

DCUSA Issues Form (DIF)

This form should be used by parties to submit matters for consideration to DCUSA Standing Issues Group (SIG). The completed form should be issued to DCUSA@electralink.co.uk

Document Control	
Date Submitted:	18 th Feb 2025
Issue Title:	Credit Cover Clarifications
Attachments:	
Issue Number*:	DIF 79
Meeting Reference*:	

*Assigned by DCUSA Secretariat

Originator Details	
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Nature of Issue
<p>There are two defects in the code which require clarification.</p> <ol style="list-style-type: none"> 1) There is no remedy for a Company that draws down on collateral following a Payment Default, where the resulting Indebtedness Ratio increases above the Indebtedness Ratio Limit and the User does not comply with 1.4, under which they are obliged to "provide additional Collateral to ensure that the Indebtedness Ratio is equal to or lower than the Indebtedness Ratio Limit". If the User fails to make up the shortfall the remedy available at 3.2 is not available and the situation therefore does not fall under the definition of Cover Default at 3.3. This is because 3.2 is limited to "(b) a decrease in the Credit Allowance Factor". This therefore precludes scenarios where the Indebtedness Ratio increases because Collateral (and therefore the Credit Limit) is reduced. This despite the heading of the section being "Increase in Cover Requirements Pursuant to a Change in the Value at Risk or <u>Increase in the Indebtedness Ratio</u>". 2) Internal inconsistency in the test for Cover.

At 1.4 “the User shall provide additional Collateral to ensure that the Indebtedness Ratio is equal to or lower than the Indebtedness Ratio Limit”

However at 3.2 the test for the User to take action is “Indebtedness Ratio equals or is greater than its Indebtedness Ratio Limit”

Solution Overview – If Known

Solution Description	<p>1) In Section 3.2, the words “Credit Allowance Factor” should be replaced with “Credit Limit”</p> <p>2) The default should occur only when the IR is > IRL</p> <p>1.1 states that the User will provide Collateral that is => VAR-CA. If Collateral = VAR-CA then IR is = 100%. While IRL is 100%, then IR=100% is deemed to be sufficient. So the test should be if IR <u>exceeds</u> 100% Therefore 1.4 “equal to or lower” is correct</p> <p>Solution: 3.2 delete “equals or”</p>
Lead Time For Implementation	Proposed Part 2 Matter. Therefore implementation as soon after Approval (or Authority Consent if called in) as possible.