

Back test methodology of BGH forward gas market

KELER CCP back tests its initial margin methodology on BGH forward gas market to support the assumptions and mechanisms it contains. Should the back-testing show that the methodology used does not perform as expected (i.e. the amount of initial margin calculated based on the applied model does not reach the required level (99%) of coverage), it should be examined whether a fundamental change in the methodology for determining the initial margin requirement is justified or whether only a recalibration of the current parameters is necessary. Accordingly, the assessment of the data available from the back testing should assist in the determination of the margin parameters and the development of an appropriate margin calculation methodology.

During back testing the following steps are taken:

- We examine whether the initial margin requirements determined at portfolio level for individual clearing members provide sufficient cover for risks arising from daily price changes.
- We define daily the value of price changes per clearing members that is not covered by the initial margin.
- Upon checking the 99% compliance we examine daily on a rolling basis the data available for the last 250 settlement day with respect to the clearing members.
- We define procedures for action if back test results fall below the expected 99% compliance level.

The 99% compliance related to daily back testing is checked based on the following formula:

$$1 - \frac{\text{the number of non - compliant covers during the lookback period per clearing member}}{\text{the number of clearing members reviewed in the lookback period}}$$

The Risk Committee is informed on the consolidated result of back testing quarterly, and upon case-by-case requests we provide access to clearing members to their own results. Consolidates results are also published on KELER CCP's website.