

Risk.net Discusses Potential EU Rule Changes for Energy Firms With Nathaniel Lalone

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Financial Markets and Funds partner Nathaniel Lalone spoke with *Risk.net* regarding the European Commission (EC)'s proposed changes to derivatives clearing rules under the European Market Infrastructure Regulation (EMIR) for energy markets. Acknowledging the effort to stave off volatile energy prices, Nate stated, "The intentions are good but the proposed cure may be worse than the disease." Nate expressed concern that the proposal does not address issues with collateral and liquidity shortages, "[Which is] where the targeted solutions need to be, rather than something like this." Nate noted that "The next time that there's a sectoral crisis, it might not be energy firms, it could be some other type of firms. Are we going to go through this exercise again for that industry?"

In the event of a "nightmare scenario" where a clearing bank is unable to cover the shortfall, Nate indicated porting is not a failsafe. "Now, whether a non-defaulting client's positions can actually be ported to a healthy clearing member is an entirely different situation. That non-defaulting client may well find that its positions are liquidated and its collateral returned because there are no surviving clearing members willing to take the client's business."

The EC also proposed tightening the requirements for the types of firms that can serve as clearing members. However, Nate wonders if greater concentration of which clearing members take on energy firms as clients creates risk in itself. "Narrowing the universe of who can be a clearing member simply concentrates risk. It also assumes that whoever remains is willing to take on the additional business of the former clearing members."

"[Market rejects EU attempts to isolate energy firms via Emir](#)," *Risk.net*, November 11, 2022

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