



New Brunswick System Operator

Market Procedure

MP-02

Credit Support

Issue: 01

Effective Date: 2006 04 01

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Part 1 Document Control and General Provisions

1.1 Change History

Issue	Date	Reason for Issue
00	2003 07 02	Pre-Market Publication
01	2006 04 01	Post-Market Publication

1.2 Contact for Queries and Submissions

For queries concerning the application or interpretation of this Market Procedure, contact:

Name: NBSO Power System Operations

Phone: 506 458-4656

Address: P. O. Box 2020
77 Canada Street
Fredericton
New Brunswick
E3B 5G4

E-mail: info@nbso.ca

Website: www.nbso.ca

Except as otherwise provided in this Market Procedure, all documents required to be submitted to the SO under this Market Procedure must be submitted to the attention of this contact at the coordinates noted above in accordance with the requirements of section 2.7.

1.3 Authority for Market Procedures

This Market Procedure is made under the authority of section 3.3 of the Market Rules.

1.4 Relationship with Market Rules and Transmission Tariff

Nothing in this Market Procedure supersedes or over-rides any provision of the Market Rules or of the Transmission Tariff. Where there is a discrepancy between the requirements in this Market Procedure and the Market Rules, the Market Rules prevail. Similarly, where there is a discrepancy between the requirements of this Market Procedure and the Transmission Tariff, the Transmission Tariff prevails. Any user of this Market Procedure who identifies any discrepancy between this Market Procedure and either the Market Rules or the Transmission Tariff should notify the [contact identified in section 1.2](#).

Any summary of a provision or requirement of the Market Rules or of the Transmission Tariff contained in this Market Procedure is provided for convenience of reference only. Users of this Market Procedure are reminded that the obligations that need to be met are as stated in the Market Rules and the Transmission Tariff.

1.5 Definitions and Terminology

Terms capitalized in this Market Procedure that are not otherwise defined in this Market Procedure have the meanings given to them in chapter 10 of the Market Rules. The rules of interpretation contained in chapter 10 of the Market Rules apply to this Market Procedure, with such modifications as the context may require.

This Market Procedure should be read in conjunction with Market Procedure MP-00, which specifies certain terminology and standard conventions common to all Market Procedures.

In this Market Procedure the term “Facility” includes a facility that has not yet been registered.

1.6 Updating this Market Procedure

Changes may from time to time be made to this Market Procedure in accordance with the Market Rules. All such changes will be Published by the SO but may not yet be included in a consolidated version of this Market Procedure. It is the responsibility of each user of this Market Procedure to use the most up-to-date information and documents. Users wishing confirmation of any changes to this Market Procedure that have not yet been incorporated into this consolidation should contact the person identified in section 1.2.

Part 2 Introduction

2.1 Purpose of this Market Procedure

The purpose of this Market Procedure is to define the process, documents and forms to be used by applicants for Accreditation, Market Participants and intended transferees of Facility registrations in providing Credit Support and related information to the SO, and to be used by the SO in determining and reviewing the Credit Support Obligations of Market Participants and in drawing upon Credit Support in appropriate cases.

For convenience of reference, the remainder of this Market Procedure generally refers only to Market Participants. References in this Market Procedure to Market Participants should be understood as including references to applicants for Accreditation and intended transferees of Facility registrations.

2.2 Purpose of Credit Support

Under the Market Rules, Market Participants will become indebted to the SO for the payment of certain fees and costs relating to the operation of the SO-controlled Grid and of the marketplace as a whole. These fees and costs include charges for Ancillary Services procured by the SO (other than as self-supplied Ancillary Services), Transmission Service Charges, energy imbalance charges and charges that reflect the SO's operating costs. The SO recovers most of these fees and costs from Market Participants after they have been incurred.

The SO and, ultimately, all Market Participants are therefore exposed to the financial consequences of payment defaults by any given Market Participant. In order to mitigate the impact of a default in payment on the SO and the market as a whole, Credit Support is required to be provided to the SO as security for payment. Where a Market Participant defaults in payment, the SO can draw upon the Credit Support in order to recover all or a part of the default amount owing, including interest and collection costs (as defined in section 3.11.7).

The amount of Credit Support to be provided by a Market Participant shall not be less than that Market Participant's Credit Support Obligation. The SO will determine the Credit Support Obligation for each Market Participant based on the SO's estimate of the charges that can reasonably be expected to be incurred and payable to the SO under the Market Rules over a period of two months. Where (and for so long as) a Market Participant's Credit Support Obligation is zero or negative, Credit Support need not be provided. This will be the case for Market Participants that are expected to be net creditors to the SO (such as Market Participants for Generation Facilities providing certain Ancillary Services).

The forms of Credit Support allowed by the Market Rules are cash, near-cash marketable securities, irrevocable guarantees and irrevocable letters of credit.

Credit Support and related information is initially provided as part of the Accreditation process described in the Market Rules and in Market Procedure MP-01. Various events

may trigger the need for a Market Participant to provide additional Credit Support if the event results in an increase in the Market Participant's Credit Support Obligation. Similarly, certain events may trigger the need for a Market Participant to provide replacement Credit Support if the event results in the existing Credit Support becoming invalid or inadequate.

2.3 Market Rules - References

Section 2.3.1(c) of the Market Rules prohibits the SO from Accrediting a person as a Market Participant unless the SO is satisfied on reasonable grounds that the person will satisfy the Credit Support and other financial requirements contained in the Market Rules.

Section 2.5.1 of the Market Rules prohibits a Market Participant from undertaking certain activities unless the Market Participant has provided such Credit Support as may be required.

Section 2.5.13 of the Market Rules contemplates that the SO will include in a Market Procedure such provisions as may be required to supplement the provisions of the Market Rules relating to Credit Support. This Market Procedure fulfils that obligation.

The balance of section 2.5 of the Market Rules sets out provisions relating to the form of Credit Support and to the obligations of Market Participants and the SO in respect of Credit Support matters.

Sections 2.7 and 7.14 of the Market Rules contain provisions relating to Events of Default, including payment default and defaults relating to Credit Support. Among other things, these sections permit the SO to draw on a Market Participant's Credit Support in certain circumstances.

2.4 Scope and Application

This Market Procedure describes the steps to be taken and the forms to be used by Market Participants in providing Credit Support and related information to the SO. This Market Procedure also includes the processes by which the SO will determine Credit Support Obligations for Market Participants and by which the SO may draw upon a Market Participant's Credit Support in the event of a default in payment.

This Market Procedure also describes the terms and conditions applicable to various forms of Credit Support and prescribes the acceptable forms of non-bank guarantee and of a pledge of cash or treasury bills. This Market Procedure also includes the list of major bond rating agencies that are acceptable to the SO for purposes of determining a person's eligibility to provide Credit Support in the form of a guarantee.

2.5 Responsibilities of Parties Under this Procedure

It is the responsibility of each Market Participant to complete and submit information relating to its anticipated trading activities in the form required and to supply any additional information that may be required by the SO in order to determine the Market Participant's Credit Support Obligation. Information related to Credit Support is required to be provided to the SO initially as part of the Accreditation process. Once the Market Participant's Credit Support Obligation has been initially established, it will remain in effect unless reviewed and changed as described in sections 3.8 and 3.10.

It is also the responsibility of each Market Participant whose Credit Support Obligation is greater than zero to provide Credit Support to the SO in an amount that is not less than the Market Participant's Credit Support Obligation. Credit Support must be provided in a form permitted by the Market Rules and this Market Procedure. Each Market Participant must also ensure that its Credit Support remains valid at all times, and must provide additional or replacement Credit Support within applicable deadlines where:

- the then-existing Credit Support becomes insufficient for any reason, including as a result of changes in the Market Participant's trading activities or in the charges payable by the Market Participant to the SO;
- the then-existing Credit Support expires or becomes invalid;
- the credit rating supporting a guarantee provided as Credit Support changes or is deemed to have changed; or
- a claim is made by the SO on then-existing Credit Support.

It is also the responsibility of each Market Participant to promptly notify the SO of any circumstance that may have an impact on the Market Participant's Credit Support Obligation or its Credit Support.

It is the responsibility of the SO to determine the Credit Support Obligation for each Market Participant, initially as part of the Accreditation process and subsequently from time to time as may be required. It is also the responsibility of the SO to:

- determine whether adequate Credit Support has been provided by each Market Participant in accordance with the requirements of the Market Rules and this Market Procedure;
- check for credit watch warnings against persons that have provided guarantees as Credit Support;
- periodically review and revise the Credit Support Obligations of Market Participants as circumstances may require and request additional Credit Support or related information in appropriate cases; and
- draw upon a Market Participant's Credit Support in appropriate cases to mitigate the impact of a default in payment by that Market Participant.

2.6 Other Market Procedures

Credit Support and related information is initially provided in the context of the Accreditation process, which is described in Market Procedure MP-01.

The need to provide additional Credit Support or related information may arise during the Facility registration process or as part of the process relating to the proposed transfer of the registration of a Facility. These processes are described in Market Procedure MP-03.

2.7 Form and Means of Communication

All documents that are required by this Market Procedure to be signed are required to be delivered to the SO by personal delivery, courier or mail. The SO may accept advance copies by other means of communication, but shall only recognize the document as having been submitted on the date of receipt of the signed original in hard copy. All other documents and information may be communicated by personal delivery, courier, mail, fax, e-mail or voice communications as considered appropriate by the sending person. Where a document or information is provided other than by means of the transmission of an original in hard copy, the SO retains the right to require written confirmation of the document or information by an authorized representative of the sending person or to require that an original be provided in hard copy. Similarly, the SO may require such written confirmation of information already in its possession where the SO intends to use such information in association with any process described in this Market Procedure.

2.8 Confidentiality

Section 3.7 of the Market Rules and Market Procedure MP-06 contain the rules applicable to the treatment of Confidential Information by the SO, Market Participants and Transmitters. Except as otherwise provided in this Market Procedure, these rules apply to information disclosed under this Market Procedure, including information disclosed to or by a Waiver Applicant, and shall be interpreted accordingly.

Where a person submits information to the SO that the person has identified as Confidential Information, the SO will maintain the confidentiality of such information except to the extent that the information is required or permitted by the Market Rules or a Market Procedure to be disclosed. As indicated in section 3.14, the SO will Publish information relating to the processes described in this Market Procedure. Such information is not considered to be Confidential Information for the purposes of the Market Rules or of any Market Procedure.

Information that is not already in the public domain and that is exchanged between the SO and a Market Participant in respect of that Market Participant's Credit Support Obligation, including details of the Market Participant's Credit Support, is Confidential Information and need not be specifically identified as such by the submitting person. Such Confidential Information will not be disclosed by the SO to any person, other than a person providing Credit Support on behalf of the Market Participant, except as may be required or permitted under the Market Rules or a Market Procedure or in relation to the SO drawing upon the

Credit Support. It is not necessary that the submitting person specifically identify this as Confidential Information.

Part 3 Process Description

3.1 Submission of Initial Credit Support Information

- 3.1.1 Any person applying for Accreditation as a Market Participant must attach to its Application for Accreditation information relating to its anticipated trading activities in order to assist the SO in establishing the person's Credit Support Obligation. This information must be in form PF-02-01, which may be completed by hand or electronically, and must be submitted to the contact person identified in section 1.2 in accordance with the requirements of section 2.7.
- 3.1.2 Where information is missing or the SO otherwise requires additional information or clarification, the SO will notify the Market Participant and will specify a reasonable period within which such information or clarification should be provided.

3.2 SO Determination of Initial Credit Support Obligation

- 3.2.1 The SO will then proceed to determine the Credit Support Obligation for each Market Participant. As required by the Market Rules, a Market Participant's Credit Support Obligation must be equal to or greater than the total amount estimated by the SO of the charges that can reasonably be expected to be incurred and payable to the SO under the Market Rules over a period of two months.
- 3.2.2 The charges that will be included in the SO's determination of the Credit Support Obligation for each Market Participant are Settlement Amounts identified in section 7.11.3 of the Market Rules and comprise the following:
- a) debits allocated for Network Integration Service under section 7.4.3 of the Market Rules;
 - b) Re-dispatch Settlement Credits (which may be debits);
 - c) Actual Energy Variance Settlement Credits, where anticipated by the SO to be systematically positive or negative;
 - d) charges for each of the following Ancillary Services:
 - i. Scheduling, System Control and Dispatch Service;
 - ii. Reactive Power/Voltage Support Service;
 - iii. Load Following Service;
 - iv. Automatic Generation Control Service; and
 - v. Operating Reserve (10-minute spinning, 10-minute non-spinning and 30-minute);
 - e) Settlement Amounts determined under section 7.6.2 of the Market Rules in respect of any Ancillary Services to be provided to the SO; and
 - f) Debits in respect of reservations for Point-to-Point Service.

3.2.3 The SO will base its initial Credit Support Obligation determination on:

- a) the information provided in the applicable Form PF-02-01;
- b) the SO's reasonable estimate, in respect of those Settlement Amounts that are required by the Market Rules to be calculated other than on the basis of non-coincident monthly peak demand;
- c) the provisions of Chapter 7 of the Market Rules that relate to the manner in which various Settlement Amounts are to be calculated; and
- d) the provisions of the Transmission Tariff that prescribe the charges for Transmission Service and Ancillary Services.

In determining the Credit Support Obligation for a Market Participant, the SO may take into account such other information as the SO considers to be relevant. The SO may also disregard all or a portion of the information provided by a Market Participant in the applicable Form PF-02-01 where the SO considers such information to be unreliable, inaccurate or misrepresentative or considers that the use of such information would result in the calculation of a Credit Support Obligation that materially underestimates the Market Participant's anticipated financial obligations under the Market Rules.

3.2.4 The SO will determine the Credit Support Obligation for a Market Participant as the greater of:

- a) zero; and
- b) either:
 - i. two times the sum over all of the Market Participant's Delivery Points of the SO's estimate of the annual average monthly amounts for all of the applicable Settlement Amounts referred to in section 3.2.2; or
 - ii. where permitted by section 3.2.5, the SO's estimate of the highest total monthly amounts for all of the applicable Settlement Amounts referred to in section 3.2.2 associated with all of the Market Participant's Delivery Points over any two consecutive months.

3.2.5 The SO shall only calculate a Market Participant's Credit Support Obligation using the estimate referred to in section 3.2.4(b)(ii) where the SO considers that use of the estimate referred to in section 3.2.4(b)(i) would result in the calculation of a Credit Support Obligation that materially underestimates the Market Participant's anticipated financial obligations under the Market Rules.

3.2.6 The SO will notify each Market Participant of the Credit Support Obligation that has been determined for it, as well as the basis upon which that Credit Support Obligation was calculated.

- 3.2.7 Where the initial Credit Support Obligation determined for a Market Participant is positive, the Market Participant must provide Credit Support to the SO in order to complete the Accreditation process. The Credit Support must be in an amount that equals or exceeds the Credit Support Obligation. Credit Support must be provided in one or a combination of the forms described in sections 3.3 to 3.7, must meet the requirements of those sections and must be provided to the contact person identified in section 1.2.
- 3.2.8 The SO may require that Credit Support be provided in an amount that exceeds the person's Credit Support Obligation where:
- a) a Market Participant has previously been a Terminated Market Participant; or
 - b) such action is otherwise permitted by section 2.7 of the Market Rules.

3.3 Form of Credit Support: General

- 3.3.1 The Market Rules allow for Credit Support to be provided in one or a combination of the forms described in sections 3.4 to 3.7. In each case, the Credit Support must be accompanied by a completed form PF-02-02 in addition to any other documents required by the applicable section below.

3.4 Form of Credit Support: Cash or Treasury Bills

- 3.4.1 Credit Support may be provided in the form of a cash deposit, which may include near-cash marketable securities in the form of Canadian Government treasury bills. Treasury bills will be valued as cash at their current market value less 2 percent to take into account the potential eroding effects of interest rate increases.
- 3.4.2 A Market Participant that wishes to provide all or part of its Credit Support in the form of a cash deposit must provide to the SO a signed Pledge in form PF-02-03 at the time at which it tenders the Credit Support.
- 3.4.3, Cash deposits provided as Credit Support will earn interest at the *[Schedule I Bank BA rate]* less *[50 basis points]*.

3.5 Form of Credit Support: Bank Guarantee or Irrevocable Letter of Credit

- 3.5.1 Credit Support may be provided in the form of a guarantee or irrevocable commercial letter of credit from a bank named in a Schedule to the *Bank Act* (Canada).
- 3.5.2 A guarantee referred to in section 3.5.1 must meet the following conditions:
- a) the guarantee must provide for payment by the guarantor to the SO on demand up to the amount stated in the guarantee; and

- b) the conditions on the ability of the SO to draw on the guarantee must be limited to the delivery of copies of an unpaid invoice previously issued to the Market Participant and a certificate of an officer of the SO that a specified amount is owing by the Market Participant to the SO under the Market Rules and that the SO is entitled by the Market Rules to payment of that specified amount as of the date of delivery of the certificate.

3.5.3 A letter of credit referred to in section 3.5.1 must meet the following conditions:

- a) the letter of credit must provide that it is issued subject to either The Uniform Customs and Practice for Documentary Credits, 1993 Revision, ICC Publication No. 500 or The International Standby Practices 1998;
- b) the SO must be named as a beneficiary under the letter of credit;
- c) the letter of credit must be irrevocable;
- d) partial draws on the letter of credit must not be prohibited;
- e) the conditions on the ability of the SO to draw on the letter of credit must be limited to the delivery of copies of an unpaid invoice previously issued to the Market Participant and a certificate of an officer of the SO that a specified amount is owing by the Market Participant to the SO under the Market Rules and that the SO is entitled by the Market Rules to payment of that specified amount as of the date of delivery of the certificate; and
- f) the letter of credit must either:
 - i. provide for automatic renewal, unless the issuing bank advises the SO at least 30 days prior to the renewal date that the letter of credit will not be renewed; or
 - ii. be for a term of at least one year.

3.5.4 Where a Market Participant includes a letter of credit referred to in section 3.5.1 as part of its Credit Support, the Market Participant represents and warrants to the SO that the issuance of the letter of credit is not prohibited in any other agreement, including a negative pledge given by or in respect of the Market Participant.

3.6 Form of Credit Support: Non-Bank Guarantee

3.6.1 Credit Support may be provided in the form of an irrevocable guarantee payable on demand from a person (including an Affiliate of the Market Participant) other than a bank referred to in section 3.5.1. In order to be acceptable to the SO, the guarantee must meet the requirements specified in sections 3.6.2 to 3.6.6. The SO will reject any guarantee that fails to meet, or that would result in a violation of, these requirements.

- 3.6.2 A guarantee referred to in section 3.6.1 must be in form PF-02-04, using the appropriate version of section 17 as prescribed in Note 2 at the top of that form.
- 3.6.3 A guarantee referred to in section 3.6.1 can only be provided by a person that has a credit rating described in column 1 of the table set forth in section 3.6.4. The credit rating must be from a major bond rating agency listed in Appendix MP-02-A.
- 3.6.4 The maximum value of all guarantees (individually or in the aggregate) referred to in section 3.6.1 that can be provided by a given person cannot exceed the value ascribed to the person's credit rating in column 2 of the following table:

Credit Rating Category (using Standard & Poor's rating terminology)	Maximum Value of Guarantee
AA- or better (or equivalent)	\$ 20 million
A- or better (or equivalent)	\$ 10 million
BBB- or better (or equivalent)	\$ 5 million

- 3.6.5 There is a special restriction that applies to guarantees referred to in section 3.6.1 where they are provided by persons that are Affiliates of one another. Specifically, where a guarantee is provided by a person (the "second guarantor") that is an Affiliate of a person that has already provided a guarantee (the "first guarantor"), in determining the maximum permitted value of the guarantee of the second guarantor, the value of the guarantee of the first guarantor will be deducted from the otherwise applicable maximum value permitted under the table set forth in section 3.6.4. The SO may waive this restriction if it receives a letter from a major bond rating agency listed in Appendix MP-02-A stating that the credit ratings of the first guarantor and the second guarantor are not directly linked and are stand alone ratings in relation to each other.
- 3.6.7 Where a Market Participant includes a guarantee referred to in section 3.6.1 as part of its Credit Support, the Market Participant covenants and agrees to advise the SO immediately upon becoming aware of:
- a reduction or loss in the then current credit rating issued to the guarantor; or
 - any recommendation to move the guarantor to "credit watch status".

3.7 Form of Credit Support: Cross-Guarantee

- 3.7.1 Credit Support may be provided in the form of an irrevocable cross-guarantee, permitting offset, from a person that is a creditor of the SO. In order to be acceptable to the SO, the guarantee must meet the requirements specified in sections 3.7.2 and 3.7.3. The SO will reject any guarantee that fails to meet, or that would result in a violation of, these requirements.

- 3.7.2 A guarantee referred to in section 3.7.1 must be in form PF-02-04 using the appropriate version of section 17 as prescribed in Note 2 at the top of that form.
- 3.7.3 The maximum value of all guarantees (individually or in the aggregate) referred to in section 3.7.1 that can be provided by a given person cannot exceed the value of the amount owing by the SO to the guarantor at the time at which the guarantee is given.

3.8 Notification of Circumstances Affecting Credit Support Obligation or Credit Support

3.8.1 Each Market Participant must promptly notify the SO as soon as it becomes aware of any circumstance that may have an impact on the Market Participant's Credit Support Obligation or Credit Support.

3.8.2 Among the circumstances that must be notified to the SO under section 3.8.1 are:

- a) any change in the information provided in the most recent form PF-02-01 filed with the SO, other than a change that:
 - i. is quantitative in nature only; and
 - ii. would result in an increase the Market Participant's Credit Support Obligation of no more than 10 percent.
- b) any reduction or loss in the credit rating of a person that has provided a guarantee as part of the Market Participant's Credit Support;
- c) any recommendation to move a person that has provided a guarantee as part of the Market Participant's Credit Support to "credit watch status" (which, in accordance with section 2.5.8 of the Market Rules, is deemed to result in a one-rating category reduction in terms of the guarantor's credit rating);
- d) any other event that results or is likely to result in the Market Participant's then-existing Credit Support becoming insufficient;
- e) any circumstance that affects or may affect the validity or enforceability of the Market Participant's then-existing Credit Support;
- f) any circumstance that results or may result in the Market Participant's then-existing Credit Support expiring; and
- g) any circumstance that results or may result in the occurrence of an Insolvency/Dissolution Event in respect of any person providing Credit Support in relation to the Market Participant.

3.9 Replacement of, or Additions to, Credit Support

3.9.1 Where the SO becomes aware, through its own sources or following receipt of a notification provided by a Market Participant under section 3.8, that the Market Participant must replace or supplement its Credit Support for any reason other than a

- change in the Market Participant's Credit Support Obligation (see section 3.10) or as a result of a claim being made on Credit Support (see section 3.11), the SO shall notify the Market Participant accordingly.
- 3.9.2 The circumstances in which a Market Participant may be required to replace or supplement its Credit Support include:
- a) where the Market Participant's then-existing Credit Support expires or becomes invalid for any reason;
 - b) where there is an actual or deemed change in the credit rating of a guarantor under a guarantee provided as Credit Support for the Market Participant;
 - c) where it becomes unlawful for the Market Participant's Credit Support provider to comply with any of its obligations under the Credit Support or it is claimed to have become so by the Market Participant or the Market Participant's Credit Support Provider;
 - d) where the Market Participant's Credit Support provider ceases or threatens to cease to carry on business or a substantial part of its business;
 - e) where an Insolvency/Dissolution Event occurs or is anticipated in respect of the Market Participant's Credit Support provider; or
 - f) where section 3.2.8 applies.
- 3.9.3 Within three Business Days of receipt of a notice referred to in section 3.9.1, or within such longer time as may be specified in the notice, the Market Participant must provide replacement or additional Credit Support in the amount specified in the notice. Such replacement or additional Credit Support must be provided in accordance with, and meet the requirements of, sections 3.3 to 3.7.
- 3.9.4 Failure by the Market Participant to provide replacement or additional Credit Support as required under section 3.9.3 is a Default Event, and section 3.11 shall apply, with such modifications as the context may require.

3.10 Review of Credit Support Obligation by SO

- 3.10.1 The SO may from time to time review and revise the Credit Support Obligation of a Market Participant. Events that may trigger this review and revision include:
- a) the SO becoming aware, through its own sources or following receipt of a notification provided by a Market Participant under section 3.8, of actual or expected changes in a Market Participant's trading activities or of actual or expected changes in the charges payable by a Market Participant;
 - b) changes in a Market Participant's Accreditation status;
 - c) registration of an additional Facility by a Market Participant;
 - d) de-registration of a Facility by a Market Participant; and

- e) cancellation or transfer of the registration of a Facility.
- 3.10.2 Where the review of a Market Participant's Credit Support Obligation arises in the context of a proposed change in the Market Participant's Accreditation status,¹ the SO may request that the Market Participant submit a new form PF-02-01 at that time. The SO will not proceed with the Market Participant's application for a change in Accreditation status until such time as the Market Participant has submitted the new form PF-02-01.
- 3.10.3 Where the review of a Market Participant's Credit Support Obligation arises in the context of the registration of a Facility or the transfer of the registration of a Facility,² the SO may request that the Market Participant(s) and/or intended transferee submit a new form PF-02-01 at that time. The SO will not complete registration of the Facility or transfer of the registration of the Facility until such time as the Market Participant(s) and/or intended transferee has submitted the new form PF-02-01.
- 3.10.4 Where the review of a Market Participant's Credit Support Obligation arises in a context other than one described in sections 3.10.2 and 3.10.3, the SO may request that the Market Participant submit a new form PF-02-01. The Market Participant must comply with that request within the time required by the SO.
- 3.10.5 The amount of a Market Participant's revised Credit Support Obligation shall be determined using the information referred to in section 3.2.3 and the calculation methodology described in section 3.2.4.
- 3.10.6 Where the SO revises a Market Participant's Credit Support Obligation, it will notify the Market Participant accordingly. Where the revised Credit Support Obligation is higher than was previously the case, the Market Participant must provide additional or new Credit Support such that the value of the Credit Support held by the SO is no less than the revised Credit Support Obligation. Such additional or new Credit Support must be provided within three Business Days of receipt of the SO's notice or within such longer time as may be specified in the notice. Such additional or new Credit Support must be provided in accordance with, and comply with the requirements of, sections 3.3 to 3.7.

3.11 SO Claim on Credit Support

- 3.11.1 The failure by a Market Participant to pay money due for payment under the Market Rules by the required time and date is a Default Event. Where such a Default Event occurs, the SO will issue a Default Notice to the Market Participant. The Default

¹ The process by which a Market Participant may apply for a change in Accreditation status is described in Market Procedure MP-01.

² The process by which a Market Participant may apply to register a Facility or to transfer the registration of a Facility is described in Market Procedure MP-03.

- Notice will specify a Cure Period of not less than 3 Business Days within which the Default Event must be remedied.
- 3.11.2 Where the Default Event is a failure to pay money when due, the Market Participant may remedy the Default Event by paying to the SO the following amounts, each of which will be specified in the Default Notice:
- a) all monies due for payment to the SO under the Market Rules;
 - b) any interest on such monies, calculated in accordance with the Market Rules; and
 - c) any costs and expenses determined by the SO to have been incurred by reason of the Default Event.
- 3.11.3 Subject to section 3.11.4, if the Default Event is not remedied within the Cure Period, or within such longer time as may be agreed to in writing by the SO, the SO may, in addition to such other rights and remedies as it may have under the Market Rules, Applicable Law or equity, make claim upon any Credit Support held in respect of the obligations of the Market Participant. Such claim shall be for the full amount specified in the Default Notice. Without limiting the generality of the foregoing, the SO's rights and remedies shall include setting-off and applying any and all Credit Support held in the form of cash or treasury bills or proceeds of either cash or treasury bills against the indebtedness, obligations and liabilities of the Market Participant to the SO under the Market Rules.
- 3.11.4 Where a Market Participant notifies the SO that it is not likely to remedy the Default Event, the SO may take the action referred to in section 3.11.3 immediately following receipt of that notice, regardless of whether or not the Cure Period has expired.
- 3.11.5 Where the SO incurs collection costs in respect of a default in payment, the SO will from time to time notify the defaulting Market Participant of those costs. A defaulting Market Participant that receives such a notice must promptly pay to the SO the amount specified in the notice.
- 3.11.6 The SO shall allocate:
- a) the amount of a default in payment;
 - b) any amount recovered by the SO from the Market Participant on account of the default in payment;
 - c) any proceeds from the realization of a Market Participant's Credit Support; and
 - d) any collection costs that have not been recovered by the SO,
- in accordance with section 7.14 of the Market Rules.
- 3.11.7 For the purposes of this Market Procedure, "collection costs" means all reasonable costs, charges, expenses and fees (including legal fees on a solicitor and client basis) incurred by or on behalf of the SO in respect of:

- a) the recovery from the Market Participant of the amount in default;
 - b) the realization, recovery or enforcement of the Credit Support provided by the Market Participant; and
 - c) the enforcement of the rights and remedies of the SO under the Market Rules or Applicable Law or in equity, in relation to the default in payment.
- 3.11.8 If the proceeds of the realization of any Credit Support provided by a Market Participant are insufficient to cover the whole of the amount owing to the SO by the Market Participant, the SO will so notify the Market Participant. The Market Participant must forthwith following receipt of such notice pay or cause to be paid to the SO the amount of the deficiency specified in the notice.
- 3.11.9 Each of the remedies available to the SO under the Market Rules or Applicable Law or in equity in respect of a default in payment or other Default Event is intended to be a separate remedy and in no way is a limitation on or substitution for any one or more of the remedies otherwise available to the SO. The rights and remedies expressly specified in the Market Rules, under Applicable Law or in equity are cumulative and not exclusive. The SO may exercise any and all rights, powers, remedies and recourses available under the Market Rules or under any document comprising Credit Support or any other remedy available to the SO howsoever arising, and whether at law or in equity, and such rights, powers, remedies and recourses may be exercised concurrently or individually without the necessity of any election.

3.12 Return of Credit Support

- 3.12.1 Subject to section 3.12.3, where a revision to a Market Participant's Credit Support Obligation results in the SO holding Credit Support in an amount that exceeds the Market Participant's Credit Support Obligation, the Market Participant may:
- a) make a written request to the SO for the return the excess; or
 - b) provide replacement Credit Support in an amount equal to the Market Participant's revised Credit Support Obligation. Such replacement Credit Support must be provided in accordance with, and comply with the requirements of, all applicable provisions of sections 3.3 to 3.7.
- 3.12.2 Subject to section 3.12.3, the SO must, within five Business Days of:
- a) receipt of a written request made under section 3.12.1(a), return to the Market Participant an amount equal to the difference between the value of all Credit Support then held by the SO and the Market Participant's Credit Support Obligation at that time; or
 - b) receipt of the replacement Credit Support referred to in section 3.12.1(b), return the existing Credit Support to the Market Participant.

3.12.3 The SO shall not take either of the actions referred to in section 3.12.2 where:

- a) the excess referred to in section 3.12.1 results from the application of section 3.2.8;
- b) the result would be that the SO holds Credit Support in an amount that is less than the Market Participant's Credit Support Obligation at the relevant time;
- c) at the relevant time, the Market Participant is in default of payment of monies owing to the SO; or
- d) at the relevant time, a Default Notice, Suspension Order, Termination Order or Disconnection Order has been issued by the SO to the Market Participant or is anticipated by the SO to be issued to the Market Participant within a period of thirty days.

3.12.4 Where the SO has returned Credit Support to a Market Participant, any security interest or lien granted on such Credit Support shall be released immediately and, to the extent possible, without any further action by the SO, the Market Participant or the Credit Support provider.

3.13 Dispute Resolution

3.13.1 Subject to sections 3.11.9, 3.13.2 and 3.13.3, all disputes arising in connection with the processes described in this Market Procedure are to be resolved using the dispute resolution process described in section 3.6 of the Market Rules.

3.13.2 Where Form PF-02-03 or PF-02-04 provides an alternative method of dispute resolution to resolve disputes between the SO and the Credit Support provider, such alternative dispute resolution process shall apply.

3.13.3 Nothing in section 3.13.1 shall be construed as limiting the right of the SO to:

- a) make a claim on Credit Support; or
- b) perfect or enforce its rights under any Credit Support, by any means whatsoever as the SO considers appropriate.

3.14, Publication

3.14.1 The SO shall Publish the following information relating to the processes described in this Market Procedure:

- a) the name of each Market Participant to whom a Default Notice has been issued in respect of such processes and that has either:
 - i. failed to remedy the default within the applicable Cure Period or within such longer time as may be agreed to in writing by the SO; or

- ii. indicated to the SO that it will not likely remedy the Default Event, together with the amount in default; and
- b) notice of any allocation of amounts made by the SO under section 7.14 of the Market Rules.

Part 4 Flow Charts

None

Part 5 Forms

- PF-02-01 Credit Support Information
- PF-02-02 Credit Support Provided
- PF-02-03 Form of Pledge for Cash and Treasury Bills
- PF-02-04 Form of Guarantee

Part 6 Appendices

- MP-02-A Acceptable Major Bond Rating Agencies