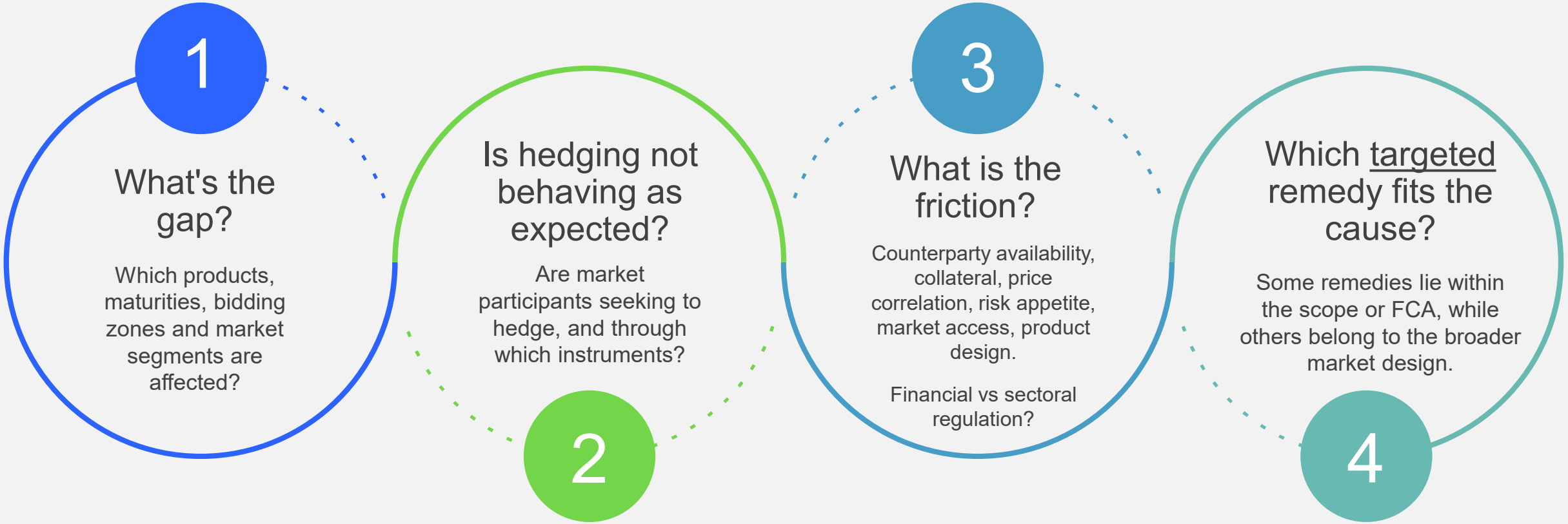
FCA 2.0: keys for a comprehensive diagnosis



→ **LTTRs are part of a wider market structure** that supports financial risk management across the electricity value chain.
→ **The availability of hedging opportunities** therefore requires a broader analysis than FCA only.

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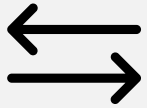
Proposals to improve hedging opportunities in forward markets

Targeted improvements to LTTR design

- **LTTR design should match MPs' hedging needs:** align LTTR maturities with forward market maturities (at least 3 years and beyond to allow cross-border PPAs), increase auction frequency and auction maximum available capacity.
- **Support secondary trading:** move from bespoke agreements to a platform-based secondary market.



Coherent LTTR allocation method

- **Implement LTFBA if it provides net benefits:** low capacities allocated on certain borders remain a concern.
- **Speed up collateral remedies**: current planning means LTFBA will go live without an appropriate solution to higher collateral requirements.

Improve transparency on regulatory evolutions

- **Transparency and stakeholder involvement on FCA 2.0:** publish FCA impact assessment and allow for an open debate on suitable policy measures.
- **Ensure long-term visibility**: frequent changes to LTTR allocation method affect MPs' risk management.

There is no silver bullet to improve forward markets

- **Assess virtual trading hubs:** RVTHs should not be prioritised unless robust evidence shows that additional hedging benefits are not offset by a liquidity split.
- **Align product design with market preferences**: MPs have not expressed a need for fundamental change in the LTTR allocation method.

FCA is only a small part of the forward market puzzle, covering exclusively cross-zonal hedging instruments (LTTRs):

→ Exchange-based products and other long-term contracts (PPAs, OTC forwards, CfDs) are governed by different legislation (notably financial regulations such as MIFID and EMIR).

→ Liquidity in the forward market is a reflection of broader market dynamics and cannot be forced, but rather fostered in stable, predictable and transparent market environments.