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# Q&A on potential EEX Derivatives Market Suspension

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## Introduction

We have received various questions from stakeholders in connection to a potential major disruption of gas delivery and the potential reaction of EEX and ECC should this occur. This Q&A document addresses the questions that we deem of interest to an extended audience.

First, the importance of keeping energy markets open even in turbulent periods needs to be reiterated. Especially during times of stress, it is essential to have access to a central and transparent market that enables participants to manage and transfer their risk through trading and central clearing (Link: [EEX & Epex Spot Position Paper - The importance of keeping energy markets open in times of turmoil](#)).

Even in the event that the German federal government activates the third level (“emergency level”) of its Emergency Plan for Gas (e.g., as a result of cancelled gas deliveries from Russia) the fundamental operation of the Virtual Trading Point (VTP) for THE and of the exchange operations based on it, including delivery and nomination at the VTP, are expected to be provided for and ensured. In this regard, we refer to the joint statement of the market area manager Trading Hub Europe (THE), the exchange operator European Energy Exchange AG (EEX) and Federal Network Agency (Link: [Trading at Trading Hub Europe’s virtual trading point upon activation of the emergency level](#)).

Major disruptions of gas delivery might, however, trigger temporary measures in the form of a volatility interruption or a temporary suspension of the EEX power and/or gas derivatives market to avoid irrational price movements. Further to our customer information (Link: [Customer Information of 11 April 2022](#)), this Q&A is intended to provide general information on these volatility safeguards, without restricting the measures available to EEX and ECC in response to any circumstances as they may present themselves in the future. Based on the information available at this stage, we do not expect a suspension of the EEX gas spot market.

To the extent that these Q&As address legal aspects, they solely express the opinion of EEX and ECC and do not constitute legal advice, nor do they include any legal representations whatsoever by EEX, ECC or any of their affiliated companies.

Further information regarding current market conditions is available on our dedicated website (Link: [Information regarding current market conditions](#)) addressing the impact of the conflict in Ukraine on energy markets.

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## Questions

**1. Which temporary measures might be triggered by EEX in case of major disruptions of gas delivery?**

These measures are volatility interruptions and a temporary suspension of one or more EEX derivatives markets.

**2. What is the purpose of volatility interruptions and market suspensions?**

Market suspensions and volatility interruptions aim at giving market participants time to evaluate the information that is causing price changes. They shall give market participants the opportunity to check their orderbook situation against the current market situation. By that, fair and orderly exchange trading and settlement shall be ensured.

**3. What are volatility interruptions and what are the triggers thereof?**

Volatility interruptions are automated by the trading system in the event of significant price fluctuations. (See Section 24 (2b) German Exchange Act.) More specifically, the EEX volatility interruption mechanism is triggered if an order would result in a trade that exceeds a price threshold within a certain time interval as compared to a previous order. Orders triggering volatility interruptions will not be executed.

**4. What is the legal basis for volatility interruptions?**

The legal basis is Section 24 (2b) German Exchange Act and Section 45 (2) of EEX Rules and Regulations (Link: [EEX Rules and Regulations](#)).

**5. How long will trading be interrupted?**

After a volatility interruption, trading is resumed as soon as reasonably possible by EEX.

**6. Is an interruption possible for individual products or delivery points?**

Yes, volatility interruptions are implemented on product level (e.g., at the level of G3BM).

**7. Where can the volatility interruption parameters be found?**

To prevent misuse, we treat this information as confidential and do not make the parameters public.

**8. What is market suspension, and can it be caused by major disruptions of gas delivery?**

In case of a major disruptions of physical gas supply and after close consideration of market circumstances, the Management Board of the Exchange could decide to temporarily suspend trade execution of all European power and gas derivatives markets and set the markets into Pre-Trading Period. During this period only prices of orders (not the quantity) are visible and in case of a potential matching also the market price is displayed.

**9. Is there a price cap which triggers the suspension of trading?**

No, there is no set price threshold. From our perspective, a high price alone does not justify the suspension of trading. Only the full consideration of all market conditions by the Management Board of the Exchange would trigger the suspension.

**10. Would a suspension of trading affect both EEX gas spot markets and EEX derivatives market?**

No, it would only affect gas and power derivatives market. Spot markets are expected to remain open.

**11. Is it possible to suspend the trading of individual products or market areas?**

Should major disruptions affect only individual products or market areas, EEX could suspend trading in those products or market areas only.

**12. What is the legal basis for such a suspension?**

The suspension of trading is based on Section 25 (1) No.1 German Exchange Act and Section 42 (1) sentence 1 of EEX Rules and Regulations (Link: [EEX Rules and Regulations](#)) and requires a decision by the Management Board of the Exchange. The prerequisite for such a decision is that the proper exchange trading or proper settlement of transactions seems to be temporarily endangered.

**13. Who would take the decision to suspend the market?**

The decision would be taken by the Management Board of the Exchange which is subject to legal supervision of the exchange supervisory authority (Saxon State Ministry for Economic Affairs, Labor and Transport). Immediately after the suspension, the Management Board of the Exchange will involve competent authorities and consult the Exchange Council (the exchange body in which the interests of the exchange participants are represented) about the timing of the restart of exchange trading.

**14. What is the timeline for suspending the market?**

As these are emergency measures by the exchange, they are generally taken and announced immediately. If the event which would trigger such an emergency measure happens outside of trading hours, the suspension will only take effect on the next trading day.

**15. Would EPEX Spot markets be affected by a market suspension of EEX electricity future markets?**

The power spot market of EPEX and the power derivatives markets of EEX are two separate exchange markets. As a rule, suspension of futures and options trading does not immediately affect spot markets. In each case, any decision remains with the respective exchange operator individually.

**16. Would a suspension of trading affect EEX Future To Spot service (FTS)?**

We expect the EPEX Spot market to remain open. Accordingly, there would be no impact on FTS.

**17. Would EEX consider the actions taken by other exchanges when deciding on a potential suspension of trading?**

EEX will consider the actions and considerations taken by other exchanges and has established respective communication lines. Any decision remains with each exchange individually.

**18. Would trading be suspended for a prolonged period or would trading be suspended several times?**

Subject to further developments, market suspension following a major disruption of gas delivery is intended to be a single and temporary measure to prevent spontaneous irrational price movements.

**19. What would happen to orders in the event of a suspension of trading?**

In the event of a market suspension, only non-persistent orders will be deleted automatically by the derivatives trading System T7. Persistent orders as well as any new orders will be displayed during Pre-auction phase in T7.

**20. If EEX suspends trading, would all trades executed prior to the suspension still be valid or is there a risk that trades are cancelled?**

Generally, all trades executed prior to the suspension remain valid. Individual trades might be cancelled in accordance with the EEX Trade Cancellation Rules ([Link: EEX Trade Cancellation Rules](#)).

**21. Does ECC have any powers to request that EEX cancel trades?**

No, ECC does not have such powers. EEX Trade Cancellation Rules can be found on our website.

**22. If EEX temporarily suspends trading in derivatives, e.g.TTF futures, would ECC continue to calculate both Variation Margins and Initial Margins?**

Initial margins need to be provided for all open positions according to ECC's margin methodology. EEX will determine daily settlement prices in accordance with its Settlement Pricing Procedure at all exchange trading days, also in the case of a suspension of the EEX derivatives market. Those daily settlement prices are the basis for ECC's initial and variation margin calculation (Link: [EEX Settlement Pricing Procedure](#)).

**23. Is there any scenario in which ECC would suspend margin calls or the release of margins from or to Clearing Members?**

There are currently no scenarios foreseen in which ECC would suspend standard margin calculation procedures.

**24. In case the EEX market is suspended, how would EEX calculate daily settlement prices?**

EEX uses transaction data or order data to calculate the daily settlement price. If no such market data is available, EEX uses other data, such as fair values, or data from index or data providers or other sources. See section 2.2a of the Settlement Pricing Procedure (Link: [EEX Settlement Pricing Procedure](#)).

**25. Is there any possible scenario where EEX cannot calculate/assess daily settlement prices? What would happen in such a situation?**

No, EEX will determine and publish settlement prices daily.

**26. If the market was suspended during the delivery period of a contract, is there any risk that market participants would not be able to make or take delivery of physical futures?**

A temporary suspension of the derivatives market does not affect the fulfillment and settlement of open positions.



**27. What would be the potential implications if a temporary market interruption happens towards the end of a month, i.e., shortly before the front month contract goes into delivery and a market participant does not hold an own balancing agreement and/or does not have access to a 3<sup>rd</sup> party balancing agreement?**

For market participants without a balancing agreement or access to a 3<sup>rd</sup> party balancing agreement, ECC may start the close-out of positions according to its rules as early as the 4<sup>th</sup> business day prior to delivery.

**28. Under which circumstances would ECC suspend the fulfillment of exchange trades?**

If the Virtual Trading Point (VTP) is operating, ECC will continue to nominate the respective gas volumes. We have no indications that the VTP might be closed.

**29. In how far does the German Energy Supply Security Act (Energiesicherungsgesetz) affect EEX gas futures markets?**

In preparation for a potential limitation of natural gas imports from Russia, the German government amended the Energy Security Act (Energiesicherungsgesetz, EnSiG). Among other provisions, the new section 24 EnSiG allows price adjustments if the alert or emergency level has been called out as a result of gas import limitations. Energy supply companies will be granted the right to pass on price changes, specifically price increases, along the supply chain. In turn, gas consumers will have the right to cancel a contract immediately when they become aware of a price adjustment.

EEX and ECC deem exchange transactions (including EEX OTF) and resulting positions to not fall into the scope of section 24 EnSiG. Hence, natural gas contracts within the market area THE executed on the EEX markets are neither subject to the right for price adjustment nor the resulting termination right under section 24 EnSiG. Therefore, neither EEX nor ECC will accept requests for price adjustments or termination unless ordered by a competent national authority. In this regard, we refer to our respective customer information. (Link: Customer Information of 18 May 2022)

This view remains unchanged against the background of the most recent amendment (Link) of section 24 EnSiG. In particular, section 24 EnSiG now clarifies that only contracts relating to physical delivery of natural gas are within the scope of the provision. Under the relevant contracts, ECC does not owe physical delivery of natural gas, but merely nomination. With regard to the newly introduced paragraph 7 sentence 2 of section 24 EnSiG, we note that the referenced section 104 of the German Insolvency Act (“Insolvenzordnung”) does not relate specifically to exchange transactions, but to transactions in goods that have a market or exchange price.

**30. Would the activation of the Federal Load Distribution Entity (“Bundeslastverteiler”) impact EEX market operations?**

There are no indications that the activation of the Federal Load Distribution Entity would result in the closing of the VTP. If the VTP is operating, EEX markets remain open. Further information in relation to the Federal Load Distribution Entity can be found on the website of the Bundesnetzagentur (Link: [Website of the Bundesnetzagentur](#)).

**31. EEX AG provides several indices and benchmarks based on data of the EEX gas spot market. Would the calculation of these indices and benchmarks be continued in the event of a market suspension?**

We do not intend to suspend EEX gas spot markets as a result of interruptions of gas delivery and aim at continuing the EEX gas spot markets at any time. Nonetheless, whether such a spot market suspension would have an impact on the calculation of said indices or benchmarks depends on the duration. The methodologies of both the indices and the benchmarks address instances where no input data is available and provide for certain fallback procedures in this regard. Further information is available in the Index Description and the Benchmark Statement of EEX AG (Link: [EEX Index Description and EEX Benchmark Statement](#)).

**32. What Rules would apply to Market Makers in the event of a market suspension or a volatility interruption?**

A market suspension or a volatility interruption would have an impact on both the regulatory Market Making obligation (i) and the contractual one (ii).

(i) The regulatory quoting obligation under the admission as Market Maker would be suspended on the basis of Art. 3 Delegated Regulation (EU) 2017/578 due to a <situation of extreme volatility>. Although originally designed for a situation of extreme volatility in open markets, this suspension provision is also applicable – a fortiori – if the market even has to be closed due to (expected) extreme volatility.

(ii) Likewise, we would suspend the contractual quoting obligation.

**33. Does the Spanish Royal Decree 10/2022 of 13 May 2022, establishing the so-called ‘Iberian price cap’, trigger any changes to the methodology of EEX AG’s Spanish Power Benchmarks underlying EEX Spanish Power Futures?**

No. The so-called ‘Iberian Price cap’, established under Royal Decree 10/2022 of 13 May 2022 and approved by the Commission, provides for a mechanism for adjusting the cost of production of marginal fossil technologies (gas power plants and coal-fueled power plants). This does not lead to the introduction of an additional day-ahead market auction, which was discussed as a potential scenario in EEX Customer Information of 8 April 2022. Accordingly, no changes are required to the methodology of EEX AG’s Spanish Power Benchmarks, which is outlined in detail in EEX AG’s Benchmark Statements.

**34. A trading participant has hedged, i.e. bought THE gas for the coming winter. What happens if there is a delivery problem, i.e. the seller can't deliver the gas?**

Subject to the Emergency Plan Gas (See Introduction), exchange transactions will be nominated as usual and the market area manager THE will have to provide balancing energy on account of the seller in favor of the buyer.

**35. What happens with the hedges if the market has declared force majeure?**

Neither German statutory law nor the ECC Clearing Conditions provide for force majeure provisions that would release trading participants from their delivery obligations.

**36. Will all contracts for a certain delivery point and time period be cancelled at current market prices?**

No contract will be cancelled. Last resort for exchange trades is order of financial settlement instead of physical delivery.

**37. Will there still be a market at PEGAS but not for all contracts and delivery points?**

We do not plan to close any of the market areas neither for spot nor futures, as exchanges and exchange price are essential even in case of turbulent times (See Introduction).

**38. What is meant in the EEX Press Release of 14 July 2022 (Link) by "the Management Board of the exchange is prepared to slow down the daily market ramp-up by approximately 1 to 3 hours"?**

This phrase refers to the scenario outlined in Answer 0 above that the event which triggers a market suspension happens outside of trading hours. In such an event, the suspension will only take effect on the next trading day. The market suspension is only a temporary measure. Trading will be started as soon as proper exchange trading and proper settlement of transactions is ensured. The Management Board of the Exchange will consult the Exchange Council in this regard.