



# Revised Initial Margin Requirements

Clearing manager update as per the  
Financial Transmission Rights Prudential Security  
Assessment Methodology

1 December 2017



# 1. General

Under the FTR Prudential Security Assessment Methodology (Assessment Methodology), the clearing manager is required to reassess and update FTR initial margin requirements at six month intervals. These requirements are based on Daily Settlement Prices, Predictive Price Model (PPM) and ASX data. These requirements are to cover all obligation and option product types. In May 2016 the methodology has been updated with a variation to section 3 and 4 of the formula for the calculation of option DSPs, following a consultation by the clearing manager.

## 2. Methodology and calculation

### Obligation FTRs

The Clearing Manager has determined initial margins for obligation products as follows:

- For products that have not previously been sold at auction, 2 week (10 business day) price movement is assessed from a combination of modeled PPM data and actual ASX movement over a 526 day window, with non-ASX nodal prices adjusted using quarterly location factors.
- For products that have been sold at auction, 2 week (10 business day) price movement is assessed using actual daily settlement prices.
- All movements are measured and normalised into a one-direction dataset.
- Using these 10 day absolute price movements, the range of movement up to the 85th percentile for each direction is calculated over the following time and season periods:
  - > 5 months
  - ≤ 5 months – winter
  - ≤ 5 months – summer
- The maximum of the two directional ranges for each of the times/seasons above is adopted.

### Option FTRs

The Clearing Manager has determined initial margins for option products as follows:

- For products that have not sold at auction, 2 week (10 business day) price movement is assessed using modeled PPM data over a 526 day window.
- For products that have sold at auction, 2 week (10 business day) price movement is assessed using actual daily settlement prices for each direction.
- Using these 10 day movements, the range of movement is assessed for each direction based on the following criteria:
  - > 5 months
  - ≤ 5 months – winter
  - ≤ 5 months – summer
- 85th percentile of adverse price movement (i.e. negative change) for each permutation is calculated.

### 3. Results – Initial Margin requirements from 1 December 2017

Based on the methodology above, the Initial Margin rates for each product will be as follows:

Product before FTR Period	Season	n/a	Summer	Winter
	Time	> 5 months	<= 5 months	<= 5 months
24HR-OBL-OTA->BEN		0.97	1.32	2.97
24HR-OBL-BEN->OTA		0.97	1.32	2.97
24HR-OPT-OTA->BEN		0.06	0.03	0.64
24HR-OPT-BEN->OTA		0.34	0.59	0.7
24HR-OBL-OTA->HAY		0.17	0.25	0.41
24HR-OBL-HAY->OTA		0.17	0.25	0.41
24HR-OPT-OTA->HAY		0.03	0.1	0.36
24HR-OPT-HAY->OTA		0.2	0.44	0.43
24HR-OBL-OTA->ISL		0.96	1.28	1.99
24HR-OBL-ISL->OTA		0.96	1.28	1.99
24HR-OPT-OTA->ISL		0.17	0.99	1.05
24HR-OPT-ISL->OTA		0.28	1.79	0.49
24HR-OBL-OTA->INV		0.96	1.09	1.96
24HR-OBL-INV->OTA		0.96	1.09	1.96
24HR-OPT-OTA->INV		0.14	0.54	0.96
24HR-OPT-INV->OTA		0.39	0.86	0.73
24HR-OBL-BEN->HAY		0.8	1	1.42
24HR-OBL-HAY->BEN		0.8	1	1.42
24HR-OPT-BEN->HAY		0.15	0.28	0.27
24HR-OPT-HAY->BEN		0.03	0.18	0.27
24HR-OBL-BEN->ISL		0.14	0.47	0.29
24HR-OBL-ISL->BEN		0.14	0.47	0.29
24HR-OPT-BEN->ISL		0.13	0.27	0.27
24HR-OPT-ISL->BEN		0	0	0
24HR-OBL-BEN->INV		0.09	0.14	0.23
24HR-OBL-INV->BEN		0.09	0.14	0.23
24HR-OPT-BEN->INV		0.1	0.2	0.33
24HR-OPT-INV->BEN		0.06	0.1	0.13
24HR-OBL-HAY->ISL		0.85	1.2	1.65
24HR-OBL-ISL->HAY		0.85	1.2	1.65
24HR-OPT-HAY->ISL		0.17	0.68	0.66
24HR-OPT-ISL->HAY		0.09	0.16	0.11
24HR-OBL-HAY->INV		0.8	1.05	1.62
24HR-OBL-INV->HAY		0.8	1.05	1.62
24HR-OPT-HAY->INV		0.11	0.44	0.62

24HR-OPT-INV->HAY	0.2	0.29	0.36
24HR-OBL-ISL->INV	0.13	0.28	0.27
24HR-OBL-INV->ISL	0.13	0.28	0.27
24HR-OPT-ISL->INV	0.01	0.07	0.09
24HR-OPT-INV->ISL	0.15	0.26	0.3

The following products have not been traded so their initial margins have been calculated using PPM and ASX data.

24HR-OBL-OTA->HAY
24HR-OBL-HAY->OTA
24HR-OBL-OTA->ISL
24HR-OBL-ISL->OTA
24HR-OBL-OTA->INV
24HR-OBL-INV->OTA
24HR-OBL-BEN->HAY
24HR-OBL-HAY->BEN
24HR-OBL-BEN->INV
24HR-OBL-INV->BEN
24HR-OBL-HAY->ISL
24HR-OBL-ISL->HAY
24HR-OBL-HAY->INV
24HR-OBL-INV->HAY
24HR-OBL-ISL->INV
24HR-OBL-INV->ISL

Note: Obligation product initial margins are the same for each direction of flow.

## 4. Previously adopted Initial Margin rates

Initial Margin rates were previously set in June 2017. These rates were as follows:



	Season	n/a	Summer	Winter
Product before FTR Period	Time	> 5 months	<= 5 months	<= 5 months
24HR-OBL-OTA->BEN		0.92	1.34	2.27
24HR-OBL-BEN->OTA		0.92	1.34	2.27
24HR-OPT-OTA->BEN		0.1	0.32	0.12
24HR-OPT-BEN->OTA		0.26	0.53	1.5
24HR-OBL-OTA->HAY		0.2	0.3	0.52
24HR-OBL-HAY->OTA		0.2	0.3	0.52
24HR-OPT-OTA->HAY		0.05	0.19	0.03
24HR-OPT-HAY->OTA		0.16	0.27	1.03
24HR-OBL-OTA->ISL		0.93	1.15	1.85
24HR-OBL-ISL->OTA		0.93	1.15	1.85
24HR-OPT-OTA->ISL		0.3	0.6	0.16
24HR-OPT-ISL->OTA		0.29	0.48	0.38
24HR-OBL-OTA->INV		0.94	1.09	1.78
24HR-OBL-INV->OTA		0.94	1.09	1.78
24HR-OPT-OTA->INV		0.28	0.5	0.23
24HR-OPT-INV->OTA		0.4	0.6	0.54
24HR-OBL-BEN->HAY		0.86	0.93	1.27
24HR-OBL-HAY->BEN		0.86	0.93	1.27
24HR-OPT-BEN->HAY		0.11	0.28	0.58
24HR-OPT-HAY->BEN		0.05	0.15	0.06
24HR-OBL-BEN->ISL		0.15	0.39	0.28
24HR-OBL-ISL->BEN		0.15	0.39	0.28
24HR-OPT-BEN->ISL		0.15	0.23	0.12
24HR-OPT-ISL->BEN		0	0	0
24HR-OBL-BEN->INV		0.12	0.15	0.27
24HR-OBL-INV->BEN		0.12	0.15	0.27
24HR-OPT-BEN->INV		0.15	0.18	0.13
24HR-OPT-INV->BEN		0.06	0.14	0.11
24HR-OBL-HAY->ISL		0.88	1.02	1.49
24HR-OBL-ISL->HAY		0.88	1.02	1.49
24HR-OPT-HAY->ISL		0.19	0.45	0.21
24HR-OPT-ISL->HAY		0.05	0.19	0.55
24HR-OBL-HAY->INV		0.82	0.99	1.45
24HR-OBL-INV->HAY		0.82	0.99	1.45
24HR-OPT-HAY->INV		0.18	0.31	0.12



24HR-OPT-INV->HAY	0.18	0.33	0.92
24HR-OBL-ISL->INV	0.13	0.21	0.23
24HR-OBL-INV->ISL	0.13	0.21	0.23
24HR-OPT-ISL->INV	0.02	0.04	0.01
24HR-OPT-INV->ISL	0.16	0.26	0.58

