



European Federation of Energy Traders

**TURKISH DELEGATION VISIT
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**Market Transparency
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Market transparency:

- REMIT Transaction reporting in operation – an experience record

- Standardization of Back-Office Functionalities

- Principles of Operational Risk Management

Market transparency:

➔ **REMIT Transaction reporting in operation – an experience record**

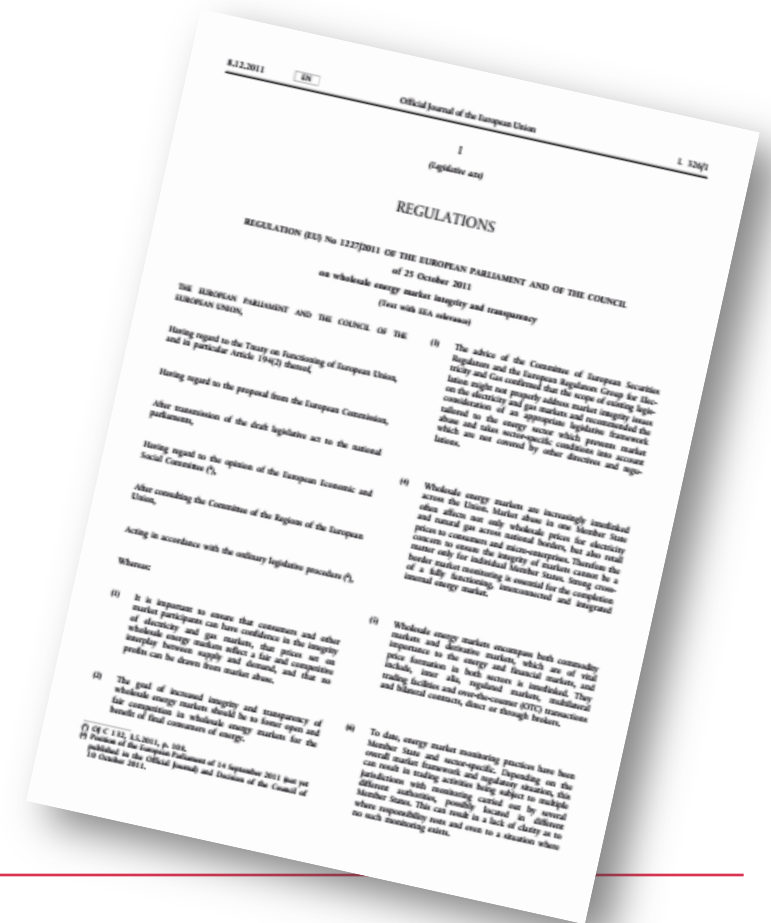
➔ Standardization of Back-Office Functionalities

➔ Principles of Operational Risk Management

REMIT? What is it?

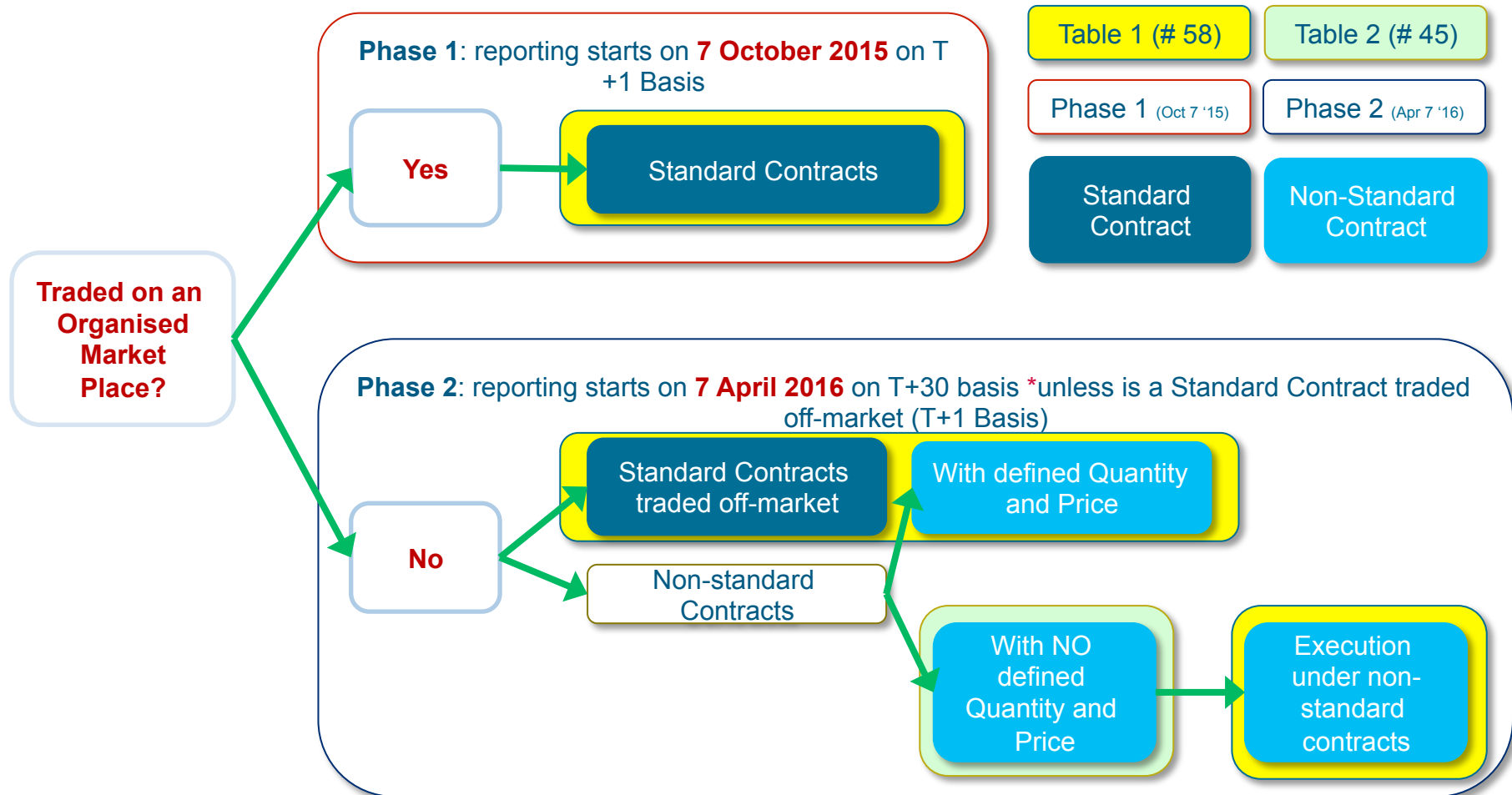
Regulation (EU) No 1227/2011 on Wholesale Energy Market Integrity and Transparency In force since **28 December 2011**

- Provides a consistent **EU-wide regulatory framework** specific to **wholesale energy markets** that:
 - **Defines** and explicitly **prohibits market abuse**
 - Requires **effective and timely public disclosure of inside information**
 - Creates a framework for **comprehensive market monitoring based on transaction reporting**



REMIT Regulatory Reporting? What is that?

Obligation to report transactions and orders to trade (Art. 8)



Implementation experience Phase 1 and Phase 2

- Overall regulatory (process and IT) maturity is low
- The delegation concept is not worry-free
- Compliance dashboards are quite a challenge
- Phase 2 requires a lot more guidance for reporting
- Self-governance concept by the energy trading industry
- A good “cooperation atmosphere” is required with the regulators: the “altruistic approach”

So ... **after 4 months live** what can we say:

- 4500 MPs registered in CEREMP
- 37 RRMs registered for Phase 1
- Over 1mio reporting lines (records & trades) per day
- Stability issues, no insights on reporting data quality (yet)
- Compliance monitoring remains a challenge

And for **REMIT Phase 2 Transaction Reporting**:

- Over 700 RRMs awaiting registration, 40 are already registered
- Reporting of non-standard transactions remains a difficult task (to automate)

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➔ **Standardization of Back-Office Functionalities**

➔ Principles of Operational Risk Management

Why is standardisation necessary?

- Lack of process maturity (e.g use of faxes, no SWIFT as compared to the financial industry, etc.)

- Many purely bilateral reciprocal processes

- Best practises are useless in a bilateral world unless everybody's applying them

What needs to be standardised?

⇒ Yin-Yang-Yong

- Standardized Process and status identifiers
- Standardized Format & Content
- Standardized Communications



⇒ Applying a standardised and uniform language: Commodity product
Mark-up Language (CpML – www.cpml.org)

What does a standardisation project look like?

- ⇒ **Cross-functional teams and workgroups with clear and shared objectives**

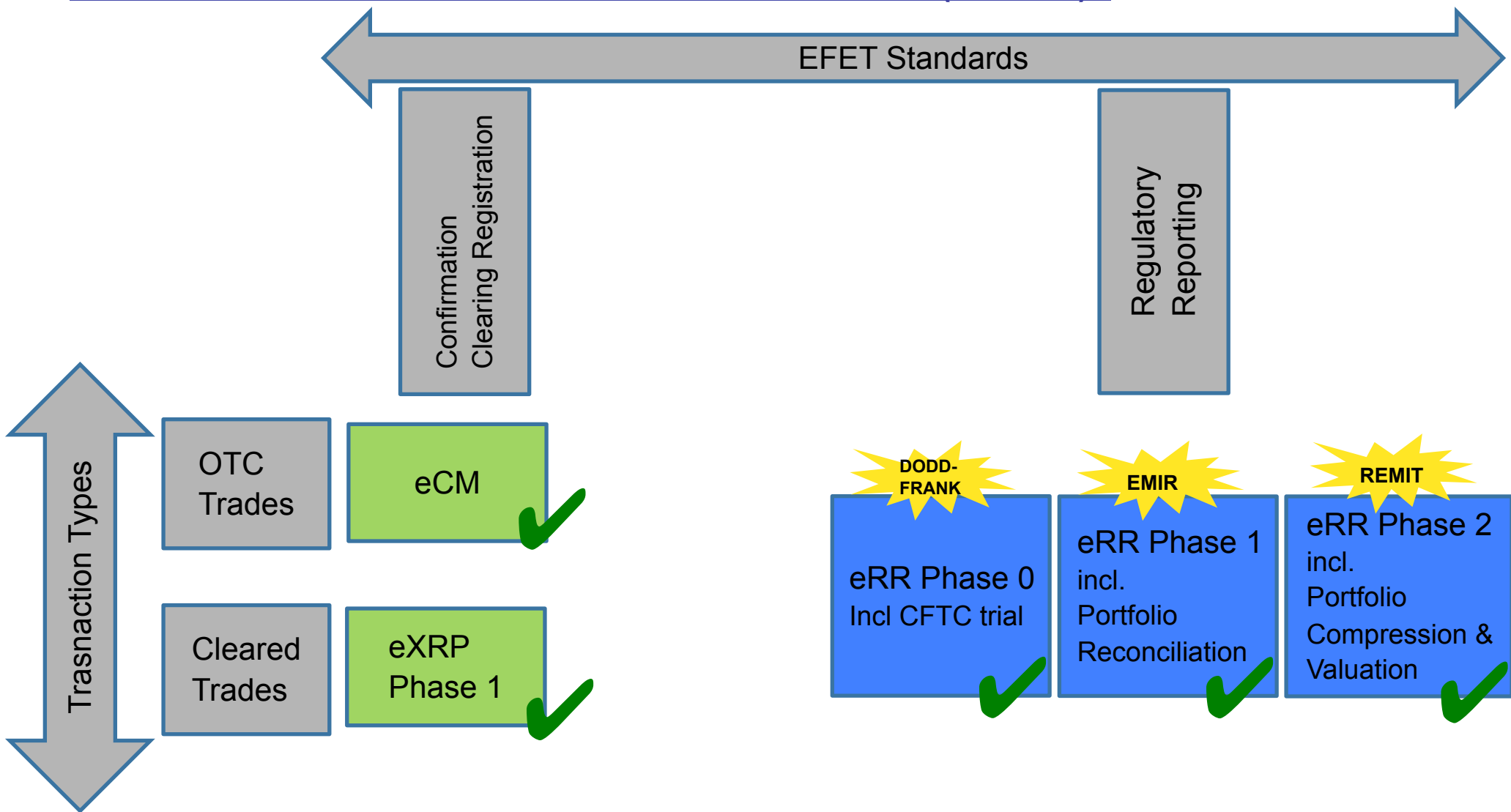
- ⇒ **A lengthy process (years) to get industry alignment and adoption on standardisation of existing processes, even longer for new processes (except for regulatory or legal deadlines)**

- ⇒ **Actively managing the standardised processes is required (never ending task)**

- ⇒ **EFETnet Cost-sharing implementation and service vehicle for EFET standardised processes**

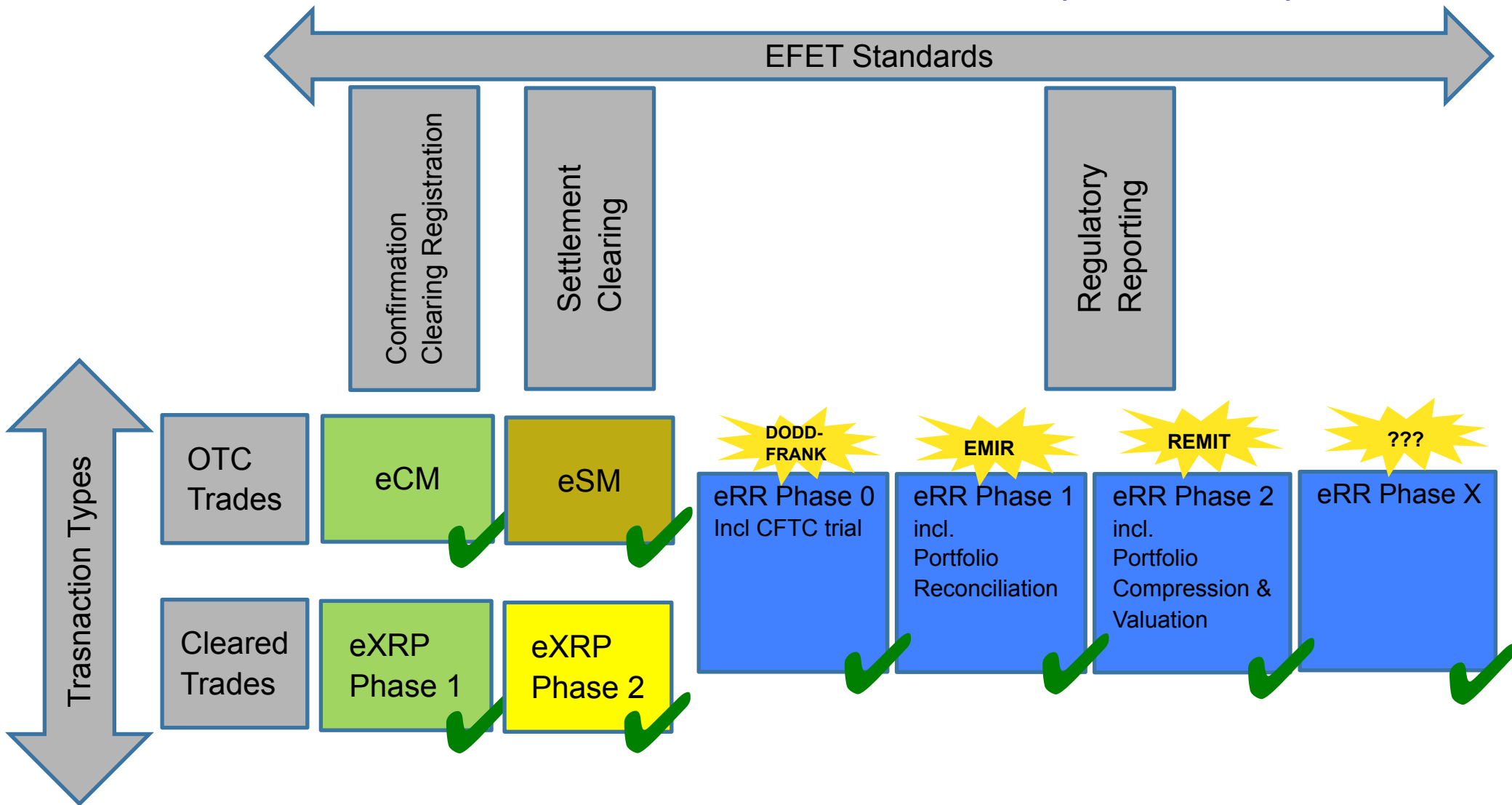
Standardisation of Back-Office Functionalities

Which Back-Office Functionalities are standardised (for now)?



Standardisation of Back-Office Functionalities

Which Back-Office Functionalities can/will be standardised (for tomorrow)?



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➔ Standardization of Back-Office Functionalities

➔ **Principles of Operational Risk Management**

What is it?

Operational Risk is of loss resulting from inadequate or failed processes, people and systems. It includes legal risk, but excludes credit risk.

Operational Risk is a continuous cyclic process which includes identification, implementation, monitoring, and mitigation, or avoidance of risk.



Why do you need it?

- ⇒ Lack of general process maturity in commodity trading

- ⇒ Exponential ratio between the value of an operation and the potential damage or loss

- ⇒ Given the increasing liquidity in some markets, volumes are rising year after year

- ⇒ Most processes are highly time critical

- ⇒ So operational risk will hurt you, the only question is when

How do you implement it?

- **Documentation & Formalisation: Processes (STeP), Procedures, Working Instructions, Manuals,...**

- **Regular risk assessments, audits and mitigation plans**

- **Adequate organisation (function and processes)**

- **Tools (cfr support for Sarbanes-Oxley, Basle II, ...)**





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