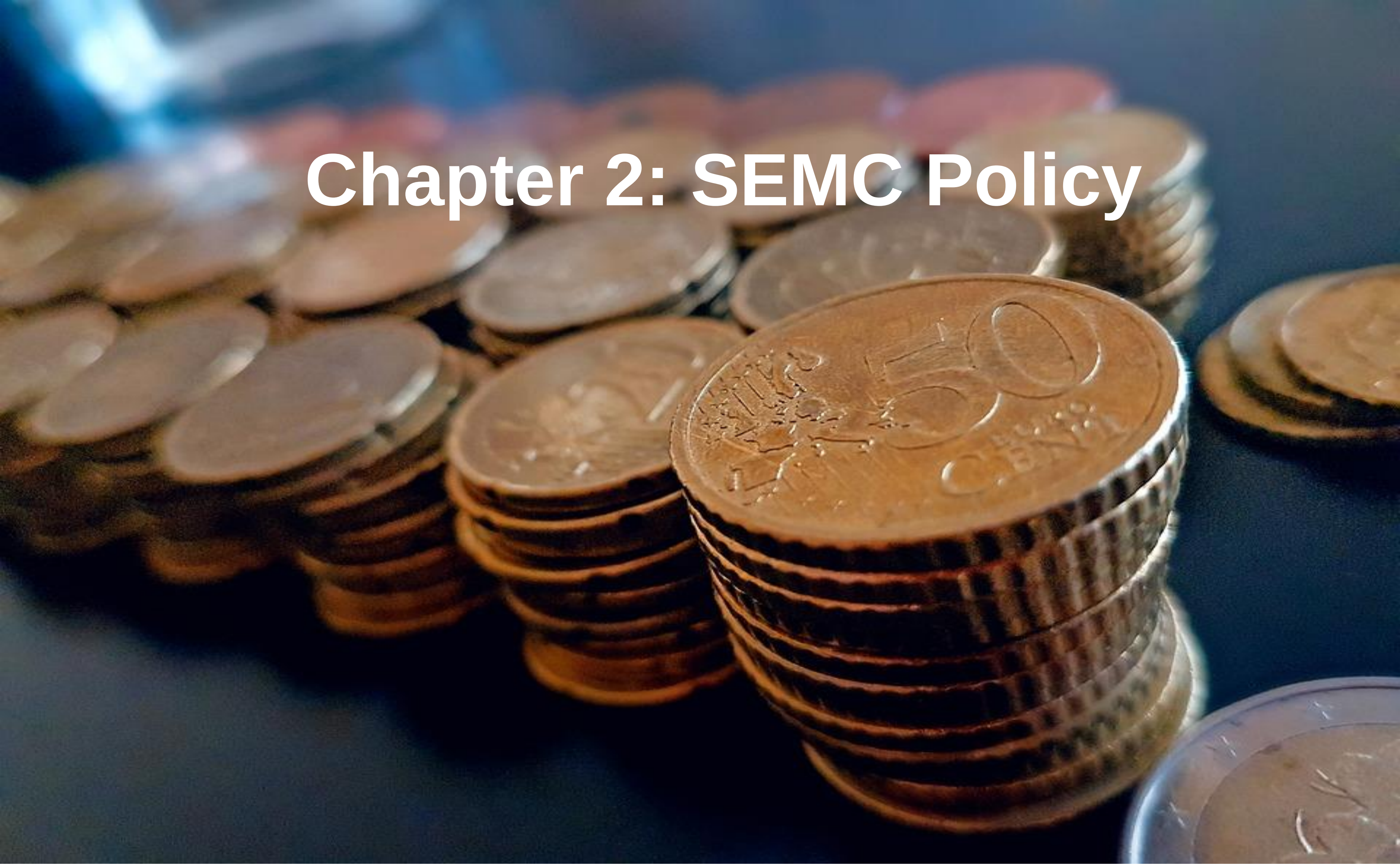
Chapter 2: SEMC Policy



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SEMC Policy

- The SEMC policy is often quoted as “full collateralisation” or 100% collateralisation
- This originates in the **Single Assumptions Document** from 2005
- This document set out many of the early design considerations for the SEM
- This states “*MO shall operate with minimum credit requirements and **no risk in financial settlement***”
- This means that in the event of an unsecured bad debt, the MO is not liable for this
- This led to the implementation that required all exposures to be collateralised and a mechanism for socialisation of bad debt should it arise

SEMC Policy

- The first draft of the TSC for the SEM (from 2005) stated:
  - *6.38 The settlement and invoice timeline descripted in section 6.2 defines a **need for credit cover for the cash flow between the MO and Participants**;*
  - *6.39 The level of Required Credit Cover for each Participant **is intended to cover all expected unpaid payment commitments** to the MO over the Settlement Risk Period*
- The most important word in paragraph 6.39 is "**intended**"
- It must be understood that full collateralisation is the desired outcome
- However, due to the nature of the risk, there is always the chance that the calculations may not provide for full collateralisation
- This could arise following non-payment after a period of high consumption or after a period of high prices

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