

GDF Suez chooses bank status for new trading arm

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European energy giant GDF Suez this week launched a new trading unit, choosing to obtain bank status that prepares it for potentially tougher European regulation of commodity trading

GDF Suez Trading, formed by merging the trading teams of Gaselys and Electrabel, started market operations on May 2, 2011. GDF Suez expects synergies from the merger to add €70 million to the company's revenues on a full-year basis, and for the longer term has structured the new trading unit to be ready for possible stricter European regulation of commodity markets.

GDF Suez Trading will have Investor Services Provider (ISP) status, operating under the supervision of the French and Belgian banking authorities. This is compulsory for providers of financial hedging products to third parties. But whereas other European utilities have created regulated vehicles on the side of their trading businesses to be able to offer such products, GDF Suez has chosen to make its whole trading arm a regulated entity.

"Today, utilities are generally not under a regulated status, but being an Investment Services Provider gives us a very strong risk management framework. It gives confidence both to our parent company and the market," says Nico Van Wayenbergh, chief risk officer of GDF Suez Trading in Brussels.

This regulated status prepares the company for potential tightening of European energy trading regulation, according to a GDF Suez Trading spokesperson in Paris.

"Obviously we don't know how regulation is going to evolve, but if it involves a stricter way of handling the commodities trading business, it means we are more ready to cope with this because we have anticipated it," the spokesperson says. "With Gaselys we started this a long time ago, and now it applies to the whole of GDF Suez Trading. In terms of internal controls, including compliance and audit, we have a whole set of processes in place. If they one day become mandatory for the whole commodity trading community, we already have them up and running," she says.

The newly merged trading unit maintains the ISP-status and external client risk management focus of Gaselys, the trading joint venture in which French bank Société Générale previously owned a 49% stake.

As an ISP, GDF Suez Trading will have to comply with European directives on regulatory capital adequacy, and has allocated capital resources of €1 billion. Being a regulated entity under French banking law also means GDF Suez Trading will need to comply with more stringent risk control standards.

To meet these requirements, the Gaselys and Electrabel risk management systems have effectively been merged into one platform, shared by the Paris and Brussels offices. "It's one IT system for market risk, liquidity risk and credit risk. It's a global approach," says Van Wayenbergh.

Van Wayenbergh also believes the different market specialisations of the two units will complement each other. "The Electrabel team were much more active in electricity and carbon, clean spark and dark spreads, whereas the Gaselys team were much more focused on gas and oil, so it is combining strengths from both entities, which should help the group have one important trading entity in the market," he says.

Both former entities participated in Europe's main gas and power marketplaces, so GDF Suez hopes to leverage their combined strength to have more impact in those markets, and get a better view of them.

According to a company statement, the trading arm will now have greater breadth to manage complex options models that arbitrage across markets, such as power tolling contracts, storage capacities, and oil & gas swing contracts.

Across the Paris and Brussels offices, GDF Suez Trading has nearly 400 staff, 110 of which are front-office.

As well as optimising the assets of GDF Suez and carrying out proprietary trading, the subsidiary will also build models to manage energy price fluctuations for GDF Suez's internal business lines and external counterparties. It will market risk management services to customers such as producers, industrials, refiners, shippers and transporters, as well as financial players such as banks, hedge funds and institutional investors.

<http://www.risk.net/energy-risk/news/2068566/gdf-suez-chooses-bank-status-trading-arm#ixzz1LwVt3CoU>