

KDPW_CCP Clearing House

PRESS RELEASE

The National Depository has transferred to KDPW_CCP all functions related to the clearing of transactions executed on the regulated market and in the alternative trading system and the operation of the clearing guarantee system as of 1 July 2011. KDPW remains responsible for transaction settlement and central securities depository functions. The process implements world-class standards at KDPW and enhances the competitiveness of the Polish capital market. The spin-off of the clearing house from KDPW's structure derives from the National Depository Strategy 2010-2013 adopted in late 2009 and consistently pursued among others to develop a new business model of KDPW.

The main function of a clearing house is to clear transactions through mechanisms which reduce systemic risk of default of parties to executed transactions. The clearing house KDPW_CCP established by the National Depository for Securities will perform this function on the Polish market.

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KDPW Strategy: Challenges Ahead

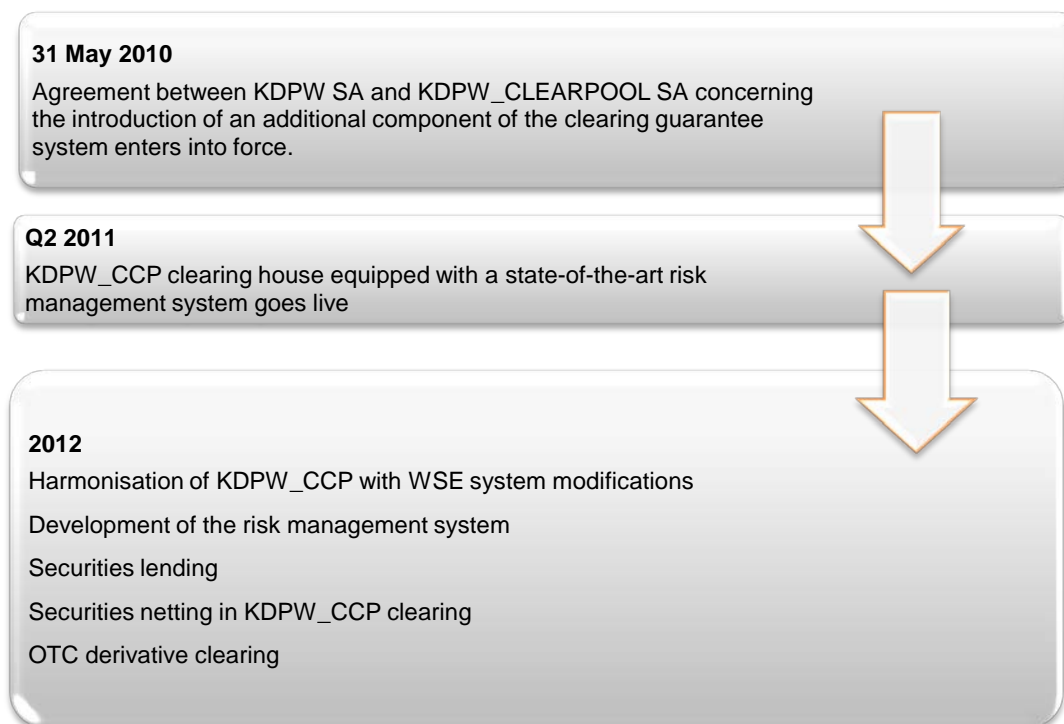
The key goal of the current Strategy is to prepare KDPW for stronger foreign competition and market consolidation. The Strategy focuses on building up the regional position and competitiveness of KDPW. The Strategy was developed following an in-depth analysis of the main trends on the international financial markets leveraging the experience and competences of the Management Board and managers of KDPW. The Strategy was broadly consulted with the Polish capital market community.

The Strategy presents a new approach to challenges ahead of the National Depository, focuses on active building of the company's position in Poland and Central and Eastern Europe, and the implementation of state-of-the-art services in order to address the needs of the local and international markets.

One of the key projects of KDPW's Strategy is to establish a clearing house according to the CCP (central counterparty) model broadly used around the world. The first step towards establishing a fully-fledged clearing house was the creation of the clearing guarantor KDPW_CLEARPOOL in May 2010. The company was set up to guarantee the clearing liquidity system with its own

capital. The step was welcomed by international and local investors and improved international ratings of the National Depository.

Fig. 1. Milestones in the development of the CCP project



Source: KDPW study

KDPW_CCP: Main functions

The functions of the KDPW_CCP clearing house include:

- ❖ to clear and guarantee the clearing of transactions
- ❖ to manage clearing risk
- ❖ to administer collateral

The KDPW_CCP clearing house will take over the clearing of cash and derivative transactions executed on the regulated market and in the alternative trading system as well as projects enabling the clearing of transactions other than executed in organised trading (e.g., OTC trades). KDPW_CCP will clear transactions on the WSE Main List, NewConnect, Catalyst, BondSpot and POEE WSE Energy Market (via KDPW's Exchange Clearing House).

In addition, the KDPW_CCP clearing house will manage clearing risk. The launch of its operation will be concurrent with the implementation of a new clearing guarantee system. The new model will be based mainly on individual collateral (margins) rather than pooled resources (clearing

fund). Moreover, a single risk management approach will be introduced for markets within a trading complex. The new system is based on solutions applied by other clearing guarantee institutions, in particular SPAN® methodology.

KDPW_CCP: Benefits for the market

The presence of a clearing house on the market provides many benefits both directly to market participants and to the financial market at large. The main benefits of the CCP clearing house established by KDPW include:

- ❖ reduced counterparty risk thanks to guarantees of transactions accepted by KDPW_CCP for clearing
- ❖ more effective risk management
- ❖ broader range of parties eligible as clearing members (including also foreign companies, which previously were not eligible)
- ❖ improved perception of the Polish capital market infrastructure by Polish and international financial institutions
- ❖ greater interest in the Polish capital market
- ❖ development of clearing and settlement functionalities according to international standards
- ❖ co-operation with foreign CCPs and CSDs.

Novation and open offer

The central counterparty (CCP) usually becomes a party to a transaction through one of two legal mechanisms: **novation or open offer**.

In **novation**, the original agreement executed by parties to the transaction on the market is **replaced by two agreements with the CCP**, whereby the CCP becomes a buyer to the seller and a seller to the buyer.

In **open offer**, the transaction agreement is executed by each party to the transaction (the buyer and the seller) with the central counterparty (CCP) **as soon as transaction details are matched on the trading platform**.

Polish legislation does not contain specific regulations on novation or open offer. KDPW_CCP will apply **CCP guarantee liability**: a transaction agreement will indicate the technical counterparty while the CCP will be liable in case of counterparty default, i.e., non-payment of amounts due on the transaction settlement date. Introduction of legal mechanisms of novation and open offer to Polish legislation is crucial to the development of the Polish market.

Table 1. Novation and open offer in European CCPs

CCP	Novation	Open Offer
Eurex Clearing	No	Yes
SIX x-Clear	No	Yes
CCP.Austria	No	Yes
EMCF	Yes	Yes
Euro CCP	Yes	No
LCH Clearnet Ltd.	Yes	Yes
LCH Clearnet SA	Yes	No

Source: KDPW study

KDPW_CCP: Legal basis of a clearing house

Under the Act on Trading in Financial Instruments, the National Depository for Securities is required to perform functions including the operation of a central securities depository, the clearing and settlement of transactions executed on the regulated market and in the alternative trading system, and the operation of the liquidity guarantee system. Under Article 48.7 of the Act, KDPW may delegate specific functions listed in the Act to a subsidiary under an agreement.

The KDPW_CCP clearing house established by the National Depository will perform the following functions:

- ❖ clearing transactions executed on the regulated market
- ❖ clearing transactions executed in the alternative trading system
- ❖ clearing transactions other than those executed in organised trading
- ❖ performing the functions of exchange clearing house for transactions executed on commodity exchanges
- ❖ operation of a clearing liquidity guarantee system, including a clearing guarantee system for transactions executed on the regulated market.

According to the Act on Trading in Financial Instruments, the capital of a company to which KDPW delegates some of its functions is minimum EUR 2,5 million (PLN 10 million). KDPW_CCP will have a much higher capital of EUR 25 million (PLN 100 million) to be gradually increased.

According to the Act on Trading, KDPW will transfer to the KDPW_CCP clearing house the assets of the clearing fund and the ATS guarantee funds. KDPW_CCP will take over the rights and obligations under participation agreements. As a result, KDPW clearing members will become CCP clearing members in the clearing of transactions and the operation of the clearing guarantee system.

The KDPW_CCP clearing house will operate pursuant to the Rules, which have been approved by the Polish Financial Supervision Authority (KNF). The business of KDPW_CCP consists in performing clearing functions delegated by KDPW and as such requires no separate approval from KNF.