

Warsaw, 30 September 2021

To: KDPW Participants
KDPW_CCP Participants

Re.: Modifications to KDPW and KDPW_CCP IT systems scheduled in 2022

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 2022 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 2022 as well as projects at an advanced stage of implementation in 2022, which require modifications to your IT systems in the coming years.

To present the details of the 2022 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 14:00 on 8 November 2021** (via MS Teams). We will distribute invitations to the meeting in separate communications when we have the details of meeting participants. Please contact us at bozena.koziorynski@kdpw.pl in all organisational matters and to register for the event no later than 4 November 2021.

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 three implementation windows for **2022**:

- winter implementation window – on **1 February**,

- spring implementation window – on **23-24 April**,
- autumn implementation window – on **22-23 October**.

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:

WINTER IMPLEMENTATION WINDOW – 1 February 2022

1. Alignment with the CSDR requirements for settlement discipline – Phase 2 – Implementation of the new cash penalty system, changes to buy-ins including buy-in auctions, hold-release, etc. alignment of IT systems of KDPW and KDPW_CCP participants – 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 the decision to split the implementation of settlement discipline into two phases and to implement solutions supporting settlement to the extent of settlement discipline in Phase 1 of the alignment with CSDR (19 April 2021), Phase 2 of the project 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 by KDPW and KDPW_CCP;
- implementation of new rules of securities valuation for the purposes of the cash penalty system;
- 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, in particular at KDPW_CCP;
- changes to the existing hold-release mechanism.

Materials: Details of the scope of alignment were communicated in information materials (letter no. DO/ZW/568/2020 dated 10 June 2020, letter no. DO/ZW/688/2021 dated 23 April 2021, letter no. DO/ZW/1229/2021 dated 2 August 2021, letter no. DO/ZW/1505/2021 dated 29 September 2021), and letter no. CCP/ZW/486/2021 dated 9 July 2021.

All materials, communications, and memos from meetings of the Settlement Discipline Working Group are available at:

- the KDPW website tab:

<http://www.kdpw.pl/pl/uslugi/Rozwoj/CSDR/Strony/default.aspx>

- the KDPW_CCP website tab:

<http://www.kdpwccp.pl/pl/Uslugi/Dyscyplina-rozrachunku/Strony/default.aspx>

The structures of the ISO 20022 messages used by KDPW and KDPW_CCP are available on [MyStandards](#), and the final versions of examples of populated messages will be distributed to you on or before 10 October 2021.

Tests: The test environment will be made available and testing with your participation will start on **25 October 2021**.

SPRING IMPLEMENTATION WINDOW – 23-24 April 2022

2. 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

With a view to expansion of the range of services provided by KDPW_CCP and in line with the guidance defined in the Capital Market Development Strategy (section 4.5.2), KDPW_CCP is running a project which will implement a new service: clearing of conditional transactions (repos) on Treasury BondSpot Poland. We initiated work on procedures, regulations, authorisation, and system modifications in mid-2020.

Materials: Details including modifications to kdpw_stream messages were communicated in letter no. CCP/ZW/486/2021 of 9 July 2021.

Details of system messages are also available on the KDPW_CCP website tab: http://www.kdpwccp.pl/pl/Uczestnicy/Strony/zmiany_repo.aspx

Tests: We expect to open access to the test environment and start testing with your participation on **2 January 2022**.

Roll-out: We are planning to start the clearing of conditional transactions on **25 April 2022*** (the final roll-out date of the solution in the production environment is subject to the relevant authorisations).

3. Modifications of the margining model involving the introduction of add-ons *alignment of IT systems of KDPW_CCP participants – mandatory*

Following recommendations of third-party institutions confirmed by relevant analyses, KDPW_CCP has 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 and concentration risk management. KDPW_CCP has developed a management system for such risks whereby additional margins (add-ons) will be added to the existing margins. KDPW_CCP has aligned its clearing system accordingly and is planning to roll out the solution in the production systems subject to necessary approvals required for a significant change under Article 49 of the amended EMIR. The development of the new solution included close consultations of the new risk management model with market participants. In discussions, the Investment Firms Department of the Polish Financial Supervision Authority, the Chamber of Brokerage Houses and KDPW_CCP have drafted proposed amendments to Article 71 of the Regulation of the Minister of Finance of 30 May 2018 concerning the terms and conditions for investment firms, banks referred to in Article 70(2) of the Act on Trading in Financial Instruments, and depositary banks. The proposed amendments will allow investment firms to use own resources in order to post add-ons required of their clients.

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, letter no. CCP/ZW/768/2020 dated 30 November 2020, letter no. CCP/ZW/161/2021 dated 26 February 2021, letter no. CCP/ZW/355/2021 dated 20 May 2021 and letter no. CCP/ZW/498/2021 dated 20 July 2021).

The complete documentation including modifications to the margining model involving the introduction of add-ons, message structures and the structure of the new message colr.adn.001.01 (parameters set by KDPW_CCP and used in add-on calculations) are available on the KDPW_CCP website tab: <http://www.kdpwccp.pl/pl/Uczestnicy/Strony/add-on.aspx>

Tests: We made the test environment available as of 2 November 2020. The message colr.adn.001.01 is available in the test environment as of 20 May 2021. The test environment provides software with the new structure of the messages: colr.adn.001.01, colr.mrg.001.03 and colr.mrs.001.03 as of 15 July 2021.

Roll-out: The liquidity and concentration risk add-ons and the wrong way risk add-ons will be rolled out on **23-24 April 2022** (note that the roll-out of the solution in the production system is conditional on two factors: obtaining the necessary authorisations for a significant change of the model under Article 49 EMIR, and completion of the legislative amendment of Article 71 of the Regulation of the Minister of Finance of 30 May 2018 concerning the terms and conditions for investment firms, banks referred to in Article 70(2) of the Act on Trading in Financial Instruments, and depositary banks).

AUTUMN IMPLEMENTATION WINDOW – 22-23 October 2022

4. Implementation of an upgraded OTC clearing system

alignment of IT systems of KDPW_CCP participants (OTC) – mandatory

KDPW_CCP is planning to roll out an upgraded OTC clearing system as a clearing module of kdpw_stream in October 2022. The development of the clearing system and the risk management system for OTC trade will among others introduce new solutions supporting communications with participants based on FpML system messages as well as system messages customised for the purposes of new functionalities. The following messages will be modified: messages concerning the posting of margins and other OTC clearing components, processing of on-demand reports, processing of OTC instrument auctions.

The new system dedicated to OTC derivative clearing will improve the quality of provided clearing services (standard messages, speed, efficient implementation of future modifications) and enhance the effectiveness and flexibility of clearing service solutions.

Materials: Details of FpML messages in the OTC derivative clearing system and modifications to system messages were communicated in information materials (letter no. CCP/ZW/487/2021 dated 9 July 2021).

The complete documentation, including the system message structures and the terms and conditions of FpML data exchange for OTC derivatives, is available on the KDPW_CCP website tab:

http://www.kdpwccp.pl/pl/Uslugi/otc_clearing/Strony/default.aspx

Tests: We are planning to start tests with your participation on 1 April 2022 and OTC auction tests on 1 July 2022.

Roll-out: The upgraded OTC derivative clearing system will be rolled out on **22-23 October 2022**.

OTHER KEY PROJECTS TO BE IMPLEMENTED IN 2021-2023

(outside the implementation windows) which may impact your IT systems:

5. New functionalities of the KDPW Group Data Portal

The KDPW Group is working to further develop the **KDPW Group Data Portal** launched on 1 March 2021 (<https://data.kdpw.pl>).

The KDPW Group Data Portal functionalities are implemented in stages:

- **22 November 2021** – reports will be made available (free of charge until 31 December 2021) covering all information available in the paid service with the option of manual downloads of files:
 - report on financial instruments recorded by KDPW_CCP;
 - report on financial instruments recorded or coded by KDPW;
 - report on Counterparties and Counterparty details including LEI, NIP, REGON;
 - report on financial instruments accepted/excluded by KDPW;
 - report on capitalisation of financial instruments recorded in KDPW participant accounts (by type of participant);
 - report on KDPW participants and issuers;
 - report on corporate actions/transfers of financial instruments recorded by KDPW.
- **31 December 2021** – implementation of functionalities supporting purchase of data with the option of manual downloads of files following the publication of the Service Rules;
- **up to 31 December 2021** – you will receive the terms and conditions of the data sale service via API;
- **31 March 2022** - implementation of functionalities supporting access to data available for sale via API.

Note that the existing data presentation and access system on the KDPW websites, *kdpw_stream Statistics* (SPDS), will be available **up to 10 January 2022**. After that date, statistics and reports will only be available in the **KDPW Group Data Portal** (<https://data.kdpw.pl>).

6. Launch of new/upgraded 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** (<https://online.kdpw.pl>) dedicated to KDPW and KDPW_CCP participants as well as clients using other services of the KDPW Group.

The following applications are scheduled to go live in late 2021 and in 2022:

- **Trade Repository (EMIR)** – roll-out of a new version of the application including a new layout of the user interface for clients
Implementation: expected roll-out date of the application – **26 November 2021**
- **Compensation Scheme** – implementation of an application supporting communications with compensation scheme participants (including reports on the amount of contributions to the compensation scheme and the average value of assets covered by the scheme).

Implementation: expected roll-out date of the application – **1 July 2022**

- **ESDI applications** – for details of the project, see point 8 below.

Implementation: expected roll-out date of the application – **1 July 2022**

7. Multi-Factor Authentication system (MFA)

In view of rising global threats to the security of IT systems combined with an expanding range of services offered by the KDPW Group over electronic access channels (<https://online.kdpw.pl>), we have decided to implement strong authentication of users accessing the KDPW Group's IT systems. As your security is our priority, following a risk analysis carried out in accordance with the Guidelines of the Polish Financial Supervision Authority concerning management of information technology and ICT environment security in market infrastructure entities, KDPW is planning to implement an additional authentication system as of 1 April 2022 securing access to the KDPW Group applications available at online.kdpw.pl. To log in such applications, users will be required to enter a login and password, as usual, and additionally confirm their identity with the mobile application KDPW Group Authenticator.

Note:

- the KDPW Group Authenticator will be available for download free of charge in authorised stores: Google Play (Android), App Store (iOS – Apple),
- to use the KDPW Group Authenticator mobile app, the app must be linked to each KDPW account on a selected trusted mobile device;
- we will offer the option of adding trusted browsers so users do not have to authorise each login.

Tests: We expect to open the test environment and start tests with your participation **from December 2021 and March 2022**.

Roll-out: The additional authentication system (additional identity confirmation in the mobile application KDPW Group Authenticator) is scheduled for release on **1 April 2022** (as of that date, the identity of users accessing electronic services of the KDPW Group will at each time be authenticated using two factors).

8. ESDI upgrade

With a view to IT system security, in particular security of communication channels, the KDPW Group is working to upgrade the ESDI/WEB system used to exchange system messages and communications with participants. The functional scope of the legacy system ESDI/WEB will be replaced by two applications:

- **an application** aggregating all functions supporting the distribution of communications between KDPW and KDPW Participants and separately between KDPW_CCP and KDPW_CCP Participants;
- **an application** supporting the transmission of XML system messages via U2A, separately for KDPW and KDPW_CCP, providing access to `kdpw_stream` modules.

The new applications will be available on the KDPW Group Service Portal (<https://online.kdpw.pl>), where access to each service will be available via a single access account.

Materials: Details of modifications to ESDI will be communicated in **February 2022**.

Roll-out: The upgraded ESDI is scheduled for release on **1 July 2022**.

9. Alignment of KDPW with Target Services

KDPW is working to align the KDPW IT systems with Target Services, a new pan-European system which will combine services currently offered by the European Central Bank (ECB): Target2 (T2), Target2 Securities (T2S), and Target Instant Payment Settlement (TIPS).

In the T2-T2S consolidation project run by ECB, KDPW and KDPW_CCP along with all Target 2 participants are preparing for migration to the new EUR clearing platform.

Tests: In addition to the mandatory tests required by ECB, KDPW is planning to run a test with participants, especially paying agents, in **Q1 2022** in order to test EUR settlement in KDPW.

Roll-out: The new system T2, a part of Target Services, is scheduled for release in **November 2022**.

10. New websites of KDPW and KDPW_CCP, integration with MyStandards

The KDPW Group is working to develop new websites of KDPW and KDPW_CCP which will eventually be integrated with the services portal online.kdpw.pl, the data portal data.kdpw.pl and the platform *MyStandards*. The project will modify the information architecture and improve the utility value of the websites by splitting information into sections dedicated exclusively to our clients (system descriptions, communications) and public sections (marketing, legal compliance).

The integration of the websites of KDPW and KDPW_CCP with the SWIFT-operated platform *MyStandards* is connected with the planned migration of the documentation of system messages across all business lines of the KDPW Group to the platform, after which the message documentation will no longer be published on the websites of the KDPW Group members.

Note that the documentation of all ISO15022 and ISO20022 messages used by the KDPW Group in communications with you in the area of Corporate Actions, Settlement and Reconciliation and Clearing is available on *MyStandards* since March 2017. Basic access to *MyStandards* is free of charge subject to registration typical of online services (the system is available at <http://mystandards.swift.com/>). The home page of the KDPW Group on *MyStandards* is available at: https://www2.swift.com/mystandards/#/group/KDPW_Group

The migration of the documentation of the system messages for all business lines of the KDPW Group to *MyStandards* will confirm that KDPW and KDPW_CCP follow the highest global standards and best practice in the settlement of securities, corporate actions and clearing.

Roll-out: The new websites of KDPW and KDPW_CCP will be launched and the documentation of system messages for all business lines of the KDPW Group will be migrated to *MyStandards* on **1 January 2023**.

11. Implementation of AMI-SeCo standards

alignment of IT systems of KDPW participants – mandatory

KDPW is running a project to implement AMI-SeCo standards for the processing of corporate actions and billing as a part of harmonisation of collateral management in Europe (Single Collateral Management Rulebook for Europe - SCoRE). The project will further develop the existing software supporting information exchange, including electronic messages used to process typical corporate actions on European markets, as well as information exchange regarding billing for KDPW services. Information exchange in those processes will rely on ISO 20022 messages. We are expecting to modify the interface offered by KDPW for the processing of payments from securities (*Benefit payments* application) as well as other corporate actions.

Materials: Details of the planned modifications to the KDPW IT systems necessary to align with the AMI-SeCo standards will be communicated to you and published on the website **by the end of March 2022**.

Tests: The test environment will be opened and tests with your participation will start in stages beginning in **March 2023**.

Roll-out: The AMI-SeCo collateral management standards (Corporate Actions, Billing Processes) are scheduled for roll-out on **20 November 2023**.

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)
Komisja Nadzoru Finansowego (Polish Financial Supervision Authority)
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)