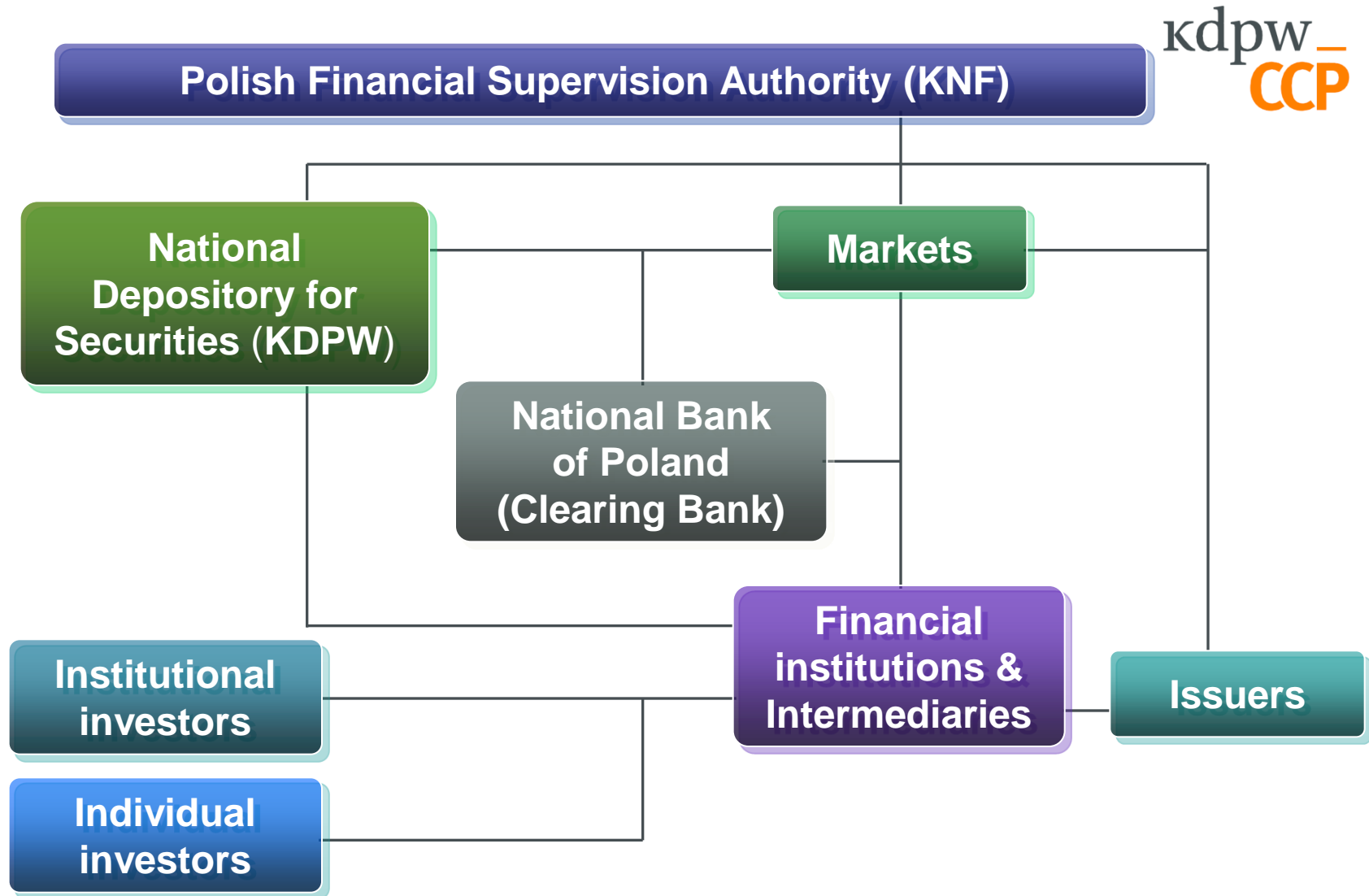




# Creating the Clearing House KDPW\_CCP

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KDPW  
KDPW\_CCP

September 2011



- **1991 - 1994**

**An integral part of the Warsaw Stock Exchange**

- **1994 - Present**

**Independent joint - stock company**

- **Current shareholders**

- **KDPW (CSD) - (since 1999)**

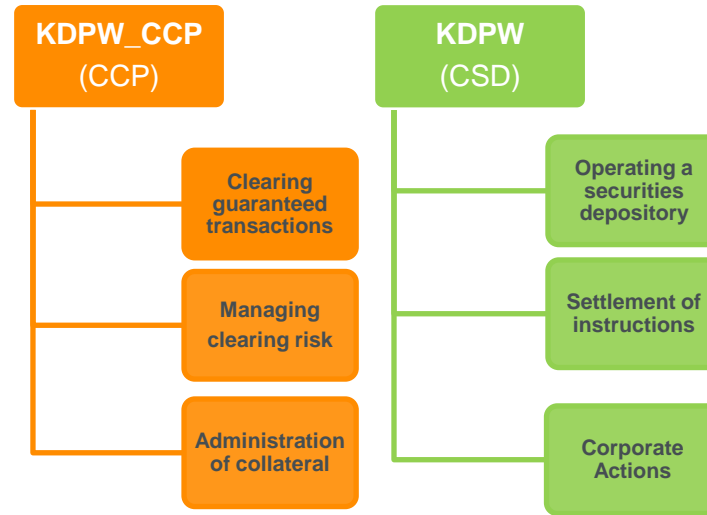
- **The State Treasury** - 1/3
- **The Warsaw Stock Exchange** - 1/3
- **The National Bank of Poland** - 1/3

- **KDPW\_CCP - (from 1 July 2011 )**

- **KDPW** - 100%

# Division of functions and responsibilities between KDPW and KDPW\_CCP

## ✓ Responsibilities:



## ✓ Clients:

- Issuers
- Intermediaries (custodian banks & brokers)

## IH 2011 Statistics



- **KDPW participants – 72**
- **Issuers – 839**
- **Deposited share issues – 874**
- **Deposited bond issues – 385**
  
- **Capitalisation of shares deposited with KDPW – PLN 542 billion (EUR 136 billion)**
- **Capitalisation of bonds deposited with KDPW – PLN 565 billion (EUR 142 billion)**
  
- **Value of secondary market trading cleared in IH 2011: PLN 5,698 billion (EUR 1,440 billion)**

- **All securities settled in KDPW are dematerialised**
- **All securities transfers are made by book-entry in KDPW de clearing & settlement system**
- **Transfers are made between KDPW participant accounts**
  - Mandatory asset segregation (own assets, client assets)
- **Change of ownership at the moment of book-entry on securities account**
- **Clearing & Settlement service for transactions from:**
  - WSE, BondSpot, New Connect (ATS), Treasury BondSpot Poland
- **DvP Settlement model:**
  - BIS model I, BIS model II
- **Settlement :**
  - T+2, T+3 - for regulated - market trades – SE, BondSpot
  - T+0 to T+n - for non-regulated market transactions – OTC
- **Two settlement channels:**
  - RTGS DVP 8.00-17.00, FOP 8.00-18.30
  - multiple batch system 7.30-18.45

**(1) Introduction of a new KDPW business model**

**(2) Positioning KDPW as the leading CSD and clearing house in the CEE region**

**(3) KDPW integration with European infrastructures**

**(4) Introduction of new services to increase the value of the KDPW capital group**

**(5) Raising the standard and scope of services currently provided**

- ✓ Reduced counterparty risk thanks to guarantees of cleared transactions
- ✓ CCP as a party to transactions in case one of the transaction counterparty does not meet their obligations, thus ensuring reduction of the impact of counterparty default
- ✓ More effective risk management
- ✓ New categories of entities eligible as clearing members
- ✓ Improved perception of the Polish capital market infrastructure by Polish and foreign financial institutions
- ✓ Chance of development of clearing and settlement functionalities under international standards
- ✓ Co-operation with foreign CCPs and CSDs
- ✓ Stronger interest in the Polish capital market



## New Settlement Risk Management System in KDPW\_CCP



Risk management system – a range of interconnected elements to assess, predict and actively manage settlement risk

- ✓ Guarantee system methodology
  - ✓ Two-tier system
  - ✓ (margins + Settlement Guarantee Fund)
  - ✓ SPAN®
- ✓ Proprietary software
- ✓ SPAN® -RM-Clearing application
- ✓ Technical infrastructure

## System elements: Margins (M)

- ✓ Function: to cover the risk of change of the portfolio value in a certain time horizon.
- ✓ Scope of application: open positions on the derivatives market and transactions in the settlement cycle on the cash market.
- ✓ Required by KDPW\_CCP and released after closing a position /settling a transaction.
- ✓ Contributed individually by clearing members to cover their own risk.
- ✓ Risk parameters estimated under normal conditions at a significant confidence level.

### Glossary:

*Positions not yet settled* – open positions in derivatives and transactions in cash market instruments in the settlement cycle

*Portfolio* – all positions registered in an entity account

## System elements: Marking-to-Market (MtM)/Current Settlements (CS)



### Marking-to-Market /Current Settlements

- ✓ Help to avoid concentration of settlements.
- ✓ Reduce risk down to a defined time horizon (1 day).
- ✓ Calculated on a portfolio basis (entity account).
  
- ✓ Marking-to-market/PREMIUM
  - ✓ Derivatives market instruments
  - ✓ Settled between participants
  
- ✓ Current Settlements
  - ✓ Cash market instruments
  - ✓ Required by KDPW\_CCP and maintained until transaction is settled (part of the margin)

## Development of the settlement risk management system



- ✓ Cross-margining between the cash market and the derivatives market, reduction of required margins for positions registered in one entity account
- ✓ Introduction of aggregate accounts, accounts configurable by participants, used to calculate net margins
- ✓ Processing securities lending, repos and reverse repos, using the SPAN® methodology
- ✓ Extension of online monitoring for maintenance margins on the cash market

- ✓ **Since 1998**, KDPW supports communication with SWIFT messages
- ✓ **Since 2010**, kdpw\_stream offers a new functionality which supports SWIFT communication. The solution conforms to **ISO 15022** and international standards applied by the biggest investment firms.
- ✓ Now – we apply ISO 15022 in SWIFT messages but in the near future we will adopt a standard consistent with ISO 20022.
- ✓ Communication in SWIFT format is supported by CSDs including Clearstream (Germany), Euroclear (which serves Euronext Group markets among others), Monte Titoli (Italy) and OeKB (Austria).

## Central Securities Depositories (CSD)

- ✓ SWIFT messages are now used only in communication with CSDs (FoP – free of payment)
- ✓ In H1 2010, the average volume was **ca. 300 messages per month**
- ✓ In H2 2010, the average volume was **ca. 600 messages per month**
- ✓ In 2011, the average volume was **ca. 850 messages per month** (more links, more activity)

## Participants

- ✓ None of the KDPW Participants use SWIFT messages in communication with KDPW
- ✓ Only KBC Securities has engaged us in discussions and enquired about this form of communication, but was only considering this option

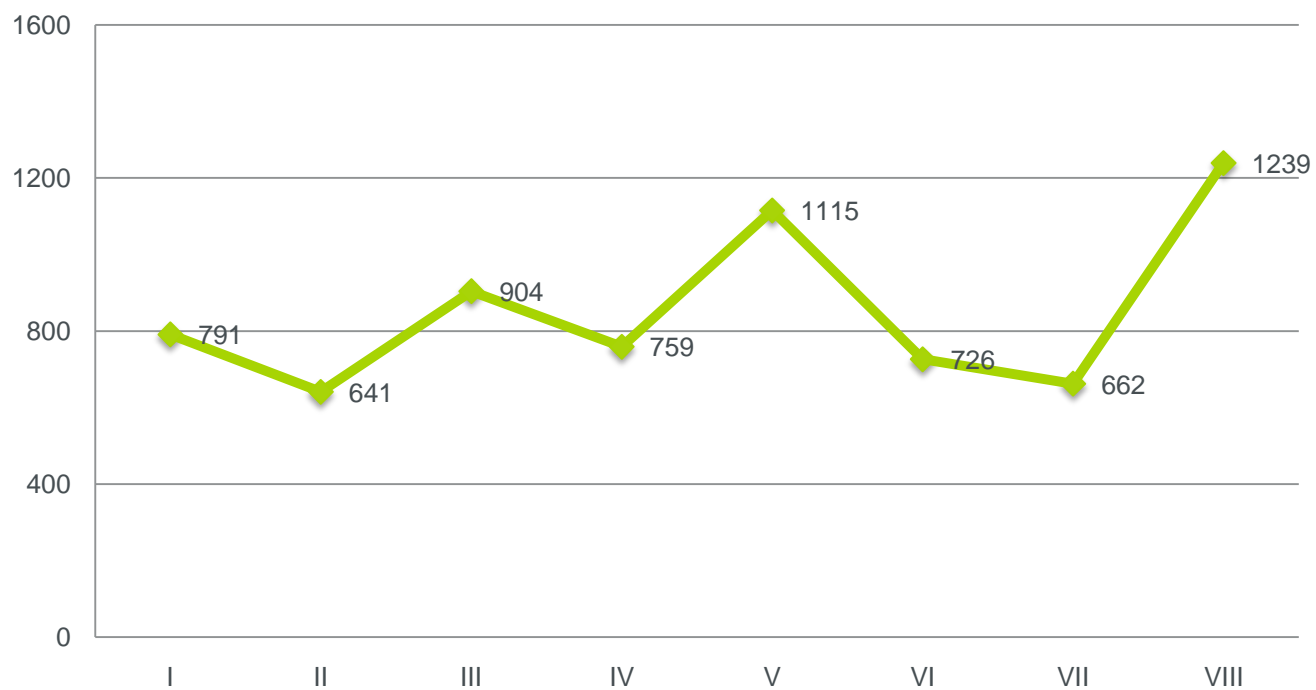
## Issuers

- ✓ This channel is not used in communication with issuers, nor is this option planned (SWIFT is a standard of communication among financial institutions)
- ✓ Issuers use on-line communication (General Meetings), which will be further developed

## TARGET2

- ✓ We will use financial messages (e.g., MT202) for transfers between KDPW's accounts in foreign depository institutions and KDPW's domestic accounts

### Number of SWIFT messages at KDPW in 2011



[www.kdpw.pl/en](http://www.kdpw.pl/en)  
[www.kdpwccp.pl/en](http://www.kdpwccp.pl/en)

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