

Credit Risk Adjustment

Risk Management

09/10/23

**NORD
POOL**

1. Background

Nord Pool is introducing an enhancement to its Margin Model, the Credit Risk Adjustment (CRA). The CRA is intended to better reflect the credit risk that Nord Pool takes on in transacting with each member. It does so by measuring each member on specific metrics to assess the level of credit risk between Nord Pool and each member and applying a multiplier to each member's collateral call to reflect this risk.

Nord Pool will continue to ensure collateral posted remains sufficient for efficient and secure operations.

The scores, weighting, groups and associated multipliers will be periodically reviewed by Nord Pool and are subject to change.

2. CRA Scoring

Nord Pool will perform an assessment of the CRA metrics for each member. Each member will be assigned a total CRA score of 0-100. Members will be reassessed on a quarterly basis and informed if the CRA grouping they are assigned to has been changed.

The metrics measured and the weightings of these metrics in the calculation are described below.

2.1. Ownership Measure

Members which are publicly owned companies will receive a lower risk rating on the ownership metric. Such companies must be owned at least 67% in total by state entities (including national governments, local/municipal governments) of an OECD country. Nord Pool may request documentation of public ownership from existing members.

New members may inform Nord Pool of their public ownership when onboarding and provide relevant documentation.

Members which are not publicly owned companies (e.g. private limited companies) will be assigned to the 'Other' category.

Ownership	Score assigned
TSOs and NEMOs	0
Publicly owned	25
Other	50

2.2. Invoices Measure

At the time of the quarterly assessment, Nord Pool will assess the total number of days where each member had unpaid invoices in the previous 365 days.

Days Unpaid	Score assigned
0-1	0
2-9	5
10-14	10
15-19	15
20-25	20
25+	25

2.3. Deficits Measure

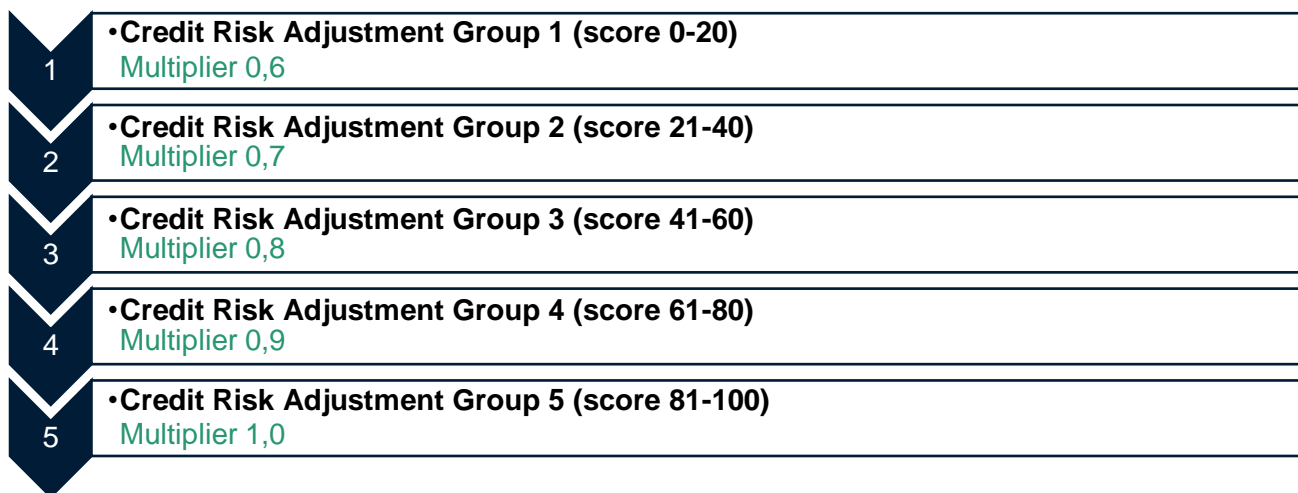
At the time of the quarterly assessment, Nord Pool will assess the total number of days each member had a collateral deficit in the previous 365 days.

Days in Collateral Deficit	Score assigned
0	0
1-4	5
5-9	10
10-14	15
15-19	20
20+	25

The number of days in collateral deficit includes every day that members are shown as in collateral deficit in the Clearing and Settlement System (CASS), excluding the interim periods prior to Christmas and Easter when increased collateral calls are visible in CASS but prior to the absolute deadline for the collateral call.

3. Credit Risk Adjustment Groups

Based on the assessment of the metrics outlined above, each member will be assigned to a CRA Group 1-5; a lower CRA multiplier will be applied to the collateral call of members in lower risk groups and a higher CRA multiplier will be applied to members in higher risk groups.



4. Example Calculation

4.1. CRA Scoring

Metric	Result	Score
Ownership	Other	50
Invoices Measure	1-9 days	5
Deficits Measure	5-9 days	10
Total		65

4.2. CRA Grouping

With a total score of 65, this Member is placed in CRA Group 4. As a result, a multiplier of 0,9 is applied to the total collateral call:

Old Collateral Call	New Collateral Call with CRA
Settlement Margin * Multiplier (EUR 300 000 * 1)	Settlement Margin * Multiplier (EUR 300 000 * 1)
Trading Margin * Day Factor (EUR 100 000 *1)	Trading Margin * Day Factor (EUR 100 000 *1)
Total Collateral Call (EUR 400 000)	Total * CRA Multiplier (EUR 400 000 * 0,9) = New Collateral Call with CRA is EUR 360 000

5. FAQs

Where can I see which CRA multiplier applies to our company?

Members will be informed by email of which CRA multiplier will be applied to their collateral call by email. It will also be visible in the Clearing and Settlement System (CASS) user interface shortly thereafter.

What CRA multiplier will apply to new members?

Newly onboarded members will initially be assigned to CRA Group 5 due to the lack of data on invoicing and deficits. This will be reviewed during the quarterly review process and members will be assigned to the relevant CRA Group.

How can we lower our CRA score?

Members can lower their CRA score by ensuring that sufficient funds are always available to pay invoices on time and by providing sufficient collateral to avoid collateral deficits. In this regard, members may wish to provide sufficient 'headroom' in the available collateral to ensure that collateral deficits do not occur, accounting for variation in their trading pattern, market prices and increases in the Day Factor during holiday periods, which increase collateral calls.

How can I request more details on the Credit Risk Adjustment applied to our company?

Please email NPRiskManagement@nordpoolgroup.com with any questions you may have on the Credit Risk Adjustment.

What do I need to do now?

No additional actions are required from members as a result of this change.