Classic Trading Model

Nord Pool Risk Management

February 2025

Introduction

The Classic Trading Model is a model which uses the Collateral Calculation Methodology to produce a collateral requirement for each Clearing Member (except for Clearing Members subject to the SmartCap Trading Model) that simply and accurately reflects the risk in a member's trading behaviour. The model estimates a Collateral Requirement that needs to be met by the member at all times, based on historical trading patterns and in line with Nord Pool's Clearing Rules.

Initial Collateral

Initial Collateral is the requirement that needs to be met before any trading activity starts. Nord Pool estimates the Initial Collateral for all Classic Trading Model Clearing Members based on the maximum expected net MWh position for a delivery day. This estimate is inserted into the Daily Margin Calculation - giving the Clearing Member an Initial Collateral Call which must be met before trading starts. All members must post collateral as security that they can pay for the contracts they have entered into. Minimum Collateral for all Nord Pool members is €30 000.

Collateral Requirement for a given date;

$$\text{Collateral Requirement} = \sum \Big(\big\{ \text{Max}_{1-n} \left(\text{Daily Net position } (MWh) \times \text{Risk Parameter} \right) \times \text{Day Factor} \big\}$$
$$+ \big\{ \text{Max}_{1-n} (\text{Daily Settlement Position} \times \text{Multiplier}) \big\} \Big) \times \text{Credit Risk Adjustment}$$

Where the;

- *"**Daily Net Position**" is the sum of the volume flow for a given Risk date R (which includes Intraday Continuous (IDC) trades with a delivery date of R-1, Intraday Auction (IDA) trades with a delivery date of R and Day Ahead (DA) trades with a delivery date of R+1) within a specific bidding zone, between Nord Pool and the Clearing Member.*
- *"**Risk Parameter**", or the Risk Price Parameter is a parameter set on either a net long or a net short position per delivery bidding zone, estimated as a conservative spot price based on modelling and analysis of historical prices.*
- *"**Day Factor**" is a parameter set to account for Nord Pool's exposure towards the Clearing Member over extended non-banking days, which can be increased at the discretion of Nord Pool.*
- *"**Daily Settlement Position**" is defined as the net sum of all payments payable to and from the Clearing Member for a settlement day, as defined in the settlement schedule.*
- *"**Multiplier**" is a parameter that can be used by the discretion of Nord Pool to increase the collateral call due to extraordinary market events.*
- *"**Max$_{1-n}$**" defines the lookback period, which is currently set to 30 days for the daily net position, and to 7 days for the daily settlement position*
- *"**Credit Risk Adjustment**": The factor is a Multiplier reflecting the credit risk associated with the clearing members trading behaviour. Please refer to the Collateral section of the website for further details on the methodology and the relevant Multipliers.*

Since 27/11/23 both the Daily Net Position and the Daily Settlement Position are always net positive values, or set to zero, for the purposes of calculating Collateral.

Note that the Collateral Requirement will never fall below the minimum requirement of €30 000.

Example