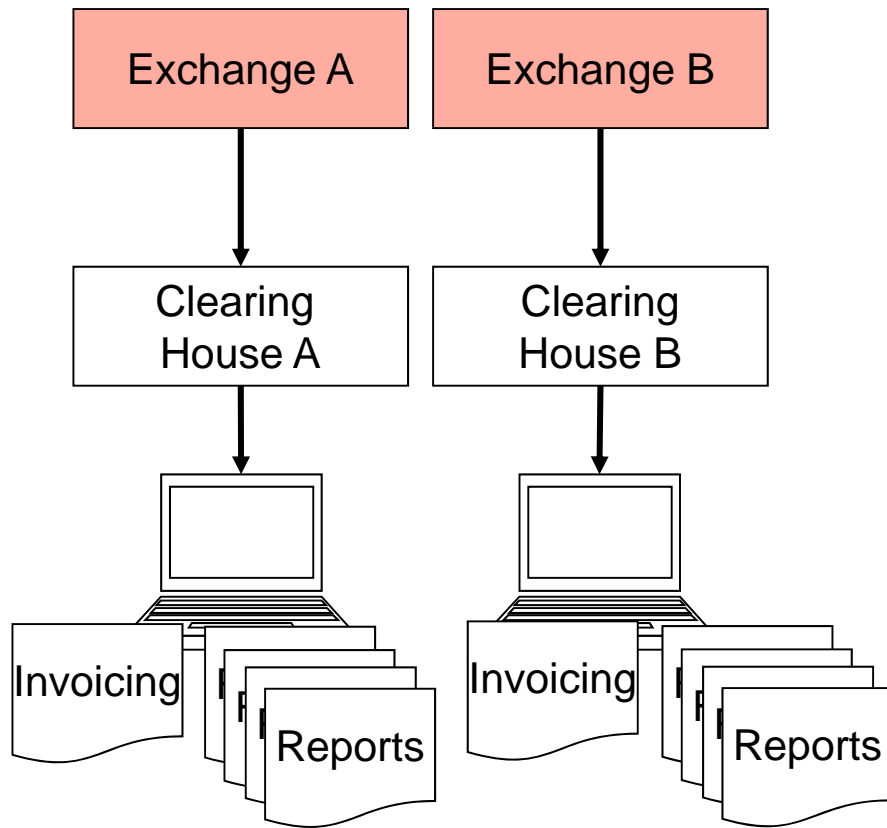
Integrated clearing



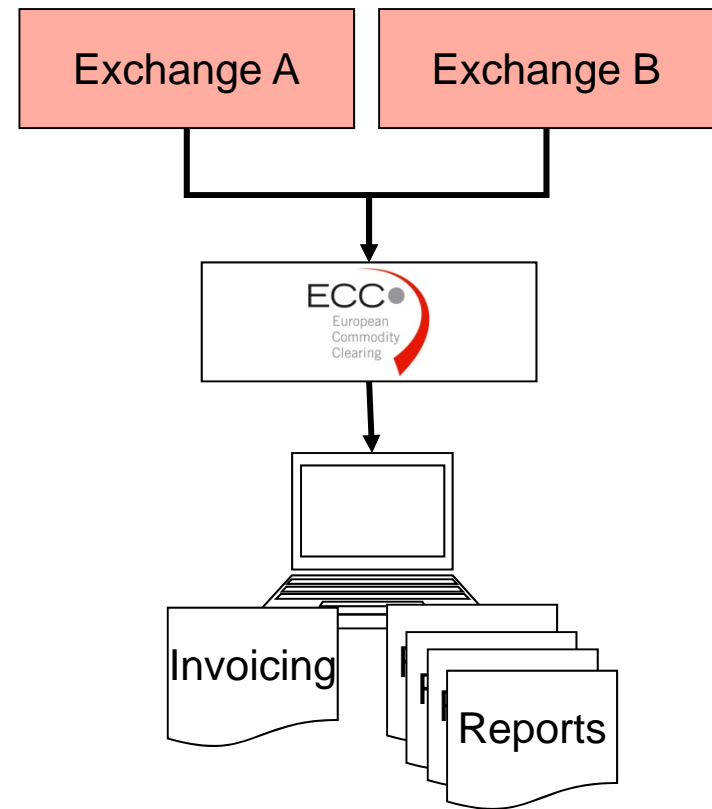
Benefits of integrated clearing

Reduced interfaces and standardized processes

Separated Clearing



Intergrated Clearing



Benefits of integrated clearing

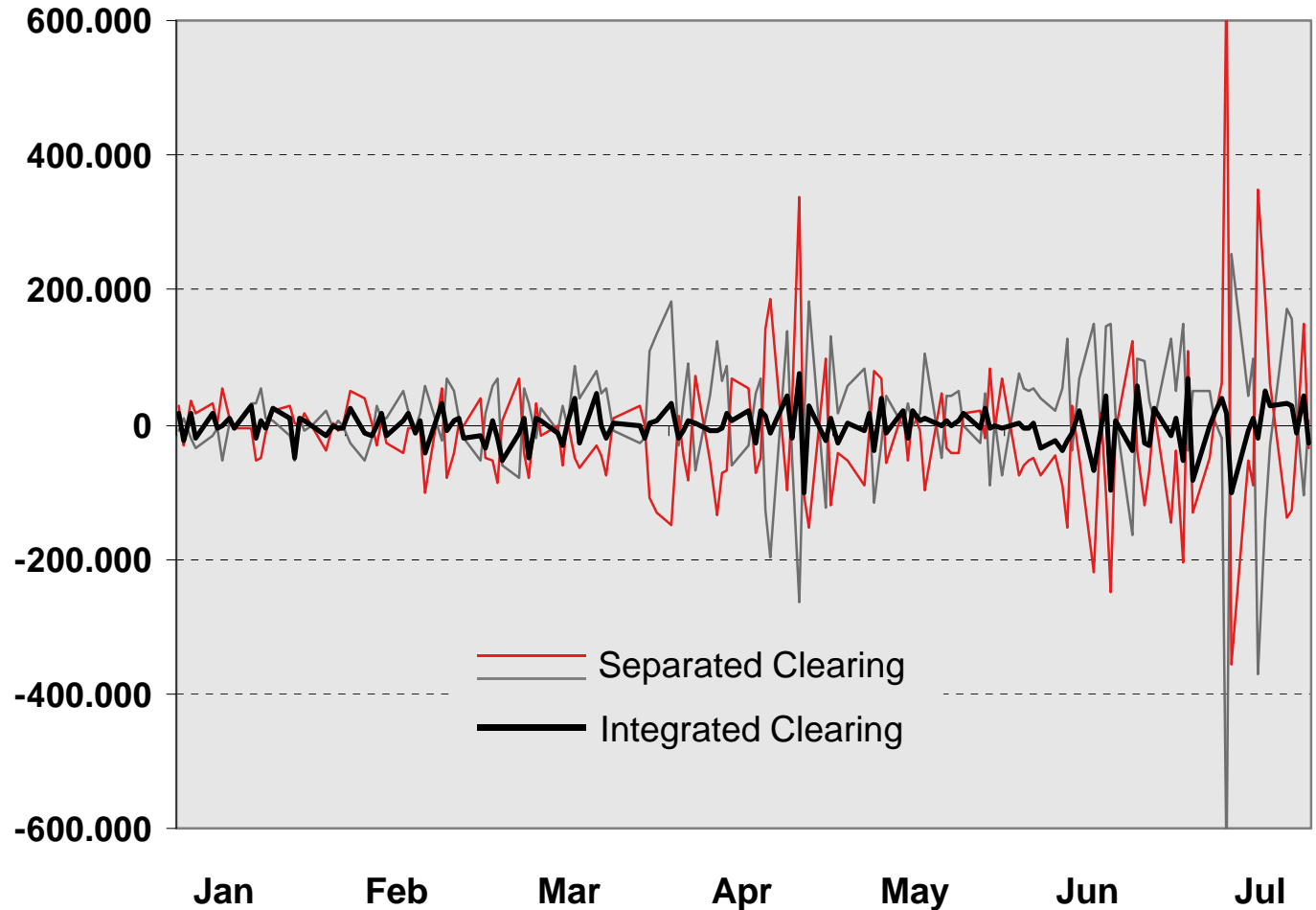
Netting of cash flows

Sample Portfolio

25 MW Sell
French Power
Baseload Year

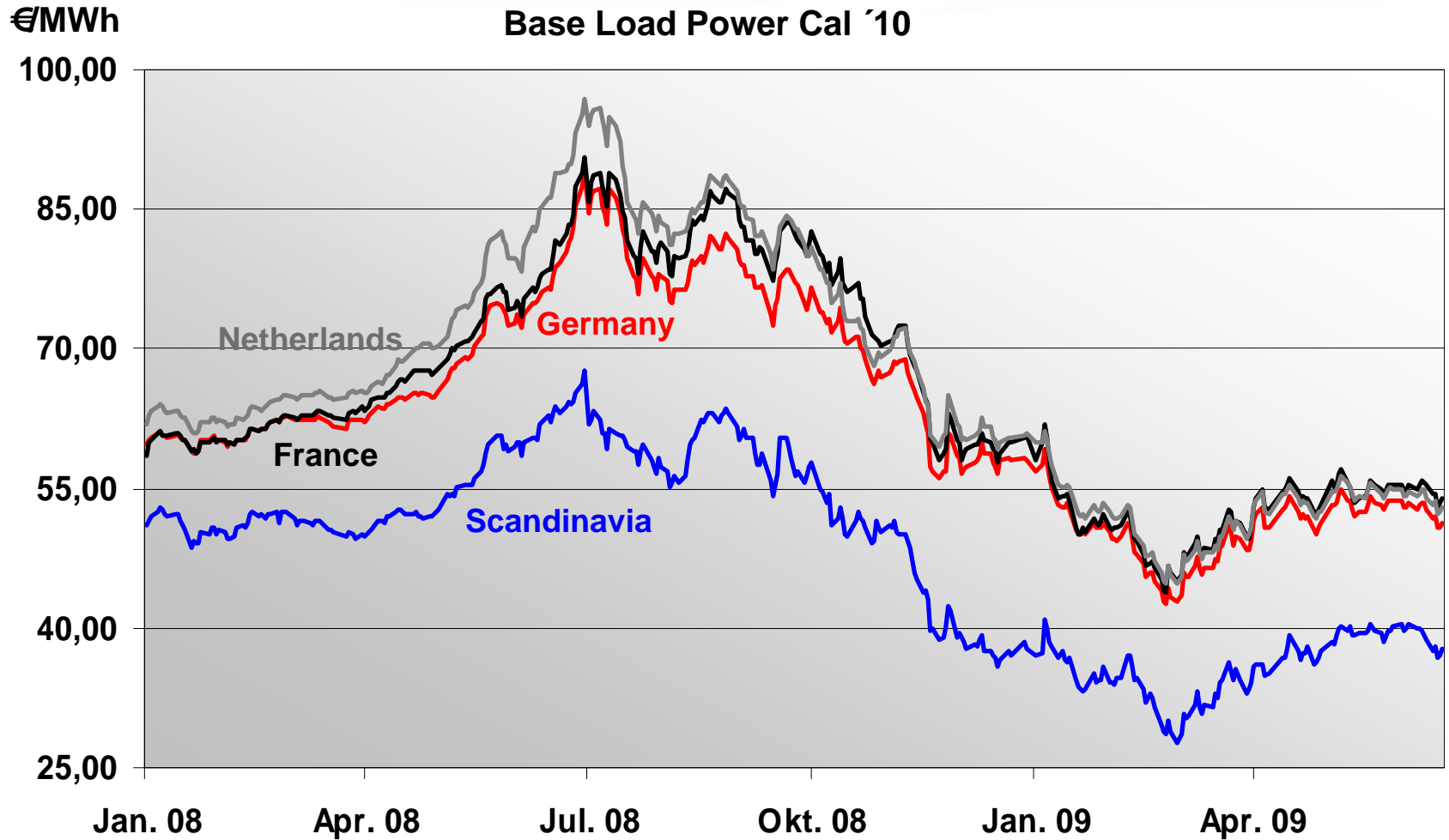
25 MW Buy
German Power
Baseload Year

Daily Cash Flows / Variation Margin [€]



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Cross Margining due to price correlations

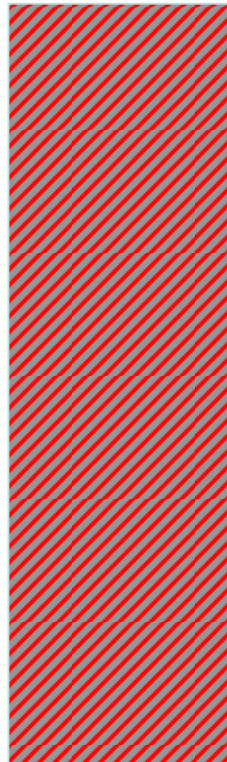


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Example Cross Margining

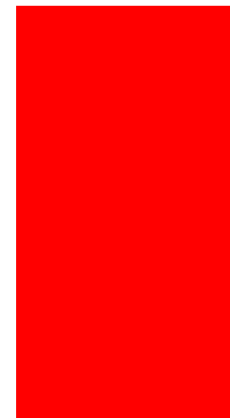
Initial Margin according ECC rules

EUR 2.2 million



Separated Clearing

EUR 1.1 million



Integrated Clearing

Sample Portfolio

25 MW Sell
French Power
Baseload Year

25 MW Buy
German Power
Baseload Year

Benefits of integrated clearing

Cross-border clearing & settlement

- Margin offsetting is generated for following products:

Commodity	Products included
Power	Year and Quarter contracts on: <ul style="list-style-type: none"> • Belgian Power Futures • Dutch Power Futures • French Power Futures • German Power Futures • Phelix Futures and Options
Natural Gas	Year, Season, Quarter and Month contracts on: <ul style="list-style-type: none"> • GRTgaz PEG Nord Natural Gas Futures • GUD Natural Gas Futures • NCG Natural Gas Futures • TTF Natural Gas Futures
Emission Rights	<ul style="list-style-type: none"> • Futures and Options on EU Allowances • Futures on Certified Emission Reductions

- Cross-currency margining is technically possible but currently not applied.

Benefits of integrated clearing

Summary

- Economies of scale: Users can cross margin across all their trading activities, the more trading the more offsets > incentive for more trading/clearing activities > increase of liquidity
- Lower access restrictions: connection to a CCP offers access to several exchanges
- Reduced technology costs: Members invest in technology to connect to just one CCP
- Reduced administrative costs for back-offices through high level of standardization
- Increased operational efficiency of back-offices as processes are centralized on one CCP
- Higher transparency in terms of pricing (no 'all-in' trading and clearing fees)



Thank you for your attention

Please contact for any further questions

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