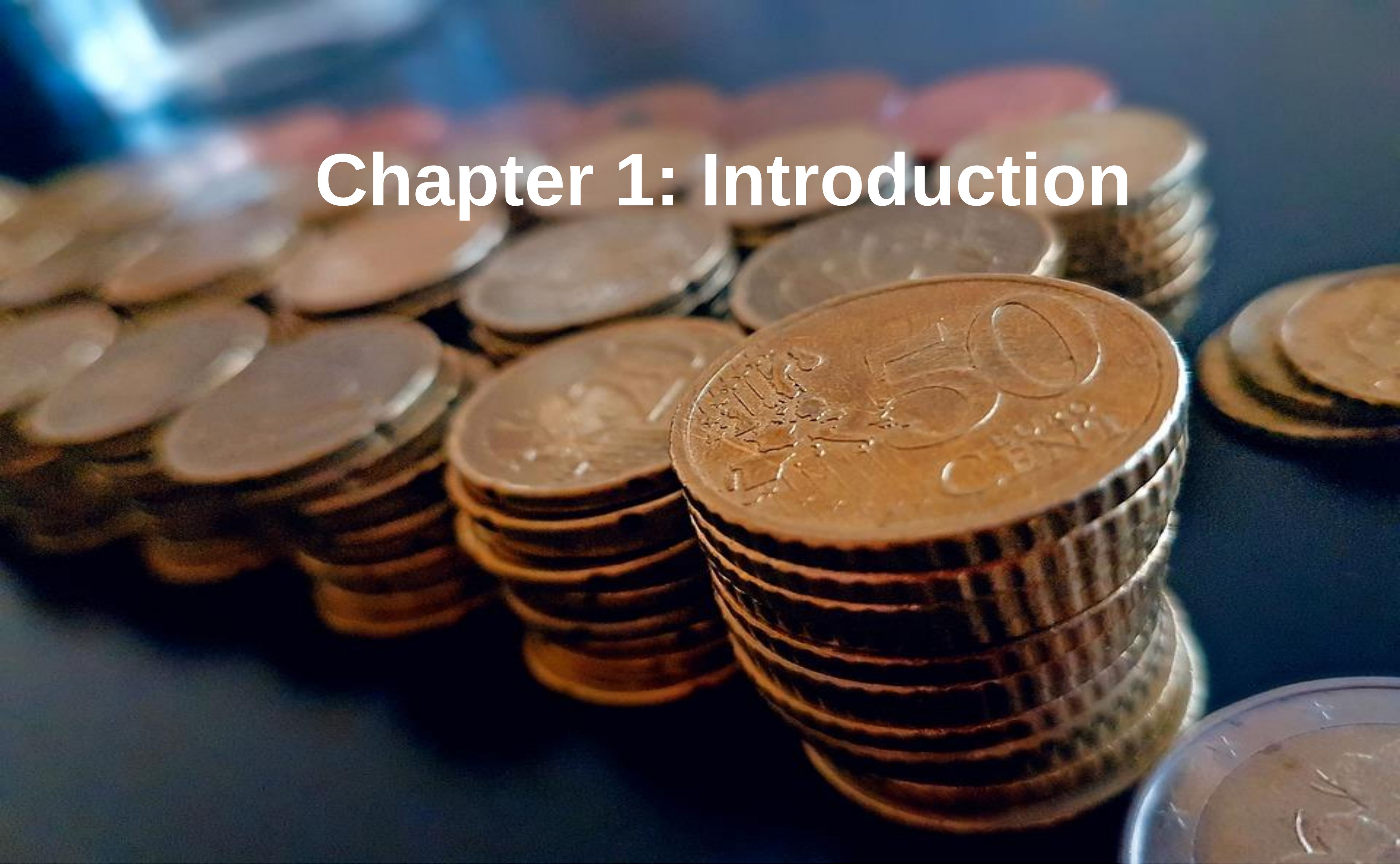
Chapter 1: Introduction



Credit Risk Management

- **Credit Risk** is the risk of a Participant failing to meet their financial ***obligations***
- Obligations are for the ***exposures*** they have, i.e. any unpaid bills, unbilled settlement or future settlement
- Participants are required to post ***collateral*** to cover this risk
- Collateral is the **Required Credit Cover** that Participant needs to have in place
- Effective management of Credit Risk is essential to ensuring the financial integrity of the market
- This process ensures that there is adequate liquid collateral in place to meet a participant's obligations should they default on their required payments
- This should prevent the other participants having to bear an unsecured bad debt in the event of payment default

Credit Risk Management

- SEMO manages the ***Credit Risk Requirements*** of each Participant in the current SEM
- In the new arrangements, SEMO will manage ***Credit Risk Requirements*** only in relation to settlement under the Trading & Settlement Code in the new market arrangements
- This covers balancing and imbalance settlement and capacity market settlement
- As many of the existing requirements were persisted for the new arrangements
- This self-learning course will explain Credit Risk firstly in the context of the current arrangements, and then set out how these were adapted to cover the new arrangements

Forms of Credit Cover

- Credit Cover under the TSC must be posted in the form of either:

Cash in euro or Pounds Sterling

Letter of Credit from banks

EIRGRID semo Single Electricity Market Operator SONI

Forms of Credit Cover

- Participants can meet their Required Credit Cover by posting **Cash collateral**
- A participant seeking to do this must establish a SEM Collateral Reserve Account with the SEM Bank in each Currency Zone in which the Participant has a registered Unit as applicable
- This account will be held in Trust for the Participant:
  - Participant can deposit but not withdrawal
  - SEMO can withdraw for defaults or refund to Participant
- The SEM Collateral Reserve Accounts are interest bearing accounts and Participants have benefit of this interest
- It is preferable to have some cash for each Participant as it is more liquid (just a transfer internally from Cash Collateral to market accounts)

Forms of Credit Cover

- Participants can meet their Required Credit Cover by posting a **Letter of Credit**
- This is an **unconditional** and **irrevocable** standby letter of credit issued for the account of the Participant in favour of the SEMO
- This must provide for payment to the SEMO on demand (same day payment)
- This must be issued by a bank that meets the criteria stated in the code
- The wording of the LOC very important and needs to follow exactly the template in Appendix A of Part B the Trading & Settlement Code
- A LOC cannot be cancelled or amended without the Market Operator's agreement