

Modification Proposal	MP No: 142 <i>(mandatory by BSCCo)</i>
Title of Modification Proposal <i>(mandatory by proposer):</i> Minor refinement to allow a Level 2 Default Cure period in defined circumstances	
Submission Date <i>(mandatory by proposer):</i> 29 August 2003	
Description of Proposed Modification <i>(mandatory by proposer):</i> <i>Before Credit Default and Credit Rejection occurs, allow parties who have fallen into level 2 credit default outside of normal business hours AND who have NOT breached 100% of their credit cover percentage a 2 hour window to post additional funds upon recommencing the next business day.</i>	
Description of Issue or Defect that Modification Proposal Seeks to Address <i>(mandatory by proposer):</i> <i>Due to restrictions on banking hours, for e.g. at the weekend, the ability to post monies outside of normal business hours to resolve a level 2 credit default is not currently a feasible option. Despite the willingness and preparedness of a party to resolve this default by posting additional monies as soon as banking hours recommence they may be exposed to their previously submitted contracts being rejected and being exposed to significant imbalance charges.</i> <i>We recognise the credit default procedures are designed to provide a mechanism such that BSC parties who are in genuine financial difficulties are prevented from incurring significant charges to which other BSC parties are exposed. However, this objective needs to be pragmatically balanced against the ability of a financially sound BSC party to resolve the credit default and not simply be exposed to significant imbalance charges due to rigidities within the arrangements.</i> <i>We consider the proposal, that contracts not be rejected until a 2 hour window is provided on the next business day to resolve the default, alongside the community safeguard that in any event the BSC parties Credit Cover Percentage does not exceed 100% provides such a balance.</i>	
Impact on Code <i>(optional by proposer):</i> Minor amendment of Section M	
Impact on Core Industry Documents <i>(optional by proposer):</i> None envisaged	
Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties <i>(optional by proposer):</i> None envisaged, simply modifies the time at which BSCCo provides the ECVAAs with the authorisation to begin the Level 2 Credit Default Rejection.	
Impact on other Configurable Items <i>(optional by proposer):</i>	

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Justification for Proposed Modification with Reference to Applicable BSC Objectives *(mandatory by proposer):*

Across the Industry there is a huge over provision of security for imbalance and the long term cost of this over provision is far greater than the expected credit losses.

This proposal allows the Industry to place pragmatic credit levels and avoid credit default consequences due to mechanistic causes.

It will enable companies to place credit levels commensurate with their trading activities and the true risk will promote effective competition.

This proposal will also promote the efficiency and credibility of the balancing and settlement by filtering out spurious technical credit defaults.

It would therefore meet Applicable BSC objectives (c) and (d).

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Attachments: NO

If Yes, Title and No. of Pages of Each Attachment: