

CMP228

Definition of Qualified Bank

CUSC Panel – 28th February 2014
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Users' liabilities secured under the CUSC

- **Termination Amounts** (CUSC 2.19) – secured via :
 - The Company Credit Rating of the User
 - Qualified Bank – Letter of Credit or Performance Bond
 - Cash deposit
 - Qualified Company – Performance Bond

- **BSUoS Charges and TNUoS Demand Charges** (CUSC 3.22) – secured via :
 - User's Allowed Credit
 - Qualifying Guarantee
 - Letter of Credit
 - Cash deposit
 - Bilateral Insurance Policy
 - Insurance Performance Bond
 - Independent Security Arrangement

- **Cancellation Charge Secured Amounts** (CUSC 15 Part 3) – secured via :
 - The Company Credit Rating of the User
 - Qualified Bank – Letter of Credit or Performance Bond
 - Cash deposit
 - Qualified Company – Performance Bond

CUSC Defect – for Users without The Company Credit Rating or User's Allowed Credit :

- > Limited category of providers of security for Termination Amounts and Cancellation Charge Secured Amounts
- > Users would typically provide a Letter of Credit or Performance Bond from a Qualified Bank
- > Recent banking failures have reduced the number of banks with adequate credit rating - less incentive on remaining banks to maintain or reduce their charges to Users
- > It is proposed to broaden the scope of “Qualified Bank” to include trade credit insurance company (and reduce the preferential treatment of licensed banks)

Trade Credit Insurance Company vs. Bank

- > Core business
 - trade credit insurance company typically provides insurance based products as part of its core business, mainly funded by policyholders
 - bank (holder of a banking licence) typically provides wide range of banking services, broad variety of funding structures
- > Regulation - both are regulated by UK governing bodies (e.g. Financial Conduct Authority / Prudential Regulation Authority) to carry out their financial activities
- > Ratings - both may be formally rated by credit ratings agency (e.g. S&P, Moody's) in order to provide a comparable strength of counterparty for the issuance of security

CMP228 – Suggested amendment to the definition of “Qualified Bank”

*“a City of London branch of a bank or Great Britain branch of a trade credit insurance company, its successors and assigns, which has throughout the validity period of the **Performance Bond** or **Letter of Credit** it issues in favour of **The Company**, a rating of at least A- in Standard and Poor’s long term debt rating or A3 in Moody’s long term debt rating provided that such bank or trade credit insurance company is not during such validity period put on any credit watch or any similar credit surveillance which gives **The Company** reasonable cause to doubt that such bank or trade credit insurance company may not be able to maintain the aforesaid rating throughout the validity period and no other event has occurred which gives **The Company** reasonable cause to have such doubt;”*

>The security criteria to be met by both bank and trade credit insurance company would be identical – unlikely to have material effect

>Increased number of providers of security is expected to reduce the cost to Users without a credit rating, thereby facilitating competition in the generation and supply of electricity

CMP228 – Recommendation

It is requested that the CUSC Panel:

- Agree that CMP228 and the suggested legal text would facilitate the CUSC Objectives (subject to legal review)
- Consider whether the Self-Governance Route would be appropriate
- Consider whether a Workgroup or Code Administrator Consultation would be needed
- Target date for implementation - by 1st June 2014 to enable security for bi-annual Cancellation Charge Secured Amounts to be in place by c16th August 2014 for 1st October 2014