



Master the Revolution in Credit Risk Management

for

Energy firms

Introduction

The credit function at energy companies looks set to undergo revolutionary changes over the next couple of years. Increased regulation in the US and Europe will change the role of credit officers significantly.

First, greater reporting obligations may require an initial operational overhaul, but the biggest effect will come from the regulation requiring OTC trades to be cleared. Rather than being concerned with what counterparties owe them, credit departments will now have to be more concerned with what they owe to exchanges and clearing houses. They will have to forecast margin requirements and work much more closely with the exchanges, front office, treasury and other risk departments to optimise the use of cash for margins and OTC interest-free credit lines. This would greatly impact credit departments, where activities have traditionally centred on assessing counterparty credit risk. Instead, margin requirements and credit lines could become the new focal point for credit teams.

As a result collateral management but also Counterparty Valuation Adjustment (CVA) pricing will become an increasingly complex and vital component of credit risk management for the energy sector. Besides the energy sector is very busy to regulate itself with regards to collateral management, by increasing standardisation and automation of the trade reconciliation process between counterparties.

In this one day seminar we will share our view on what is likely to happen and how you could prepare yourself and your company to manage these changes.



Profile Kasper Walet



Kasper Walet has almost 25 years of experience and extensive knowledge on a theoretical and practical level about all the aspects related to trading, derivatives and risk management in the commodity industry.

Kasper received a Masters degree in Law from the University of Utrecht in 1987. He started his career at the NLKKAS, the Clearing House of the Commodity Futures Exchange in Amsterdam. After working for the NLKKAS for five years, Kasper was appointed as Member of the Management Board of the Agricultural Futures Exchange (ATA) in Amsterdam at the age of 31. While working for the Clearing House and exchange, Kasper became an expert in all the aspects of trading and risk management of commodities.

In 1997 he founded his own specialist-consulting firm that provides strategic advice about (energy) commodity trading and risk management.

Kasper has advised government agencies such as the European Commission, investment banks, major utilities and commodity trading companies and various exchanges in Europe, CEE countries, North America and Asia. Some of the issues he has advised on are the development and implementation of a Risk Management Framework, investment strategies, trading and hedging strategies, initiation of Power Exchanges (APX) and other trading platforms, the set-up of (OTC) Clearing facilities, and feasibility and market studies like for the LNG Market.

Kasper has given numerous seminars, workshops and (in-house) training sessions about both the physical and financial trading of commodity products. The courses have been given to companies all over the world, in countries like Japan, Singapore, Thailand, United Kingdom, Germany, Poland, Slovenia, Czech Republic, Malaysia, China, India, Belgium and the Netherlands.

Kasper has published several articles in specialist magazines such as *Commodities Now* and *Energy Risk* and he is the co-author of a book called *A Guide to Emissions Trading: Risk Management and Business Implications* published by Risk Books in 2004.



Key take aways

- What are the changes waiting the credit function of your organization
- What are the challenges of the credit management process
- Why CVA and Collateral management will become an increasingly vital component of credit risk management
- What are the latest ideas and thinking on central clearing and what market participants need to be wary of
- How to deal with the make or buy dilemma of a credit system

Who should attend:

This seminar is particularly suitable for compliant financial and energy community including:

- Decision makers and policy makers of governmental entities
- Energy executives in banking and corporate finance
- Employees of back, mid and front-offices of energy companies, banks and exchanges
- Investment advisors, internal and external accountants, controllers and compliance officers
- Employees of supervisory bodies
- Commodity/energy traders
- Risk managers
- Credit and equity analysts
- Investment managers
- Portfolio managers
- Financial consultants to the energy sectors
- Journalists focused on the energy industry

Case Studies:

We will use cases throughout this course in various forms. The cases allow the practical application of participants' newly-acquired knowledge. Case studies also stimulate independent thinking and discussion among the participants.



The Program

Duration

Start 09.30

End: 17.30

Relationship risks in power and commodity trading

- Introduction to current and future position Credit Risk in organization
- Quick review on market, credit and liquidity risk
 - Credit risk exposure
 - Settlement exposure
 - Replacement exposure
- Relation between these risks
 - Margining
 - Examples interplay credit and liquidity risk
 - Market, credit and liquidity risk for different types of deals
- Eliminating credit risk in bilateral margining
- Shifting focus from credit to liquidity risk
- Portfolio management in credit risk
 - CVA; Counterparty Valuation Adjustment

The 5 principal steps of Credit Risk Management Process

- Credit Assessment
- Counterparty Management
- Contract Management
- Exposure Management
- Collateral and Margin Management



Credit Risk Management Policy

- Roles and Responsibilities
 - Credit Risk Management
 - Credit Limit Allocation
 - Credit Approval Process
 - Procedure that a good trader has to follow
- Measurement
 - Credit Exposure
 - Default Risk
 - Credit Value at Risk
 - Implications for Credit Charges, Credit Reserves, and Credit Capital
- Credit Enhancements
 - Parent Company Guarantees
 - Letters of Credit
 - Pledged Collateral
 - Exposure and Credit Risk Measurement
- Monitoring responsibilities
 - Counterparty Credit Limits
 - Concentration
 - Limit Exceptions: Approval & Monitoring
 - Legal Review and Internal Audit
- Mitigation
 - Netting and Risk Offsets
 - Multilateral Netting
 - Clearing
 - Margining
 - The clearinghouse: advantages and limitations
 - Credit Risk Mitigation Tools

Trading and clearing through a Central Counterparty; Benefits & Risks

- CCP and Clearing Definitions
- How a CCP Model works
- Participants Clearing Process
- Which transactions can be traded and cleared through CCP
- Margins
 - Initial
 - Variation
- Benefits of Netting
- Risks associated to Clearing



Collateral management

- Liquidity
 - Post collateral on open positions
- Trade reconciliation process
 - Challenges energy commodities
 - Valuing physical assets
- Standardization trade data
 - Role EFET
- Mandatory Clearing?
 - Develop a clearing strategy

How to acquire good Credit Management Systems

- Best in class system
- Requirements for credit risk software
 - Functional requirements
 - Technical requirements
 - Markets requirements
 - Cost requirements
- Make or Buy Decision