

CLEARING AND SETTLEMENT OF REPOS DIRECTED FROM TBSP TO KDPW_CCP

1. Accepting repo transactions from TBSP for clearing in KDPW_CCP

As of 25 April 2022, repo transactions from the Treasury BondSpot Poland (TBSP) market operated by BondSpot will be accepted into the KDPW_CCP system as part of clearing of organised trade subject in particular to collateral monitoring, formal and content checks, novation (both legs of repo transactions), updating of margins and the guarantee fund, the obligation to deliver funds for settlement, the buy-in procedures, payment of benefits to affected counterparties (including settlement discipline penalties). It will also be possible to instruct KDPW_CCP (by means of a clearing account flag) to report transactions to KDPW_TR under SFTR.

Repo transactions concluded on TBSP will be cleared in gross mode (gross position building, transaction by transaction as per the transmission of instructions by TBSP). Gross settlement orders will be directed in settlement instructions to settlement sessions at KDPW. As BondSpot may cancel transactions, it is necessary to apply a transaction holding period in the clearing system (30 minutes) before a settlement instruction is transmitted to KDPW for an MB session. As a result, the cut-off time for submitting a trade with a T+0 settlement date is 14:50, which is the latest possible time before the last DvP settlement session at KDPW at 15:30. On the other hand, repo transactions can be concluded on TBSP until 14:15.

Transactions will be transmitted by BondSpot to KDPW_CCP in on-line mode. Clearing sessions during which transactions may be accepted for clearing (novation, collateral monitoring, reporting after accepting transactions in the system) will be held from 9:00 to 17:30 (9:00 to 14:15 for transactions to be settled on T+0).

Permitted characteristics of transactions:

CHARACTERISTICS	REPOS
Instruments	Treasury bonds admitted by TBSP
Settlement date of the opening leg	T+0, T+1, T+2
Settlement date of the closing leg	T+n, where n must be greater at least by 1 than the settlement date of the opening leg but not greater than 365
Indication of the closing leg	YES
Currency	PLN
Coupon payment	A transaction cannot be concluded when the bond is in the ex-dividend period (from the record date of interest rights to the end of the relevant interest period)

Repo transactions will be covered by the KDPW_CCP clearing guarantee system as of the time of their conclusion and acceptance into the KDPW_CCP clearing system.

Status information is communicated to Clearing Members (CM) by message **sese.sts.002.02** or by an ISO message in the clearing area after each trade has been accepted for clearing. Repo transactions accepted for clearing will be subject to mandatory reporting by KDPW_CCP to a trade repository under SFTR (KDPW_TR). For clearing members or members' clients, the service will be available only for accounts defined as individual accounts where the LEI code is available.

2. Repo settlement orders for KDPW

Transactions will be settled in KDPW on the basis of settlement orders issued by KDPW_CCP in accordance with the DVP settlement rules for settlement sessions defined in KDPW regulations. Settlement orders for repo transactions will not be subject to securities netting (they will be directed to gross settlement). Settlement orders will be directed to settlement in KDPW on the dates and under the conditions indicated in the terms of the transaction (it is possible to settle an opening leg on T+0 but the maximum settlement date for an opening leg is T+2). The cash settlement of transactions takes place via cash accounts maintained in NBP. The second leg (closing leg) will be settled as indicated in the terms of the transaction but the settlement date must be at least one day later than the settlement date of the first leg and the maximum settlement date cannot exceed T+365.

3. Handling settlement fails

3.1. Settlement fail of the opening leg

If the opening leg fails to settle, the following actions will be taken depending on the duration of the repo transaction.

- a) Repo transactions up to 30 business days (the settlement date of the closing leg falls within 30 business days after the settlement date of the opening leg)

If the opening leg fails to settle due to non-delivery of Treasury securities (by the repo counterparty), KDPW_CCP awaits the settlement of the transaction for the settlement fail liquidation period set for the member as specified in the regulations (extension period, 7 business days) or until the expected settlement date of the closing leg, whichever occurs first. If the defaulting member fails to deliver the Treasury securities during this period, the settlement date of the closing leg is shortened, KDPW_CCP charges the repo counterparty with the amount of repo interest for the suspension period or the amount of interest resulting from the transaction, respectively, and credits the same amount to the reverse repo counterparty. In case the repo transaction has a negative repo rate, no repo interest is paid.

At the request of the reverse repo counterparty during the settlement suspension period (unless the defaulting counterparty objects), KDPW_CCP may shorten the settlement date of the closing leg, charge the repo counterparty with the amount of repo interest for the suspension period and

credit the reverse repo counterparty with the same amount. No repo interest is paid in case of a negative repo rate.

If the opening leg fails to settle when due and it is settled on the settlement date of the closing leg, KDPW_CCP rejects the settlement order from KDPW one day before the expected settlement date of the closing leg and then calculates the compensation amount with a payment date of the following day if the value is positive.

b) Repo transactions longer than 30 business days

If the opening leg fails to settle due to non-delivery of Treasury securities (by the repo counterparty), KDPW_CCP awaits the settlement of the transaction for the settlement fail liquidation period set for the member as specified in the regulations (extension period, 7 business days) and then attempts to buy in the Treasury securities in order to remove the settlement fail (delivery period, 7 working days). If KDPW_CCP buys in the securities and their purchase price is higher than the price resulting from the transaction whose settlement has failed, KDPW_CCP charges the difference to the defaulting member. Otherwise, if the purchase price of the securities is lower than the price resulting from the transaction whose settlement has failed, KDPW_CCP credits the difference to the member affected by default (reverse repo counterparty).

If it is not possible to buy in the securities within the delivery period, the member affected by default may request KDPW_CCP to defer the buy-in for another 7 business days (deferred period). Otherwise or if it is not possible to buy in the securities within the deferred period, the settlement date of the closing leg is shortened, KDPW_CCP charges the defaulting member (repo counterparty) with the amount of repo interest for the suspension period and credits the same amount to the affected member (reverse repo counterparty). No repo interest is paid in case of a negative repo rate.

3.2. Settlement fail of the closing leg

If the closing leg fails to settle due to non-delivery of Treasury securities by the reverse repo counterparty, KDPW_CCP awaits the settlement of the transaction for the settlement fail liquidation period set for the member as specified in the regulations (extension period, 7 business days) and then attempts to buy in the Treasury securities in order to remove the settlement fail (delivery period, 7 working days). If KDPW_CCP buys in the securities and their purchase price is higher than the repurchase price resulting from the transaction whose settlement has failed, KDPW_CCP charges the difference to the defaulting member. Otherwise, if the purchase price of the securities is lower than the repurchase price resulting from the closing leg whose settlement has failed, KDPW_CCP credits the difference to the member affected by default (repo counterparty).

If it is not possible to buy in the securities, and unless the member affected by default requests KDPW_CCP to defer the buy-in for another 7 business days (deferred period), the repo transaction is cancelled and KDPW_CCP makes a cash payment in the amount of the difference between:

- i. the maximum of the market value of the bond (determined on the basis of the dirty price adjusted by the value of the coupon to which the reverse repo counterparty has acquired

rights during the suspension period) subject to the repo transaction and the purchase amount in the repo transaction, and

- ii. the repurchase amount in the repo transaction.

If the amount is positive, KDPW_CCP charges it to the defaulting member (reverse repo counterparty) and credits it to the member affected by default (repo counterparty). Otherwise, KDPW_CCP considers that the compensation has been paid.

4. Hedging repo risks

In order to hedge the risk arising from accepting repo transactions for clearing, KDPW_CCP determines the following components of the initial margin:

- i. SPAN margin – hedges against potential losses in the event that the portfolio must be closed out under the assumption of adverse changes in bond prices/yields,
- ii. repo rate variation margin – hedges against potential losses in the event that the portfolio must be closed out under the assumption of adverse changes in the repo rate,
- iii. marking-to-market – margin hedging against a change in the present value of the portfolio as a result of observed changes in bond prices and the repo rate in the market,
- iv. liquidity and concentration risk margin.

Margins are determined separately for each clearing/aggregate account. The initial margin at clearing member level is equal to the sum of initial margins on individual clearing or aggregate accounts.

5. Monitoring risks during clearing sessions

KDPW_CCP monitors transaction limits for the GPW BondSpot ATS in real time during TBSP trading sessions. As part of this service, KDPW_CCP provides clearing members with information about collateral posted and margin requirements and their components, the member's transaction limits, as well as limits set on the member's clients' accounts (if a margin limit is set on their accounts).

TBSP session monitoring checks whether the present value of liabilities resulting from concluded transactions (exposure) which are the responsibility of particular members does not exceed the total value of the ATS initial deposit and the ATS initial margin contributed by the member. If that value exceeds the transaction limit, the member is required to increase the ATS initial deposit or the ATS initial margin. Members are notified when the value of their transaction limits exceeds the threshold specified by the limit utilisation marker (90%) by the xml message [colr.mrs.001.04](#). In addition, members may, using the message [colr.mrl.001.03](#), at any time during settlement sessions query the KDPW_CCP system about the current level of utilisation of the transaction limit and the value of required initial margins.

6. Determining risks in the end-of-day process

6.1. Determining initial margins

Initial margins are calculated in the end-of-day process in KDPW_CCP between 18:00 and 19:30 based on market prices and risk parameters adopted at the end of the clearing day. Information about the initial margins and the amount of required payments is communicated in messages [colr.mrg.001.04](#), [colr.mrs.001.04](#). Margins must be adjusted no later than 15 minutes before the start of the TBSP session on the next clearing day.

6.2. Determining the GPW BondSpot ATS guarantee fund

The GPW BondSpot ATS Guarantee Fund is a mutual guarantee fund, which means that contributions into the fund are paid jointly and severally by individual clearing members in proportion to the value of their uncovered risk in the period. Uncovered risk is equal, as an approximation, to the difference between the value of margins calculated for stressed (but possible) conditions and the value of margins calculated for normal conditions. KDPW_CCP estimates the parameters of the stress scenarios used to determine the value of resources in the fund. The fund is updated daily based on the calculation of new required contributions. Members are informed about required contributions on every clearing day. The value of the fund is determined as the highest value of daily uncovered risk over a set period. Daily uncovered risk is calculated as the higher of the highest daily uncovered risk of a member or the sum of the values of uncovered risk calculated for the members with the second and third highest uncovered risk. A member's contribution is proportionate to the average value of that member's uncovered risk over the period. Contributions to the fund are calculated in the end-of-day process at KDPW_CCP and communicated to the members by XML message [colr.sgf.001.03](#).

7. Clearing member default

KDPW_CCP identifies the following events of clearing member default which may result in a settlement fail and/or insolvency of the clearing member:

- a) failure to deliver Treasury securities on the settlement day of the opening leg by the repo counterparty or on the settlement day of the closing leg by the reverse repo counterparty, which results in a settlement fail;
- b) settlement fail of the repo opening leg as a result of lack of cash to meet the cash benefit in respect of purchased Treasury securities, resulting in reverse repo counterparty insolvency;
- c) settlement fail of the repo closing leg as a result of lack of cash to meet the cash benefit in respect of purchased Treasury securities, resulting in repo counterparty insolvency;
- d) other events of default defined in the Rules of Transaction Clearing (organised trading), resulting in clearing member insolvency, such as failure to make payments resulting from participation in the KDPW_CCP clearing guarantee system (no payment of margins, additional margins, contributions to the guarantee fund, marking-to-market, etc.).

8. Handling clearing member default

In the event of clearing member default, KDPW_CCP opens an auction to close out the positions of the defaulting clearing member. The defaulting clearing member's portfolio is auctioned according to the following rules:

- a) if the repo opening leg is not settled, the original repo transaction is auctioned;
- b) if the repo opening leg is settled, the original closing leg (bond forward transaction) is auctioned taking into account any additional flows resulting from coupon payments, if any, where the coupon record date falls between the auction opening date and the repurchase date.

In addition, in the case of repo transactions where the opening leg is settled and where the settlement date of the closing leg is near, solutions similar to those applicable to cash transactions may be used to close out the positions (e.g., buy/sell on a market to which KDPW_CCP has access).