

# CUSC Amendment Proposal 126: Clarification of applicability and definition of Qualifying Guarantee and Independent Security

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CUSC Panel

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# Clarification of applicability and definition of Qualifying Guarantee and Independent Security

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- ◆ Issues with current situation
- ◆ Proposal
- ◆ Applicable Objectives
- ◆ Recommendation

# Issues with current situation (1)

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## Qualifying Guarantee

- ◆ They are treated as a collateral tool and not an allowance.
- ◆ Where a user has a rating that does not afford it an allowance greater than its requirement it is using its Parent Company's allowance as an additional collateral tool. The user should instead substitute its allowance with that of its Parent Company.
- ◆ They can be given by a party which is not a direct parent.
- ◆ A single Parent Company can provide many guarantees in excess of its maximum allowance.

## Issues with current situation (2)

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### **Independent Security Arrangement**

- ◆ Independent Security Arrangement can be provided by a Parent Company as collateral.
- ◆ To move guarantees from Parent Companies from collateral to allowance it would be necessary to restrict Independent Security Arrangements to be issued by anyone other than a Parent Company.

# Proposal

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- ◆ Clarification of Qualifying Guarantee as:
  - ◆ from Parent Company
  - ◆ use as an allowance rather than collateral
  - ◆ aggregation of PCG allowance
- ◆ Clarification of Independent Security as:
  - ◆ from anyone other than a Parent Company
  - ◆ use as a collateral tool

# Applicable Objectives

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- ◆ The increased transparency given by clarifying the applicability and definition of Qualifying Guarantee and Independent Security will better facilitate Applicable Objective (a), by increasing efficiency and Objective (b) by increasing competition as CUSC parties are able to make a more informed decision on the use of credit allowances and collateral tools available to manage their security obligations.
- ◆ Moving Parent Company Guarantees from collateral to Users' credit allowances will remove potential under securitisation caused by double counting, and this will better facilitate effective competition (Objective (b)), by ensuring that an appropriate level of security was held for all parties, and by reducing the chances of bad debt being passed through to the industry.

# Recommendation

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- ◆ Workgroup – 2 months