

Warsaw, 30 September 2020

To: KDPW Participants
KDPW_CCP Participants

Re.: Changes to KDPW and KDPW_CCP IT systems scheduled in 2021

Dear Sir or Madam,

According to our practice followed over the years in order to improve the efficiency of implementations and allow you to plan relevant modifications to IT systems well in advance, below please find information about our plans for 2021 related to modifications of KDPW and KDPW_CCP IT systems resulting from changes to the scope of provided services and regulatory amendments. The information covers projects to be implemented in 2021 as well as projects at an advanced stage of implementation in 2021, which require modifications to your IT systems in the coming years.

To present the details of the 2021 plan, we are planning to host a meeting with representatives of participants' organisations, including the Board of Depository Banks (RBD) and the Chamber of Brokerage Houses (IZD), representatives of vendors of your IT systems, as well as participants who are not members of such organisations. The online meeting will take place at 11:00 a.m. on 29 October (via MS Teams). We will distribute invitations to the meeting in separate communications when we have the details of meeting participants. Please send any questions concerning the event to bozena.koziorynski@kdpw.pl.

In accordance with the principles of implementing system changes within implementation windows, following an analysis of the scope and timetable of projects, we have scheduled two implementation windows for **2021**:

- **spring implementation window – 17-18 April,**

- autumn implementation window – **30 September**.

List of projects involving changes to KDPW and KDPW_CCP IT systems:

The list is subject to change in the case of changes in the external environment, in particular the regulatory environment, and new business needs:

SPRING IMPLEMENTATION WINDOW – 17-18 April 2021

1. Alignment of KDPW with amendments of the Commercial Companies Code which introduce the right to the identification of shareholders for non-public companies and for shareholders of non-public companies

alignment of KDPW participant IT systems – mandatory

In view of the expected coming into force, on 1 March 2021, of amendments to the Commercial Companies Code which introduce the right to the identification of shareholders for non-public companies and for shareholders of non-public companies (Article 328¹³ of the Commercial Companies Code), KDPW is working to align the system with the new regulations. KDPW is planning to introduce a new service supporting the shareholder identification rights of non-public companies enforced at the request of the company and the rights of shareholders of non-public companies to the identification of other shareholders enforced at a request filed via a KDPW participant.

The planned modifications mainly target issuers of non-public shares and shareholders of non-public companies and also concern direct participants involved in the processing of such shares.

Materials: Details of the planned modifications will be communicated by the end of November 2020. We will present the project scope and timeline at the meeting on 29 October 2020.

Tests: We expect to open access to test environment and start testing with your participation in late February 2021.

Roll-out: We are planning to implement the new functionalities in the IT systems on **17-18 April 2021*** (please note that KDPW is planning to provide the new service using tools external to the system from 1 March 2021, i.e., the effective date of the amendments to the Commercial Companies Code, to 18 April 2021).

2. Alignment with the CSDR requirements for settlement discipline – Phase 1 – Implementation of functionalities supporting settlement processes

alignment of KDPW and KDPW_CCP participant IT systems – mandatory

With a view to the ESMA announcement of 28 August 2020 concerning the postponement of the date of coming into force of Commission Regulation 2018/1229, published on 13 September 2018 and containing the technical standards on settlement discipline, until **1 February 2022** (the date was initially postponed from 13 September 2020 to 1 February 2021 after recent amendments) and following consultations with representatives of the Chamber of Brokerage Houses and the Board

of Depository Banks in the first half of September 2020, we have decided to split the settlement discipline project into two phases.

In Phase 1, to be completed on 19 April 2021, the following functionalities supporting settlement discipline will be implemented:

- changes to the tolerance level functionality;
- changes to the cancellation of settlement instructions;
- modifications to partial settlement functionalities;

as well as modifications to the processing of the settlement instruction field "Place of clearing".

In the second phase, to be completed on 1 February 2022, modifications will be introduced to the calculation of financial penalties for late settlement, the processing of buy-in transactions, as well as the hold-release functionality (see section 10 below for details).

Materials: Details of the planned alignment in Phase 1 were communicated in information materials (letter no. DO/ZW/1066/2020 dated 29 September 2020).

All materials, including all communications concerning changes to settlement discipline, are available on the KDPW website at:

<http://www.kdpw.pl/en/business/Developement/CSDR/Pages/default.aspx>

Below is the link to the communication on the ESMA website announcing the postponement of the date of coming into force of Commission Regulation 2018/1229:

<https://www.esma.europa.eu/press-news/esma-news/esma-proposes-further-postpone-csdr-settlement-discipline>

Tests: We expect to open access to the test environment and start testing in the second half of December 2020.

Roll-out: The functionalities (Phase 1) will be rolled out on **17-18 April 2021**.

3. Implementation of new monitoring of clearing members' transaction limits dedicated to the ATS alignment of KDPW_CCP participant IT systems – mandatory

As part of the efforts to expand the systemic processing of clearing and monitoring of transactions concluded in alternative trading systems, central clearing of TBSP transactions will start on 5 October 2020. In connection with those modifications, we are running a parallel project to introduce separate monitoring of ATS transaction limits and margins in order to align them with the new communication system concerning margins, which will members to effectively react to changes of KDPW_CCP margin requirements.

Materials: Information concerning modifications to kdpw_stream messages reporting the amount of margin requirements and related payments, including information concerning the publication of message schemas on our website, was communicated in letter no. CCP/ZW/593/2020 dated 17 September 2020. Information concerning planned modifications to the margining model involving the introduction of add-ons was communicated in information materials (letter no. CCP/ZW/582/2020 dated 9 September 2020).

Tests: We are planning to add messages for the new transaction limit monitoring system to the TSTB environment, including the liquidity and concentration add-on and the wrong way risk add-on, and start testing with your participation on 2 November 2020.

Roll-out: The roll-out is expected on **17-18 April 2021**.

AUTUMN IMPLEMENTATION WINDOW – 30 September 2021

4. Modifications of the margining model involving the introduction of add-ons

alignment of KDPW_CCP participant IT systems – mandatory

As we have identified a need to improve risk measurement mechanisms in the clearing guarantee system for transactions concluded in organised trading (including with a view to recommendations issued by third-party institutions), KDPW_CCP is working to modify its risk management model. We have decided that the existing margining model based on SPAN margins and marking-to-market does not address the requirements of wrong-way risk and liquidity risk management. Consequently, we will introduce add-on margins in addition to the existing margin requirements.

Materials: Details concerning the planned modifications to the margining model involving the introduction of add-ons were communicated in information materials (letter no. CCP/ZW/582/2020 dated 9 September 2020). In view of the fact that the implementation of the solution may impact the operation of clearing members, in particular the processing of orders and transactions of clearing members' clients, we have taken steps to mitigate the impact of the modifications to the margining system by expanding the scope of information provided in kdpw_stream messages. However, as communicated in the aforementioned letter, we are planning to host consultation meetings with your participation.

Tests: We expect to open access to the test environment and start testing on 2 November 2020.

Roll-out: We expect to roll out the modifications on **30 September 2021** and to launch the modified margining model on the first day of the quarter, i.e., **1 October 2021*** (please note that the implementation of the solution in the production environment is subject to the authorisations required when processing material changes to the model in accordance with Article 49 of the amended EMIR).

OTHER MAJOR PROJECTS TO BE IMPLEMENTED IN 2021 (outside the scheduled implementation windows) which may impact your IT systems:

5. Launch of new applications on the KDPW Group Service Portal

The KDPW Group is continuously working to expand its offer of client communications using the web interface, **KDPW Group Service Portal**. Launched in July 2019, the communication channel (available via the website and at <https://online.kdpw.pl>) is dedicated to KDPW and KDPW_CCP participants as well as clients using other services of the KDPW Group but it is particularly useful for those clients who do not need to use the A2A channel.

We are planning to launch the following new applications in 2021:

- **Issuing ISIN, FISIN, CFI codes** – see point 6 below for details.
Roll-out: Expected date – **January 2021**
- **Communication with compensation scheme participants** (including the reporting of the amount of contributions to the compensation scheme and the average value of assets covered by the scheme)
Roll-out: Expected date – **December 2021**

6. Automated issuance of ISIN, FISIN, CFI codes

The KDPW Group is working to launch a new application on the KDPW Group Service Portal to process the issuance of identifiers for selected types of financial instruments (ISIN, CFI and FISN).

The new service will facilitate the operations of participants of the Polish financial market, in particular joint-stock companies and companies limited by shares (Polish: *spółka komandytowo-akcyjna*) which have issued or will issue before 1 March 2021 shares, subscription warrants, holding certificates (Polish: *świadcstwa użytkowe*), founder certificates (Polish: *świadcstwa założycielskie*), profit sharing, assets distribution sharing, and are required to register such instruments in KDPW or in a register of shareholders of non-public companies maintained by an investment firm (according to the requirements of the Act of 30 August 2019 amending the Commercial Companies Code and certain other Acts, Journal of Laws, item 1789, and of 2020, item 875).

The automated issuance of identifiers for selected types of financial instruments will facilitate and accelerate the issuance of identifiers and reduce the business costs of operators of shareholder registers thanks to standardised solutions.

7. Launch of the KDPW Group Data Portal

The KDPW Group is developing a new data presentation solution: the KDPW Group Data Portal. The Portal will present statistics and database information concerning the clearing and settlement systems based on data originating from the KDPW Group data warehouse, data originating from the EMIR and SFTR trade repositories operated by KDPW, as well as other data currently presented in different online sections published by the KDPW Group.

The functionalities of the KDPW Group Data Portal will be launched in several steps:

- **January 2020** – launch of the KDPW Group Data Portal application which presents statistics: *New kdpw_stream Statistics*;
- **January 2021** – launch of the new KDPW Group Data Portal, including the migrated statistics presentation application *New kdpw_stream Statistics* (it will still provide aggregate reports published in xml messages to facilitate data imports; the scope of information contained in the message is the same as previously published in the Statistical Data Presentation System SPDS);
- **H1 2021** – expected launch of functionalities supporting the purchase of non-standard data. With the launch of the functionality, the existing data publication system on KDPW websites (SPDS) will be phased out;

- **December 2021** – the other data currently presented on different websites published by the KDPW Group will be migrated to the new KDPW Group Data Portal.

8. Implementation of modifications in the negotiated securities lending and borrowing system
alignment of IT systems mandatory for participants who plan to use the service via A2A

The KDPW Group is preparing changes to the negotiated securities lending and borrowing system to align it with the needs of the broadest possible group of potential beneficiaries. The planned modifications to the system elements include in particular:

- application of novation in clearing by KDPW_CCP;
- presentation of ask quotes by lenders and bid quotes by borrowers based on anonymous quotes from lending and borrowing system participants;
- introduction of web access to ask and bid quotes in the system and access to functionalities related to contracting of securities loans and loan lifecycle processing;
- entering of bilateral loans into the system for the purposes of clearing in KDPW_CCP and settlement in KDPW;
- flagging of securities loans contracted in the system for short selling;
- simplification of the table of fees.

Materials: The final scope of modifications to be implemented depends on the approval of relevant legislative amendments. Only then will we provide details concerning the planned modifications and the test timetable.

Roll-out: The roll-out date of the functionalities depends on the approval of relevant legislative amendments, the key being the date of the approval for KDPW_CCP to extend the scope of its clearing services in accordance with the EMIR requirements. We may implement the functionalities in two steps: first, modifications to the interfaces, including the launch of a web interface; and second, the implementation of modifications to KDPW_CCP transaction clearing and guarantees.

IMPLEMENTATIONS SCHEDULED in 2022

9. Preparing KDPW_CCP for the provision of conditional transaction clearing services in the ATS segment of organised trading

alignment of IT systems mandatory for participants who plan to use the service

KDPW_CCP is running a project which will implement a new service: clearing of conditional transactions on Treasury BondSpot Poland. We have initiated work on procedures, regulations, authorisation, and system modifications. To match the offer with market needs, we have hosted meetings with project stakeholders including BondSpot and participants, where we clarified the project framework: KDPW_CCP's TBSP repo clearing model, settlement in KDPW, the risk management model, the reporting model, and the post-settlement message exchange system.

Materials: We will provide detailed materials concerning the new service and publish them on our website in August 2021.

Tests: We expect to open access to the test environment and start testing with your participation in October 2021.

Roll-out: We are planning to start the clearing of conditional transactions on **3 January 2022*** (the final roll-out date of the solution in the production environment is subject to the relevant authorisations).

10. Alignment with the CSDR requirements for settlement discipline – Phase 2 – Implementation of the new cash penalty system etc.

alignment of KDPW and KDPW_CCP participant IT systems – mandatory

With a view to the ESMA announcement of 28 August 2020 concerning the postponement of the date of coming into force of Commission Regulation 2018/1229, published on 13 September 2018 and containing the technical standards on settlement discipline, until **1 February 2022** and following consultations with representatives of the Chamber of Brokerage Houses and the Board of Depository Banks, we confirm that Phase 2 of the alignment with the CSDR settlement discipline requirements will implement the following modifications to the IT systems:

- a new system of calculation of financial penalties for late settlement, including redistribution of penalties to counterparties;
- implementation of new rules of securities valuation;
- mechanisms for the monitoring of timely settlement by participants and evaluation of the effectiveness of settlement, as well as settlement discipline reporting mechanisms;
- new mechanisms supporting the buy-in of securities;
- changes to the existing hold-release mechanism.

Materials: Details concerning the scope of alignment were communicated in information materials (letter no. DO/ZW/568/2020 dated 10 June 2020).

All materials, including all communications concerning changes to settlement discipline, are available on the KDPW website at:

<http://www.kdpw.pl/en/business/Developement/CSDR/Pages/Correspondence.aspx>

Tests: We expect to open access to the test environment and start testing at the turn of September to October 2021.

Roll-out: The modifications will be rolled out on **1 February 2022**.

11. Implementation of FpML messages in OTC derivatives clearing

alignment of KDPW_CCP participant IT systems – mandatory

KDPW_CCP is running a project aiming to offer new communication solutions to KDPW_CCP participants, including preparation for the implementation of state-of-the-art solutions giving participants access to dedicated system components via the website interface – the KDPW Group Service Portal and the exchange of FpML messages. According to preliminary assumptions, FpML messages will be used in kdpw_otc to report the status of transactions accepted for clearing, including the confirmation or rejection of clearing; the FpML standard is not expected to be used in the following processes: account management, participation management, fees, cash settlement, guarantee fund processing (the FpML standard provides communication solutions which support the exchange of data

concerning collateral management; however, our analysis suggests that ISO 20022 offers messages which are a better match for KDPW_CCP requirements in this area). To develop applications of the new communication standard, KDPW_CCP will invite participants to co-operate in a working group yet to be established. We expect that the project will improve the quality of provided clearing services (standard messages, speed of response) and enhance the effectiveness and flexibility of clearing service solutions. At the same time, many practical functionalities will be launched in parallel over the website graphic user interface.

Materials: Details of the planned modifications will be communicated in December 2020.

Tests: We expect to open access to the test environment and start testing the exchange of FpML messages with your systems in early 2022.

Roll-out: We expect that the new standard (FpML messages) will be implemented in Q3 2022.

Yours sincerely,

Maciej Trybuchowski
President
of the Management Board

Sławomir Panasiuk
Vice-President
of the Management Board

C/C:

Narodowy Bank Polski (National Bank of Poland)

Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange)

BondSpot S.A.

Izba Domów Maklerskich (Chamber of Brokerage Houses)

Rada Banków Depozytariuszy przy ZBP (Board of Depository Banks at the Polish Bank Association)