

## Market Rules Consultation:

### Strip Products Contract Windows & Collateral Model

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This consultation paper seeks feedback on;

- (a) the proposed Contract Windows for the NGP:FR daily, weekly and monthly products; and
- (b) a revised model for application of Collateral Limits.

#### 1. Contract Windows

##### Background

In addition to its existing NGP:FR daily product, emsTradepoint is in the process of developing weekly and monthly strip products.

A key design consideration is the Contract Window of each product – *the forward period a product is made available for trade*. It is essential that the three products complement each other and the Contract Windows align with Participants' intended trading activity.

##### Proposed Contract Windows

###### *Daily*

emsTradepoint would like to shorten the current Contract Window for the existing daily product to the front fortnight:

NGP:FR	Contract Window
DAY (current)	<i>The current month plus up to the next six months. New end month will be opened for trade on the second Wednesday of the current month.</i>
DAY (proposed)	The current week plus next week. New week will be opened for trade on market open each Monday.

###### *Weekly and Monthly*

The proposed Contract Windows for the incoming weekly and monthly strip products are set out in the table below:

NGP:FR	Contract Window
WEEK	The nearest full week plus the next seven weeks. New week will be opened for trade on market open each Monday. Week ahead closes at market close each Sunday.
MONTH	The nearest full month plus the next 23 months. New month will be opened for trade on market open on the 20 <sup>th</sup> of each month. Month ahead closes at market close on the 19 <sup>th</sup> of each month.

The staggering of daily (fortnight), weekly (8 weeks) and monthly (24 months) is aimed at providing a useful product suite without excessive overlap between the individual listings.

**CONSULTATION:**

*Please provide feedback on the proposed Contract Windows, including alternatives.*

## 2. Revised Collateral Limit Application

### Background

Participants are currently required to provide Prudential Assurance that sets their approved Collateral Limit at a level that is sufficient to cover their entire exposure<sup>1</sup> at any point in time.

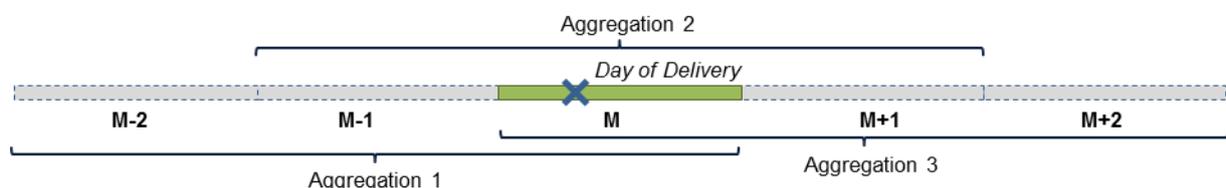
Considering the introduction of strip products and a material increase in Contract Window duration (up to 24 months), emsTradepoint is proposing to change its Prudential Assurance requirements to allow a Participant's Collateral Limit to be applied against three-month periods rather than its entire exposure. This will allow Participants to apply one Collateral Limit over multiple exposure periods – essentially cross-margining through the various products and Contract Windows.

### Revised Test

It is proposed that the Collateral Limit be tested against the total value of all purchases and Live Bids for delivery in any three-month period that is open for trade.

#### Revised Collateral Limit Rule:

- A Participant's 'purchases + Live Bids' may not exceed its Collateral Limit over any individual 3-month period:



- The Collateral Limit will be applied as a firm purchase limit, and settlement and sales will not net off against the test.

**CONSULTATION:**

*Please provide feedback on the revised Collateral Limit application.*

## 3. Submissions

Please provide feedback on the proposed changes to [supportdesk@emsTradepoint.co.nz](mailto:supportdesk@emsTradepoint.co.nz) by **25 August 2014**.

For more information please contact the Support Desk on (04) 590 6692.

<sup>1</sup> Exposure (\$) = (unsettled purchases – unsettled sales) + value of Live Bids