



### **Counterparty Risk is Paramount for Energy Markets**

#### **Trayport roundtable highlights the separation of clearing from trading**

**London, 15th December 2008** – Senior industry specialists identified counterparty risk as the most pressing concern for energy markets in the coming year. This was at a roundtable hosted by Trayport Limited, a leading provider of multi-asset class electronic trading solutions, in London discussing the effect of the current financial crisis on energy, commodities and emissions markets.

Deutsche Bank, Merrill Lynch Commodities, Electrabel, Edison Trading S.p.A, Elektrizitäts-Gesellschaft Laufenburg AG (EGL), London Clearing House (LCH), European Climate Exchange (ECX) and Eurex were all represented along with leading industry journalists.

The participants debated how innovations in regulations and credit affect trading in European gas and power markets. Some expressed concerns about how OTC market participants handle counterparty credit, which was seen as the most challenging element in energy trading over the last six months. The countries whose markets had fared best were those that had set up energy markets that separated financial transactions from clearing and regulatory bodies. Participants expected to see more emphasis in the coming year on physical transactions rather than regulation.

For the emissions exchanges, credit and managing counterparty risk was seen as a greater issue than regulation next year.

Sara Stahl, Business Development Manager at ECX said, “In the carbon market, credit is certainly an issue as many counterparties are new to each other and as such are trying to minimise counterparty risk. With the current financial climate, risk management is even more important. It’s getting difficult to trade bilaterally and even if you still have credit lines open, the cost of financing the trade has gone up substantially.”

After the collapse of Lehman Brothers investment bank, LCH saw a large increase in the amount of queries which came from counterparties who weren’t using clearing all the time but wanted to now do so.

#### **Head Office**

Trayport Limited, 4<sup>th</sup> Floor, Rose Court, 2 Southwark Bridge Road, London SE1 9HS, United Kingdom Tel: +44 (0)20 7960 5500

[www.trayport.com](http://www.trayport.com)

Isabella Kurek-Smith, Head of Energy and Freight at LCH said, "LCH is receiving an increasing amount of requests to act as the clearing house for organisations launching new markets that perhaps didn't consider they needed clearing before. So when you look at the market, exposure to counterparty risk has grown tremendously over the last few months. However, for the UK gas and power markets, they are still unusual in that the amount of clearing which is not as strong as other markets such as financial where every transaction is cleared. For 2009, we expect that the demand for clearing in these energy markets to therefore rise."

James Davies, Head of Trader Systems Business at Trayport, also pointed to the fact that regulation may ultimately also affect energy trading in 2009. "If the exemptions from MIFID directives for utility companies are withdrawn by the EU Commission then this could hit the energy markets in the next few years," he said.

The roundtable also discussed how the regulatory and political landscape could change next year with a new European Parliament and potentially a new European Commission. The consensus was that the European Commission should take a more active role in the trading of commodities in Europe as the energy markets expand.

The roundtable concluded that oil trading would be the key market for 2009, being the main driver for prices in other commodities markets. They predicted that Russia's influence in this market was likely, which could lead to swaps and increased liquidity in oil markets.

As a result of the success of the first meeting, additional roundtables on energy and commodities will be held by Trayport in 2009.

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