

DN /ZW/58/2020

Warsaw, 29 May 2020

To:

KDPW Participants

KDPW_CCP Participants

Dear Sirs,

In connection with the planned mandatory clearing in KDPW_CCP of all transactions concluded in the cash segment of Treasury BondSpot Poland ("TBSP") as of 5 October 2020, below please find an update on the TBSP trade clearing and settlement solution for non-KDPW participants.

Following our analyses and consultations with BondSpot S.A. and banks whose clients are TBSP participants, we consider that the best option is the solution currently used on the exchange to clear and settle transactions of Remote Exchange Members, i.e., representation in KDPW_CCP and KDPW. The solution requires entities trading on TBSP to have a representative in clearing in KDPW_CCP and in settlement in KDPW. For this purpose, the bank or broker which is to represent a trading entity is required to apply to KDPW for the conclusion or extension of an agreement concerning the participation type of representative for each entity trading on TBSP and to apply to KDPW_CCP for the conclusion or extension of an agreement concerning the participation type of general clearing member – representative in securities trading.

However, existing agreements need not be upgraded to allow for the representation of those entities which operate on the exchange and are represented in clearing in KDPW_CCP and settlement in KDPW; the accounts used to process their transactions on the exchange can be used for the clearing and settlement of their TBSP trades. Nevertheless, in that case:

- the attributes of the existing entity accounts need to be reviewed (to check that the account of the represented entity is maintained with the required representation status and that it has other attributes consistent with functions on other markets, e.g., market maker);
- if necessary, additional entity accounts need to be opened under the existing representation agreement (one formal account) dedicated to the processing of TBSP trades;
- the agreement with KDPW_CCP needs to be checked in order to identify the markets declared when applying for the conclusion of the agreement with KDPW_CCP concerning the participation type of general clearing member – representative in securities trading. Entities for which a KDPW direct participant maintains an individual account which is not assigned the participation type of representative will be unable to use such account to settle TBSP trades. Such accounts cannot be redefined as accounts under representation, i.e., assigned the participation type of representative. In those cases, the entity needs to extend the existing agreement with KDPW by adding the participation type of representative and the existing agreement with KDPW_CCP by adding the participation type of general clearing member – representative in securities trading.

We take this opportunity to recall that the list of documents required to be attached to an application for participation or for extension of the participation agreement, among others by adding the participation type of representative, has been extended as a result of KDPW S.A.'s authorisation and includes the following new items as of 3 March 2020:

- a description of internal procedures and measures to be used by the applicant in order to ensure confidentiality of information acquired by it from the securities settlement system operated by KDPW;
- copies of annual financial statements for the last three financial years or, if the applicant has operated for less than three years, for all of its financial years, together with the auditor's opinion and report, unless the annual financial statements of the applicant are not required to be audited according to the regulations of the country of the applicant's place of establishment;
- a description of the risk management system implemented by the applicant, including the division of responsibilities, obligations and liability within the applicant's organisation, and information regarding the procedures put in place by the applicant in order to identify, estimate, monitor and manage the risk to which it is or may be exposed, and the terms and frequency of risk reporting;
- a description of the business continuity strategy put in place by the applicant or the contingency recovery plan put in place by the applicant.

Should you have any doubts or require to check the attributes of your existing accounts under the existing KDPW and KDPW_CCP representation agreements and the identification of markets in applications previously submitted to KDPW_CCP, please contact the relevant departments of KDPW and KDPW_CCP.

Furthermore, please note that KDPW requires a consent for the settlement of trades under settlement orders issued by KDPW_CCP (i.e., without the requirement of entering mutually matching orders), as referred to in § 87 subpara. 3 of the KDPW Rules. Such consent is only required from those participants who have not yet given their consent. In practice, it is required from entities who have not yet been a counterparty to settlement in transactions cleared by KDPW_CCP, for example a bank which operates on TBSP but not on any other organised market (regulated market or alternative trading system). To grant such consent, please send the completed form U39 available on the KDPW website: <http://www.kdpw.pl/en/participants/Pages/DocTemp.aspx>.

Yours sincerely,

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KDPW S.A.