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## Member Update

**Title:** Proposed NACMA Counter Party Risk Cover Scheme

**Update No.:** 13 of 08

**Date of Issue:** 9<sup>th</sup> May 2008

### Distribution

- NACMA Members – primary contact list. Please circulate to all appropriate internal parties

### Issue

The issue of financial exposure to forward contracts in the event of a counterparty becoming insolvent is a constantly recurring issue.

The NACMA Board is asking members to express their interest if NACMA was to develop a product to alleviate these situations.

### Summary of the proposed NACMA Counter Party Risk Cover scheme.

- The proposed insurance would cover situations where legally binding forward contracts fail due to an insolvency event as defined in the NACMA Trade Rules. These contracts could be for either sales or purchases. Such failures would need to occur prior to the delivery of the goods. Claim remuneration would be the difference between the contractual price and the price sourced after insolvency to satisfy such contract.
- The proposed scheme would only be available to NACMA members.
- It is most likely such forward contracts will need to be in the NACMA standard contracts format
- The indemnity level would not be 100%, more likely 85-90% and there may be deductibles (excess).
- The premium payable from each member that took it up which would probably be based on the total value of trades

### Response

At this stage we are only asking if such a scheme would have appeal. If there is sufficiently positive responses then NACMA would work with appropriate organisations (to be identified) to develop the scheme.

NACMA would like to impress upon our members that the level of interest shown here will have a bearing as to if this initiative progresses - hence don't leave it to someone else to respond.