
Simplification of KDPW_CCP Member Type Regulations

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 the clearing house affords an opportunity to simplify regulations applicable to KDPW_CCP member types. The existing options of clearing member status will be replaced by three types of members depending on the market (cash/derivative). In addition, the introduction of the Settlement Agent function will enable foreign investment firms to become KDPW_CCP members without having to hold a depository account in the National Depository. This will open the door for large international institutions to directly enter the Polish clearing market.

Settlement Agent

Existing regulations will be modified by introducing the **Settlement Agent** function. According to the new solution, a KDPW_CCP clearing member will not be required to hold a depository account with KDPW. In this case, the member's transactions will be settled in the depository account of the member's Settlement Agent. This means that KDPW_CCP clearing members need not be KDPW direct members.

The introduction of the Settlement Agent functionality will broaden the scope of services and entities active in the business area of the clearing house KDPW_CCP and increase the volume of trading on the regulated market. Foreign financial institutions are currently unable to operate directly as clearing members and their operation via local representatives is very limited, mainly due to the latter's concern with excessive risks of participation in the clearing guarantee system.

With the Settlement Agent functionality and the operation of the KDPW_CCP clearing house equipped with the necessary capital and an effective risk management system based on recognised methodology, foreign financial institutions will be able to become KDPW_CCP clearing members directly.

Foreign investment firms:

- ❖ are KDPW_CCP members with clearing member (“UR”) status;
- ❖ are not KDPW (CSD) members – cannot operate securities accounts (need not open a branch in Poland);
- ❖ sign an agreement with one entity acting as Settlement Agent (“AR”) in KDPW;
- ❖ indicate AR’s account to KDPW_CCP and present a declaration indicating the Settlement Agent and the Agent’s declaration of acceptance;
- ❖ execute cash payments under current market settlements;
- ❖ are exclusive members of the clearing guarantee system (“SGR”) (pay contributions via the payer bank; securities credited to SGR are contributed in KDPW from UR’s account operated by AR).

The proposed solution will enable local custodians to enjoy the benefits of operating accounts without incurring risks. Foreign financial institutions will be able to operate freely on the Polish market in full compliance with FSA (UK’s Financial Service Authority) regulations.

In the absence of such solutions, foreign entities were previously forced to incur costs of the operation of a branch in Poland or the services of a local clearing member.

Prior to the introduction of the Settlement Agent function, foreign entities could choose among the following three options:

- ❖ become an indirect member, i.e., be represented by a KDPW clearing member. The disadvantage of the solution was that local clearing members were concerned about excessive risks generated by indirect members. As a result, direct members were unwilling to represent big foreign companies;
- ❖ open a branch in Poland and operate directly as a clearing member under Polish legislation. The disadvantage of the solution was its high cost;
- ❖ become a direct member and a clearing member of KDPW (depositor’s function). The disadvantage of the solution was the inability to segregate proprietary accounts and clients’ accounts, which is unacceptable under FSA regulations.

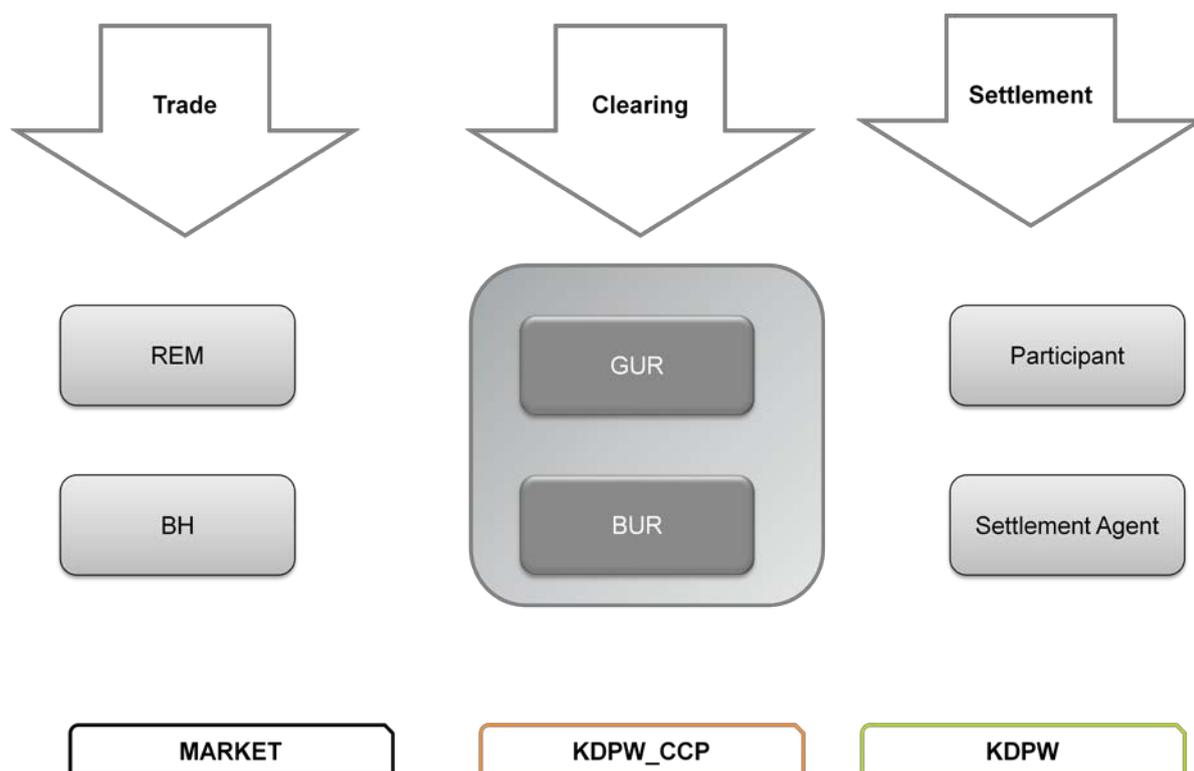
Classification of KDPW_CCP members

Under the new classification of clearing members, KDPW_CCP offers the following options: General Clearing Member on the cash market; General Clearing member on the derivative market; Direct Clearing Member; Non-clearing Member. The first two types of members clear proprietary transactions and third-party transactions; the Direct Clearing member status allows to clear proprietary transactions and clients’ transactions both on the cash market and the derivative market.

KDPW_CCP member types:

- ❖ **General Clearing Member (representative) GUR – cash market:** member clears all transactions of a third party on the **cash market**, including transactions of a non-clearing member;
- ❖ **General Clearing Member (clearing member-derivative accounts) GUR – derivative market:** member clears transactions of a third party on the **derivative market**, including transactions of a non-clearing member, if such transactions are on account of clients holding derivative accounts operated by the member or on own account;
- ❖ **Direct Clearing Member (clearing member-proprietary transactions) BUR:** member clears all transactions on own account or on clients' account (cash and derivative market);
- ❖ **Non-clearing Member:** member executes transactions on the cash and/or derivative market but has no clearing member status

Fig. 1. KDPW_CCP member types v. market architecture



Source: KDPW

Capital requirements for KDPW_CCP members

New capital requirements have been defined for the new member types. The requirements are identical for members operating on the cash and the derivative market and depend on the number of parties represented in clearing.

Capital requirements applicable to General Clearing Members (GUR – member clears transactions of third parties):

- ❖ **Banks:**
EUR 12.5 million (PLN 50 million) plus **EUR 1.25 million** PLN (5 million) times the number of represented parties
- ❖ **Brokers:**
EUR 3.75 million (PLN 15 million) plus **EUR 0.5 million** (PLN 2 million) times the number of represented parties

Capital requirements applicable to Direct Clearing Members (BUR – member clears transactions on own account or on clients' account):

- ❖ **Banks:**
EUR 6.25 million (PLN 25 million)
- ❖ **Brokers:**
EUR 1 million (PLN 4 million)
