Instruction 4

# on determining the Initial Margin Values

**1. The reference value of the Initial Margin per Contract**

**Initial Margin Reference Values**

**valid from May 18th, 2020**

| Contract type | Volatility Risk | **Fixed Initial Margin Value** |
|---|---|---|
| Week | 15.00% | **60 lei** |
| Month | 10.00% | **180 lei** |
| Quarter I and Quarter IV | 7.00% | **450 lei** |
| Quarter II and Quarter III | 5.00% | **270 lei** |
| Calendaristic semester | 6.00% | **720 lei** |
| Cold Season (Oct – Mar) | 7.00% | **900 lei** |
| Warm Season (Apr – Sept) | 5.00% | **540 lei** |
| Calendaristic year | 5.00% | **1.320 lei** |
| Gas year | 5.00% | **1.320 lei** |

**All types of contracts have the size of 1 MWh/day of delivery.**

**The total size of the contract can be determined as: number of delivery days * number of contracts**

**The reference value of the Initial Margin** is obtained by multiplying the volatility risk (*according to the determinations from point 2*) with the market price on a Contract at a given moment **and has a fixed value in lei.**

## 2. Determining the risk of volatility on the Contract

The volatility risk is determined by statistical methods according to the following criteria in chronological order:

2.1 Analysis of the evolution of prices on a type of Contract *(e.g.: week 1, January, quarter 1, calendar year, etc.)* for the last 255 trading days and determining the volatility of the respective Contract in terms of daily variation in % of the market closing price.

**Volatility risk** $M(a) = (\sum_{i=1}^{n} Xi)/n$ *or the arithmetic mean of the Daily volatility risk as a value in %*

*Where* ***n*** *is the number of days with data different from 0 in the last n days followed and* ***Xi*** *is the daily volatility*

**Daily volatility risk** *(Xi)*= $\Delta\ \%\ (\frac{\mathrm{Pi}}{\mathrm{Pi-1}})$ or daily percentage variation

*Where* ***Pi*** *represents the daily closing price of the Market for day i and* ***Pi-1*** *represents the daily closing price of the Market for the previous day*

*If there are no data on the trading prices a year ago, existing periods with trading data up to one year ago and the combination of the results obtained with the results of the following criteria shall be taken into account:*

2.2 Analysis of the data from Transactions for overlapping periods *(e.g.: 1 quarter = 3 months, 1 year = 4 quarters or 2 semesters)* and translating the results related to volatility on Contracts for which there is no data / there is not enough data.

2.3 Maintaining a high level of Bonds at the level of the Counterparty through a conservative approach as follows:

- The increase of the fixed values of the Initial Margins established by the periodic monthly recalculation, at the end of the month *(and exceptionally weekly)* in accordance with the change of the value of a Contract as a result of the increase of the prices on the Market.

- Limited maintaining or limiting the fixed values of the Initial Margins by periodic monthly recalculation, at the end of the month, in accordance with the change in the value of a Contract as a result of the decrease in prices on the Market.

2.4 Correlation of the level of volatility risk and implicitly of the reference value of Initial Margins with representative values on similar markets in the EU

***Note: if there are not enough trading data on the Market and especially at the time of launching this Market, trading data collected on other markets managed by RCE on which the Support Asset is traded shall be used.***