April 17, 2017

To: All NGX Customers

Re: New Portfolio Margining Methodology Release

As a major clearing house for cleared North American physically-settled futures contracts in natural gas, electricity and oil and financially-settled futures contracts in Canadian electricity, NGX is committed to providing efficient and robust clearinghouse risk management for a diverse group of products and participants. This commitment has resulted in the creation and implementation of a new portfolio margining methodology effective May 8, 2017.

With the new methodology, initial margin requirements will be calculated at the consolidated portfolio level. The ability to margin participants on a portfolio basis encourages diversification, which can result in reduced risk during periods of stress, while providing capital efficiencies. The portfolio margining methodology has been reviewed by the ASC and self-certified with the CFTC.

Using an age-weighted historical Value at Risk model, the new methodology:

- recognizes the unique risk profile of each portfolio,
- provides credit for diversification, which can lead to capital efficiency benefits,
- ensures the margin model performance is robust and consistent across different types of portfolio, and
- captures the volatility of extreme market events and the seasonality of energy markets.

To find out more about the about the new portfolio margining model, please refer to the attached Margin Methodology Guide or contact NGX Clearing, clearing@ngx.com.