

## The Clearing Fund: A New Approach

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 launch of KDPW\_CCP operations is concurrent with the implementation of a new clearing guarantee system based on individual margins for the cash and derivative market, a clearing fund, and additionally the capital of KDPW\_CCP. The introduction of cash market margins will change the role of the clearing fund.**

Concurrent with the launch of KDPW\_CCP and a change of the methodology of calculating margins and the clearing fund (under the SPAN® methodology), it was decided that the structure of contributions to the clearing guarantee system should change. The change involves a shift of the main burden from **solidary funds** (clearing fund) to **individual margins**, which will not be used in case of another member's default. The main benefit of the change is that the margins will be protected.

Thanks to its complete risk description, SPAN® ensures more precise risk measurement compared to the current methodology. This will make the Polish market more secure and more attractive to investors (in particular, big foreign companies) and KDPW\_CCP members. As an important advantage of the implementation of the complete SPAN® methodology, it will enhance the transparency of the Polish market in terms of applied risk management methods because SPAN® is a standard methodology recognised by large foreign investors.

### **How will the clearing fund be calculated?**

Until now, in the absence of cash market margins, the clearing fund provided the first resources to be used on a solidary basis in case of a clearing member's default.

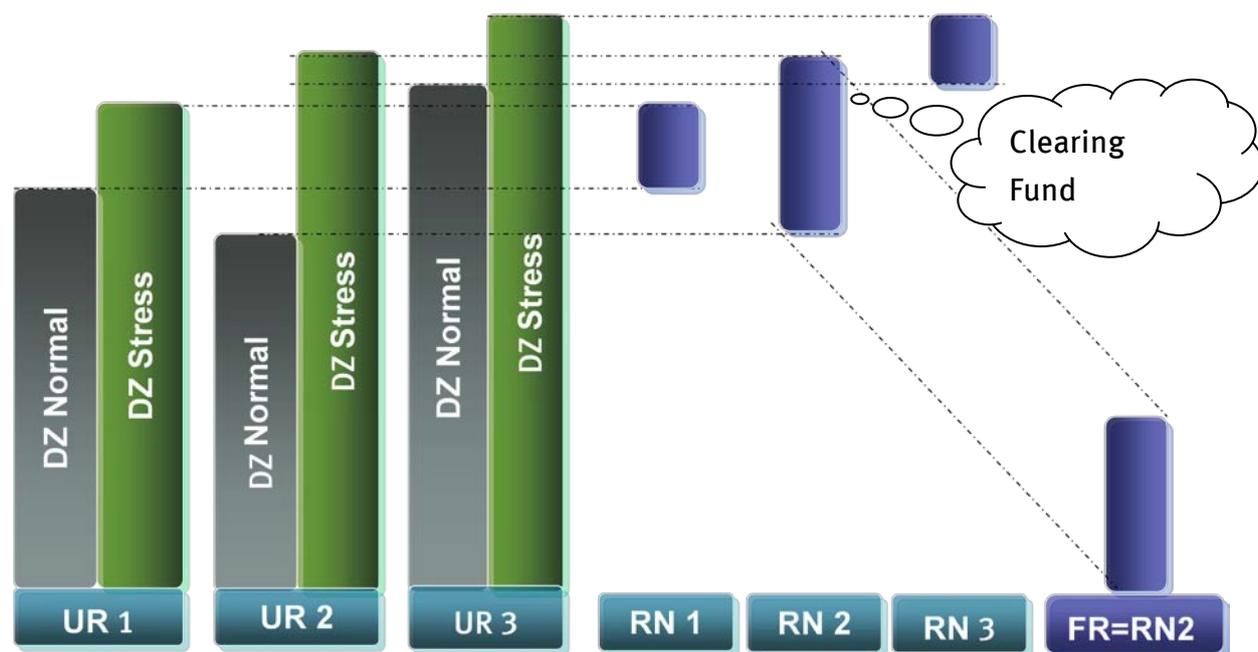
On the launch of KDPW\_CCP, margins will become the main pillar of the clearing guarantee system. The margins of each clearing house member will be calculated on an individual basis

under the SPAN® methodology assuming normal (standard) market conditions. In case of stress market developments, which are extreme yet possible, the amount of resources contributed as margins may prove insufficient. This additional risk known as **uncovered risk** will be secured with the resources of the **clearing fund**.

Uncovered risk is measured as the difference between margins required under stress conditions (understood as a material change of prices of financial instruments) and margins under standard market conditions.

Under this structure, the clearing fund covers only the risk not covered by margins contributed by members together with mark-to-market.

**Fig. 1. Clearing fund calculation mechanism based on the uncovered risk concept**



**UR** – clearing member

**RN** – uncovered risk

**FR** – clearing fund

**DZ** – margin

**FR=RN2** Clearing fund resources equal the highest uncovered risk generated by a clearing member calculated as the difference between stress parameter margins and normal parameter margins

## The Clearing Fund: Main changes

The clearing fund will cover **all markets** cleared by KDPW\_CCP and will not be divided into functionally separate parts (currently there are separate funds for the cash and the derivative market).

Similar to margins, the clearing fund will be calculated under the **SPAN® methodology** on the basis of open positions in derivatives and non-cleared cash market transactions (using stress-test parameters assuming potential default of the member with the biggest exposure).

The frequency of contributions to the fund will be reduced to **once per month** (however, the fund will be calculated on a daily basis) with the exception of additional margins contributed by members on demand where the member's uncovered risk is greater than the amount in the fund.

**Members' payables and receivables** under contributions to the clearing fund **will be netted** with the members' payables and receivables under contributions to ATS guarantee funds, maintenance margins and current settlements.

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