

ISSUE 22: Indebtedness

Smartest perceive that we have to put up credit way in excess of our real exposure. This occurs for two reasons:

- 1) as a consolidator our base BMU units are net exporters, but the CEI part of the calculation only takes consideration of the DCs, not our GCs
- 2) the II part of the calculation does not adequately cater for large portfolio changes, as it is using estimates not actual data.

This second point is nothing new and is almost certainly the main reason behind the conclusion of the ISG Panel Paper 100/009 that the indebtedness calculation is least suitable for suppliers. An option here is to raise a modification to investigate further and implement changes following on from this paper (so long as our specific issue above is also addressed)

We are of the view that manual submission of GCs and DCs is inefficient -- monies spent policing the arrangement could be spent on automating it in some way.

We are also of the view that the excess credit of £250m industry-wide comes about as a result of a fear of being named publicly and this issue should be addressed.

I am mindful of the fact that there have been many mods to tinker with the calculation in the past and that large ones have failed on the grounds of cost.

However, credit is a rather topical issue at the moment and we suspect there is appetite for an even wider review of the credit arrangements. We wonder whether the thresholds or period over which the calculation is made should be debated.