



Currency Costs and Credit Cover

In the review of Agreed Procedure 9 “Management of Credit Cover and Credit Default” one reviewer commented that the AP was inconsistent with the TSC v2.0 in that the AP stated that the Actual Exposure component of the calculation of Required Credit Cover was extracted from the Invoice total and therefore included relevant Currency Costs, whereas the calculation of Actual Exposure in paragraphs 6.186 and 6.187 in the TSC do not include such costs. The Regulatory Authorities have reviewed the position with the SEM Implementation Team and have concluded that the TSC and AP9 are subject to this relatively small inconsistency as described. However, they have also concluded that the scale of the changes that would be necessary in the central systems to bring them into line with the TSC is such that this could not be achieved before the Market Start Date.

The Regulatory Authorities have therefore concluded that Agreed Procedure 9 “Management of Credit Cover and Credit Default” should not be amended and that instead changes to the relevant parts of the Code should be the subject of an Urgent Modification Proposal after the Code Commencement Date. The Regulatory Authorities are working with the SEM Implementation Team to determine the detailed changes which will be necessary to bring this part of the Code into line with what the central systems will do with effect from the Market Start Date.

In the meantime the Regulatory Authorities and the SEM Implementation Team advise industry participants to build their systems on the basis of the AP9 approach to the calculation of the Actual Exposure for the determination of the Required Credit Cover for each Participant.