

Margin Model

Nord Pool Risk Management

Valid from 28/08/23

**NORD
POOL**

PRIVATE

Introduction

The aim of the Margin Model is to produce a collateral requirement that simply and accurately reflects the risk in a member's trading behaviour. The model estimates a requirement that need to be met by the member at all times, in line with Nord Pool's Clearing Rules.

Initial Collateral

Initial Collateral is the requirement that needs to be met before any trading activity starts. Nord Pool estimates the Initial Collateral for all Clearing Members based on the maximum expected net MWh position for a delivery day. This estimate is inserted into the Daily Margin Calculation - giving the Clearing Member an Initial Collateral Call which must be met before trading starts. All members must post collateral as security that they can pay for the contracts they have entered into. Minimum Collateral for Nord Pool members is EUR 30 000.

Collateral Requirement

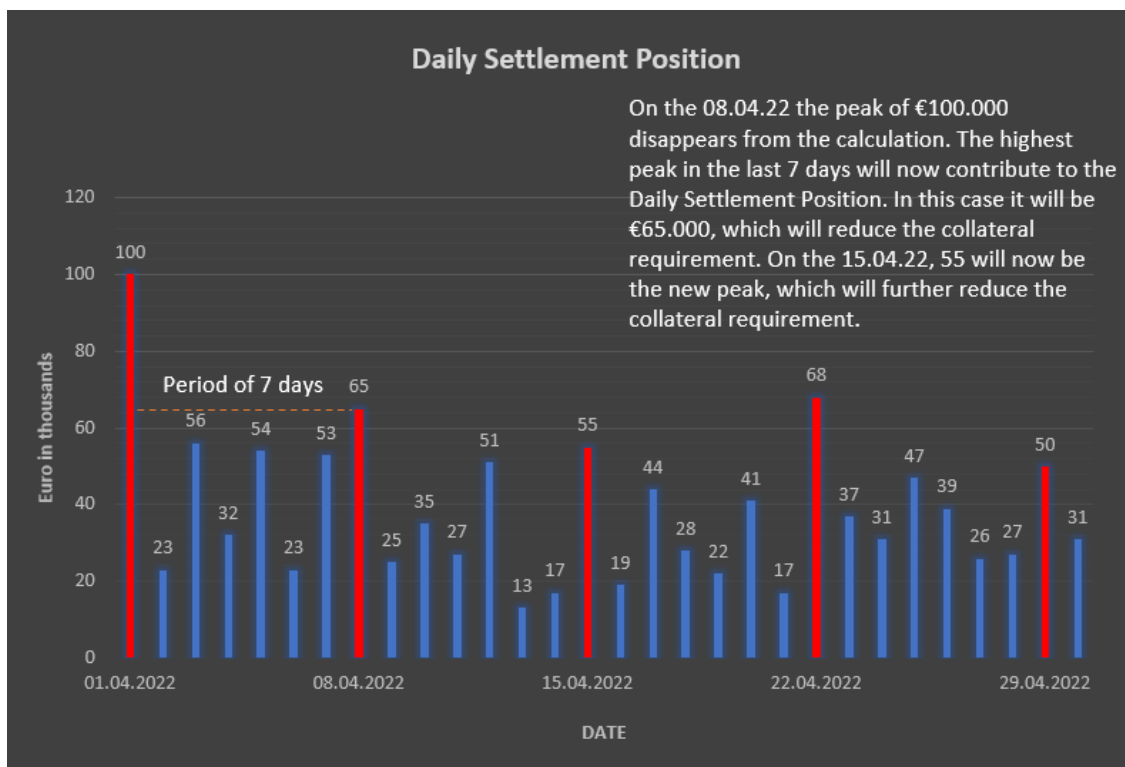
$$\text{Collateral Requirement} = \sum_{\text{Max}_{1-n}} (\text{Daily Net position (MWh)} \times \text{Risk Parameter} \times \text{Day Factor} \times \text{Credit Risk Adjustment}) \\ + \sum_{\text{Max}_{1-n}} (\text{Daily Settlement Position} \times \text{Multiplier} \times \text{Credit Risk Adjustment})$$

Where the;

- **“Daily Net Position”** is the sum of the volume flow for a given day (D+1 for Intraday and D-1 for Day Ahead) within a specific bidding zone, between Nord Pool and the Clearing Member.
- **“Risk Parameter”**, or the Risk Price Parameter is a parameter set on either a net long or a net short position per delivery bidding zone, estimated as a conservative spot price based on modelling and analysis of historical prices.
- **“Day Factor”** is a parameter set to account for the Clearing Member's exposure towards Nord Pool over weekends, which can be increased at the discretion of Nord Pool.
- **“Daily Settlement Position”** is defined as the net sum of all payments payable to and from the Clearing Member for a settlement day, as defined in the settlement schedule.
- **“Multiplier”** is a parameter that can be used by the discretion of Nord Pool to increase the collateral call due to extraordinary market events.
- **“Max_{1-n}”** defines the lookback period, which is currently set to 30 days for the daily net position, and to 7 days for the daily settlement position
- **“Credit Risk Adjustment”**: The factor is a Multiplier reflecting the credit risk associated with the clearing members trading behaviour. Please refer to the [Collateral section](#) of the website for further details on the methodology and the relevant Multipliers.

The Daily Net Position can be both a positive and a negative component in the margin calculation, the Daily Settlement Position however, is only a net positive value or it is set to zero (in case the settlement position is net negative per settlement date). Note that the Collateral Requirement will never fall below the minimum requirement of EUR 30.000.

Example



Daily Net Position

