Peak Market Activity Proposal

Risk Management Committee
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Discussion Items

1. Summary of Proposed Changes

2. Rationale for the Changes

Summary of Proposed Changes

1. **The Adjusted Invoices used will change** from *rolling 3 weeks* to *rolling 4 weeks*.

2. **Reset frequency will change** from *semiannually* to *weekly*.

3. **Number of early payments will change** from *10* to *13*.

4. **Introducing Minimum Exposure and Minimum Transfer Amount,** and the calculation logic

Minimum Exposure is the maximum of (a) 3,000 and (b) 1% of the greatest amount invoiced in any rolling one-, two- or three-week period in the prior 52 weeks, rounded up to the nearest integral multiple of $100, (c) capped at $100,000.

Minimum Transfer Amount is the maximum of (a) $20,000 and (b) 5% of the greatest amount invoiced in any rolling one-, two- or three-week period in the prior 52 weeks, rounded up to the nearest integral multiple of $100, (c) capped at $500,000.

There is a PMA collateral shortfall if current 4-week PMA requirement is greater than collateral held last week.

- If the shortfall is greater than the *Minimum Exposure*, a PMA call is made, which equals to *n* Minimum Transfer Amount* , where the integer *n* is chosen to bring the collateral to just at or above the current 4-week PMA requirement.
- Otherwise, no PMA call is necessary.

There is a PMA collateral surplus if current 4-week PMA requirement is less than collateral held last week.

- If the surplus is greater than the *Minimum Transfer Amount*, then the surplus is returned, which equals to *n* Minimum Transfer Amount* , where the integer *n* is chosen to bring the collateral to just at or above the current 4-week PMA requirement.
- Otherwise, no collateral is returned.

Rationale for the Changes

PMA using rolling 4-week adjusted invoices provides extra week of cover during stressed period.

Minimum Exposure sets up a threshold, below which small PMA deficiencies are allowed.

Minimum Transfer Amount reduces frequent PMA calls or returns and provides extra cushion.

Back-test results show the proposed solution is better than current PMA calculation.

- Reduced root mean square error
- Reduced failure rate
- Reduced expected shortfall
- Reduced total collateral requirement
- Shorter period of holding high collateral after peak

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Peak Market Activity Proposal

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