Consultation Document no. 02/2016

PRINCIPLES

OF THE INTEGRATED REGULATORY RULES (TIGSI) FOR THE GUARANTEE, INVOICING AND SETTLEMENT SYSTEM OF GME

According to this consultation document, GME aims at collecting, among its stakeholders, observations and insights about the principles and rules of the new integrated system of guarantees (hereinafter referred to as "Integrated Guarantee System") to be applied on the energy markets (ME and MGAS) and the OTC Registration Platform (PCE) (hereinafter referred to as "Markets"). The purpose of the new guarantee system is to promote, inter alia, a reduction of the costs for Market Participants incurred in providing financial guarantees necessary to trade on the markets and to facilitate the related operations through a process of simplification and streamlining of the procedures.

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Interested parties must submit their comments to GME - **Relazioni Istituzionali e Comunicazione - Institutional Relations and Communication**, no later than **4 April 2016,** limit for expiration of this consultation, by one of the following ways:

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1. Introduction

Currently, as known, GME applies differentiated and independent guarantee systems for each of the individual markets/platforms that it regulates and manages. Consequently, they are regulated in the respective rules of the market/platform.

The introduction of the Integrated Guarantee System on Markets, in the terms already anticipated in the previous DCO of GME no. 05/2014, requires a necessary and proper revision of the set of rules.

The Integrated Guarantee System will be, in fact, regulated in a united regulatory text establishing the guarantee system as well as the invoicing and settlement processes applicable to all markets/platforms involved in this project, including the default procedure. These aspects will be thus removed by the individual rules of the power and natural gas market, as well as the PCE rules, and merged within the above-mentioned integrated regulatory text (hereinafter referred to as Integrated Text of the guarantees, settlement and default management - the TIGSI) and in the relevant Technical Rules.

The TIGSI, as any subsequent amendments, will be approved by the Ministry of Economic Development (MiSE) and AEEGSI, each with reference to the areas of regulatory competence. The other provisions related to the specific operations on the individual markets will continue to be maintained in the various regulatory texts currently in force (the Electricity Market Rules, the Gas Market Rules and the PCE Rules) and, for them, it will remain unchanged the current regulatory approval process, i.e. the MiSE will continue to approve the amendments to the Electricity Market Rules and the Gas Market Rules, after consulting AEEGSI, while the PCE Rules will remain under the exclusive oversight of AEEGSI. These texts will also contain references to the TIGSI governed by the provisions herein.

In line with the above, the entry into force of the TIGSI will be coordinated with the simultaneous publication of the individual rules of the markets (ME, MGAS, PCE), modified as the result of transfer of all the rules governing the aspects of the guarantee system, the invoicing and settlement process, as well as with all the other aspects mentioned above, within the TIGSI. Therefore well in advance of the date of the go live of the TIGSI, GME will publish the versions of the individual markets rules and the TIGSI applicable from that date on, thus ensuring the Market Participants an adequate period of time for internal processes of adjustment, as well as providing, during the transitional period, continuity and fluidity in the operational activities of the individual markets.

2. Principles of the TIGSI

In order to provide the framework of the principles and criteria included in the TIGSI, here following the main aspects regulated herein:

a) Guarantee system

The TIGSI will regulate the determination of the total net exposure of the Market Participant to GME arising from its own transactions on all markets (as defined, *i.e.* ME, MGAS and PCE), as the result of the integration of the individual exposures[1] on each market.

The TIGSI will also establish the way of determining the overall guarantee, which is the sum of the different forms of guarantees provided to cover the total exposure that the Market Participant holds on all markets described in the previous paragraph, with the exception of the fees to be paid for the services provided by GME and set by the relevant regulations and rules. The Market Participant, therefore, will no longer be called upon to indicate the allocation of the amount guaranteed between different markets/platforms on which he/she/it trades considering that all the types of the guarantees granted to GME will flow into a single total amount used to guarantee the different trading transactions concluded on the markets (or on the market from time to time relevant) where the Market Participant is entitled to negotiate.

The following different types of guarantees will be confirmed in the TIGSI:

- the **cash deposit**, as currently provided in the individual rules of the market/platform;

[1]Operationally, as a first step for each market participant the net exposure on a single market is calculated, first for each individual day of delivery flow and then cumulatively for all the days of delivery flow that are settled on the same date. Subsequently, the exposure on all markets is determined by accumulation based on the same settlement date and, finally, with the sumof the single exposures. For example, on the day G the Market Participant A is a net buyer on the ME for 100 at the settlement date S + 1 (the net buy position is the result of the overall transactions on the same market, resulting from the purchase of 250 with delivery flow date G-X and the sale of 150 with delivery flow date G-Y, at the same settlement date); on the same day G, the Market Participant A trades a sale transaction on the MGAS for 50 with settlement date S, which jointly with the positions already held on the same gas day (assumed to be equal to sales of 120 and purchase of 70), brings out a net sale position of 100 that determines an exposure for 25 due to the calculation of the "alpha" parameter and to the mark-to-market. The overall exposure is given by 100 on the ME plus 25 on the MGAS, i.e. 125. On the day G+1, upon registration on the PSV of the net sell position of the MGAS, the overall exposure will amount to 100, that is the exposure resulting from the only ME. However, further details and elements useful to calculation will be available in the Technical Rules and the User Manual.

- the **guarantee on first demand**, issued by a financial institution which fulfills, the requirements provided in the current individual rules of the market/platform. In relation to this type of guarantee, "sole" guarantee forms (and updates) will be introduced, with or without terms of expiration, depending on the needs of the Market Participant, valid for the indistinct coverage of the total exposure arising from all markets.

Market Participants will also be entitled to use the credits arising from the sale transactions concluded on one or more markets, though not yet settled, as a type of guarantees, provided that the credits accrue not later than the outstanding debt. This type of guarantee gives the Market Participant, on the one hand, greater flexibility in the activities of *trading*, on the other, allowing him/her/it to cover any debt exposures taken on a given market, with receivables arising from the same or other markets[2].

It should be stressed that the financial adequacy test related to the transactions carried out by the Market Participant on the energy markets is performed by comparing the total exposure of the Market Participant with the sum of the amounts of financial guarantees and the amount corresponding to the guarantee mentioned above, lending due attention to the compatibility of coverage with *settlement* dates for exposure.

b) Invoicing, offset reports and settlement

The TIGSI will establish the calculation of the offset report, one for all the markets – subject to the differentiated invoicing terms for each of these markets - based not only on the transactions, but also on the credit used as guarantee.

In order to finalize the use of credits as an additional guarantee instrument, a settlement on a *rolling* basis will be applied, according to which the payment due is determined under certain conditions. For this purpose, it will be established that the credit of the Market Participant, even if expired, will not be settled by GME for the amount of Market Participant exposure which results to be not covered, but it will be postponed to the later

[2] With reference to the example shown in Note 1, on the day G+1, the net sale position on the MGAS determines a guarantee, as described above, of 100 with settlement date S, which allows to fully cover the current exposure on the ME with date of *settlement* S+1.

deadline and will not be payable as long as this Market Participant will still have a net exposure non-guaranteed with GME[3].

It is understood that any portion of the net receivable not settled by GME and postponed to the later deadline will be used to cover new debt exposure, provided that Market Participant's overall exposure is reduced in whole or in part, and these new exposures expire on the same date, or later, with respect to the portion of the net credit yet to be settled.

The invoicing process will be kept separate for each market/platform in order to separate the transactions without inconveniences for the systems currently used by the Market Participants.

c) Default management

Given that a sole offset report is calculated and a sole and indistinct guarantee, is provided, the Default management will involve all markets.

Essentially the mechanism works as follows::

(i) in case of default of payment towards GME of the sum resulting from the offset report referred to in subpara. b) above, and/or the failure to adjust the guarantee required, or the non-payment of the fees applied by GME for the participation in one or more markets as well as of any penalties for non-delivery, the Market Participant - after expiration of the period granted by GME to regularize his/her/its position as provided in the Technical Rules - will be suspended on all markets;

(ii) in the extraordinary case of application of the mechanism of temporary pro-rata reduction of credits, this would affect all Participants of the markets, not being possible to limit the application of this mechanism only against the creditors of the market where the default has happened, since that pursuant to the TIGSI, the exposure and the balance will be determined indistinctly for the market/platform.

[3] With reference to the example shown in Note 1 above and in Note 2, assuming that the Market Participant has failed to make other transactions from G+1 at S and that the Market Participant has withdrawn the guarantee previously established (as his/her/its exposure is totally covered by the guarantee in note 2), on the date of settlement S GME will not regulate the credit of 100, otherwise, this would generate an uncovered settlement exposure on the date S+1. The 100 credit will be assigned the next date of settlement, i.e. S+1. If the Market Participant fails to make further transactions at S+1, he/she/it would have a zero balance.

d) Complaints about the checks of adequacy, invoicing and payments, as well as management of related disputes

The TIGSI will govern also matters arising from (or relating to) the principles listed above in subpara. a), b) and **Errore. L'origine riferimento non è stata trovata.**, without any elements of discontinuity with respect to the operating system in force in the current individual rules of the markets.

The Market Participant will be able to dispute the results of the GME's calculations and the outcome of liquidation and invoicing process according to the procedures and time limits defined in the Technical Rules.

Besides, any dispute arising between GME and the Market Participants over the interpretation and/or application of the TIGSI and related Technical Rules will be settled by a Court of Arbitration.

e) Management of the transitional arrangements

The TIGSI will regulate the transition from the current system of guarantee to the future integrated management of guarantees with reference to the phases of:

- formal acceptance of the new regulatory framework of the TIGSI, according to forms drawn up by GME;
- submission of the guarantee that complies with the new guarantee system. In particular:
  - the Market Participant that has already provided guarantees in the form of cash deposit and will continue to keep them in the new guarantee system must give appropriate notification to GME;
  - the Market Participant that has already provided guarantees in the form of a bank guarantee must submit a new bank guarantee that complies with the new form of integrated guarantee, with or without a time limit. This new guarantee can cancel and replace the previous bank guarantee if both guarantees have been issued by the same bank, so that the Market Participant

must not, albeit for a short period, submit simultaneously two guarantees to GME[4].

It should be noted that if the Market Participant has not accepted the new regulatory system within the date of its go live, he/she/it can manage no new transaction on the markets until he/she/it has signed his/her/its formal acceptance.

If, however, at the go live of the TIGSI the Market Participant has accepted the new regulatory system, but has not adjusted her/his/its guarantees in accordance with the TIGSI[5] within the grace period indicated by GME, assuring that they are sufficient to cover his/her/its previous exposure, such Market Participant could not be allowed to trade new transactions that, even indirectly, absorb guarantees on the markets, and this will be until the Market Participant has not submitted new guarantees[6] or adjusted the ones previously pledged.

[4] In this case, in order to achieve complete replacement of the previous guarantee with the one compliant to the TIGSI, the Market Participant can rely on the data on the overall exposure resulting from the application of the principles of the TIGSI that will be announced by GME in advance compared to the go live of SIG.

[5] Through a notice specifying the change in destination of the security deposit or a replacement of the guarantee through the submission of the new form of guarantee attached to the TIGSI.

[6] See Note 5.