

# E.ON Energy Trading AG

## E.ON as a financial service provider – the path to obtaining a licence in accordance with MiFID

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Implementation of MiFID resulted in the E.ON group requiring a licence for financial service providers, for which the company subsequently founded E.ON Portfolio Solution GmbH. Throughout this task E.ON was supported by the ifb group

This licence allows us to offer our clients throughout Europe a large range of financial instruments in terms of risk management. ifb provided us with excellent support throughout the complex and time-consuming licensing process.

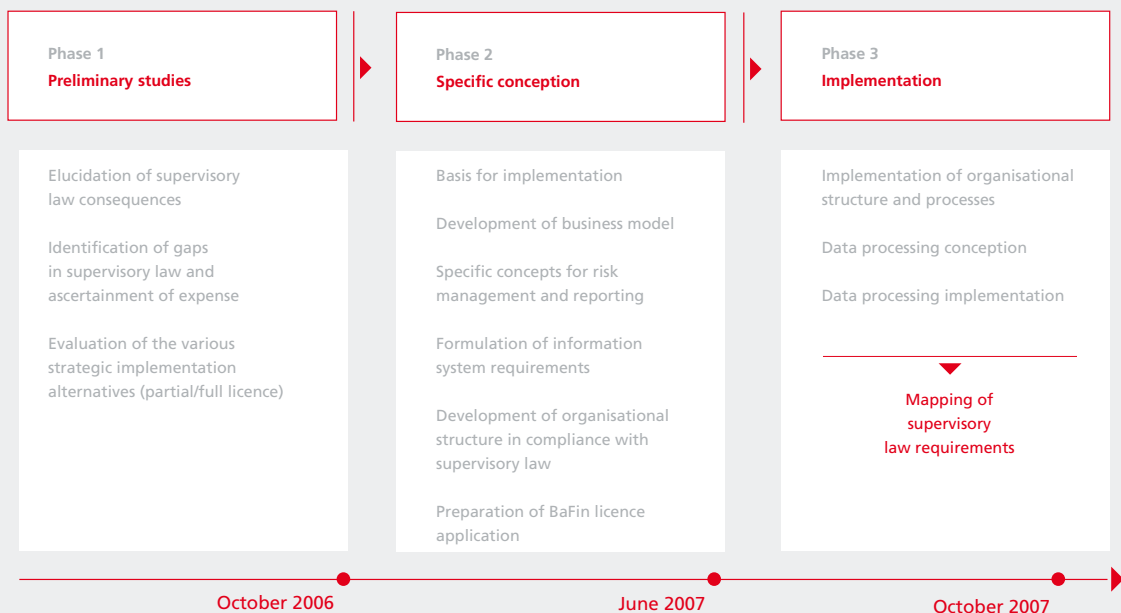
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Derivatives on the energy market have long since ceased to be a rarity. Energy suppliers and major industrial companies frequently use these financial contracts on energy products as a hedging instrument against specific risks pertaining to energy supply. Accordingly, the German-based multinational E.ON, one of the world's leading power and gas companies, also advises its key customers in relation to management of their power portfolio – for instance, with respect to the use and administration of energy derivatives. Until 2007 this task was performed by E.ON Sales & Trading GmbH (business unit for customer portfolio management). However, with effect from November 2007, the EU 'Markets in Financial Instruments Directive' (MiFID) has required companies taking on this role to obtain a licence, in Germany from the Federal Financial Supervisory Authority (BaFin). For E.ON, the licence has the advantage of allowing the company to expand its range of financial consulting products and also offer consulting on a pan-European basis in future.

As a result of MiFID, a whole series of other companies operating in the energy market have been and are being obliged to apply for commensurate licences, in turn necessitating fulfilment of the relevant comprehensive requirements and, where necessary, development of new business models.

### □ Focus on transparency

The aim of commensurate incorporation of MiFID by all EU member states is to create a transparent and standard internal EU market for financial



The planning and implementation process through to licence issue



service providers. Additional MiFID objectives are to protect the functioning of the capital market, ensure increased capital market efficiency and provide better protection for investors.

These changes had considerable consequences for E.ON Sales & Trading GmbH in that, with effect from 1 November 2007, their customer portfolio management services were classified as financial services requiring a BaFin licence. This situation presented E.ON with a multitude of options, the advantages and disadvantages of which have been thoroughly analysed with the aid of ifb. As an example, licensing E.ON Sales & Trading GmbH in full was a conceivable option, as was the establishment of a new independent entity.

Wholly in line with the intention of MiFID – which affords customer interests pre-eminent status – E.ON opted to establish a new company that operates independently of other E.ON entities, namely, E.ON Portfolio Solution GmbH. Since December 2007, the new company has taken over services provided by the previous customer portfolio management business unit and also offers a host of additional services such as investment consulting, financial portfolio management or investment and contract broking. These areas of business have also been considered within the scope of licensing.

#### From concept to licence

Despite an early beginning back in October 2006, preparations for the licensing process were subjected to intensive time constraints owing to the fact that final amendments to national supervisory law were only first published in May 2007. Numerous stages of the project needed to be carried out in parallel. In a first step, ifb and E.ON employed preliminary studies to explore the consequences for E.ON's customer portfolio management that would ensue from the changes in supervisory law. Various possible business models were developed, with critical IT systems identified and assessed in light of both commercial and supervisory law requirements. Following selection of the business model, the specialist risk management and reporting conception phase was implemented by summer 2007. Parallel to this task, work on the licensing and implementation of the necessary processes was also initiated. Ultimately, the entire process from business idea to issuing of the licence took one year, with the newly established E.ON Portfolio Solution GmbH commencing business operations on 5 December 2007. Through the BaFin licence, E.ON not only fulfils the new requirements of supervisory law, but is also able to offer an expanded range of financial instruments relating to risk management. As an example, hedging instruments such as futures or swaps can now be considered without limitation as regards the preparation of risk strategies or consulting and broking of trading operations. In light of the ongoing development of the energy market, these instruments are playing an ever-greater role within the scope of energy supply. The new licences also strengthen E.ON's position as a competitor to banks that are becoming increasingly active on the energy market. Moreover, the newly introduced 'European passport' allows E.ON financial services to be offered in future throughout Europe without the need to apply for national licences in each individual country.

Customers of E.ON Portfolio Solution GmbH are also afforded greater transparency through its role as an independent agent, given that the company does not solely provide E.ON group financial instruments, but also offers other providers' products. As a result, the customer gains a comprehensive and transparent overview of both the market and available instruments.

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