

## PROCESSING COLLATERAL IN CASH IN EUR

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### 1. INTRODUCTION

This document describes the functionalities related to the collateral register maintained in KDPW\_CCP to process EUR-denominated cash posted as collateral.

Margin and fund requirements are always determined in PLN, regardless of whether they arise from transactions cleared in PLN or EUR. Previously, only assets denominated in PLN (cash and securities) could be posted as collateral. The new functionality allows members to collateralise exposures by posting cash in EUR or securities denominated in EUR.

### 2. STATUS MESSAGE COLR.STS.001.XX

The status message colr.sts.001.xx is sent by KDPW\_CCP in response to an instruction to post/release collateral colr.ins.001.xx. The status message colr.sts.001.xx is sent irrespective of the type of collateral subject to the instruction and of its currency. In addition to the status, the message for the clearing member replicates the data provided in the member's instruction. In addition, the message colr.sts.001.xx with a status indicating whether the instruction can be executed and then indicating that the instruction has been executed, together with dedicated information, is sent to the clearing member's paying agent. The following instruction statuses are available:

PEND	Instruction accepted
PENF	Instruction pending KDPW_CCP's approval or pending execution
SETL	Collateral has been posted or released
CAND	Instruction has been rejected, including the reason for the rejection

### 3. PROCESSING CASH IN EUR POSTED AS COLLATERAL

#### 3.1. Legal and organisational requirements

Cash in EUR may be posted as:

- initial deposit (MARI),
- initial margin (MARS),
- OTC initial deposit (OTCL),
- OTC initial margin (OTCM),
- ATS initial deposit (MAGB),
- ATS initial margin (MATS),

- contribution to the clearing fund (PRRG),
- contribution to the OTC guarantee fund (FOTC),
- contribution to the GPW BondSpot ATS guarantee fund (PAGB).

When posting or releasing cash in EUR, the formal conditions must be met, i.e., if the member is not the payer itself, the clearing member is required to present a declaration indicating the paying agent for EUR along with a declaration of the paying agent to the effect that it assumes the obligation to execute transfers in EUR for the clearing member. The declarations should indicate the number of the bank account in the payment system used for transfers in EUR (document templates are available on the KDPW\_CCP website under the tab Document templates). On this basis, KDPW\_CCP records the relationship between the clearing member and its paying agent in the system accordingly.

### 3.2. Operational requirements

Cash in EUR is posted and released in the same way as cash in PLN. When processing collateral in cash in EUR, the structure of the message colr.ins.001.xx is the same as when posting and releasing cash in PLN; however, the field dedicated to the currency code is populated differently.

The value of the field in the message colr.ins.001.xx that distinguishes the posting of cash in EUR is the value 'EUR' in the field <Ccy>.

#### Sample message:

```
<?xml version="1.0" encoding="UTF-8"?>
<KDPWDocument Sndr="5003" Rcvr="0010" xsi:schemaLocation="urn:kdpw:xsd:colr.ins.001.xx colr.ins.001.xx.xsd"
xmlns="urn:kdpw:xsd:colr.ins.001.xx" xmlns:xsi="http://www.w3.org/2001/XMLSchema-instance">
  <colr.ins.001.xx>
    <GnlInf>
      <SndrMsgRef>589746</SndrMsgRef>
      <CreDtTm>
        <Dt>2019-07-02</Dt>
      </CreDtTm>
    </GnlInf>
    <CollDtls>
      <BalTp>OTCL</BalTp>
      <Ccy>EUR</Ccy>
      <SttlmDt>2019-07-02</SttlmDt>
      <CollBal>
        <Bal>350000</Bal>
        <CdtDbtInd>CRDT</CdtDbtInd>
      </CollBal>
      <ClrgMmbInf>
        <ClrgMmbld>
          <KDPWMmbld>5003</KDPWMmbld>
          <KDPWSafAcct>111</KDPWSafAcct>
        </ClrgMmbld>
      </ClrgMmbInf>
    </CollDtls>
  </colr.ins.001.xx>
</KDPWDocument>
```

For an instruction to release cash, the fields in the message are populated in the same way as when posting cash with the exception that the field <CdtDbtInd> should be populated with the value 'DBIT'.

Cash is always accepted and released in the same way regardless of the currency of the collateral.

After receipt of the clearing member's instruction, provided that the instruction is correct, the member receives the message colr.sts.001.xx with the status 'PEND' and the member's paying agent receives the message colr.sts.001.xx with the status 'PEND'.

If the instruction is rejected (status 'CAND' with the reason for the rejection), this is reported only to the clearing member. The paying agent receives no message with the status 'CAND' at this stage.

On the basis of an instruction received from the clearing member in a message, KDPW\_CCP sends an instruction to debit or credit the bank account of the member (or its paying agent) to TARGET2 operated by the National Bank of Poland.

When the instruction is sent to NBP, the member receives the message colr.sts.001.xx with the status 'PENF' and the member's paying agent receives the message colr.sts.001.xx with the status 'PENF'.

If the instruction is rejected (status 'CAND' with the reason for the rejection), this is reported to the clearing member and the paying agent.

If the transfer debiting the payer's bank account is executed, KDPW\_CCP adds this amount to the collateral register maintained by KDPW\_CCP as a contribution by the clearing member towards a specific type of collateral.

After the instruction is executed, the member receives the message colr.sts.001.xx with the status 'SETL' and the paying agent receives the message colr.sts.001.xx with the status 'SETL'.

If the instruction is rejected (status 'CAND' with the reason for the rejection), this is reported to the clearing member and the paying agent.

A cut-off time is used when processing of posting and releasing cash in EUR. The cut-off time is 12:00 for posting cash and 14:00 for releasing cash. Instructions from clearing members are rejected after these hours. This is communicated in the status message colr.sts.001.xx with the following reason code: "Invalid message sending time".

KDPW\_CCP charges fees for the management of EUR-denominated cash according to its table of fees.

For the purposes of limits per type of collateral, cash in EUR is processed in the same way as cash in PLN, i.e., it may constitute up to 100% of the amount of required initial deposits, required initial margins, and required fund contributions. However, it should be noted that excess cash in EUR is not automatically repaid, nor are benefits automatically paid out, as is the case with PLN cash posted as initial margins and contributions to funds.

If the clearing member wants to request release of cash in EUR, it sends a release instruction in the message colr.ins.001.xx.

The end-of-day valuation of cash in EUR uses the exchange rate from Bloomberg downloaded at 17:00 and a haircut set by KDPW\_CCP. If cash is posted intra-day, the previous day's FX rate is used subject to the haircut. Each message colr.sm1.002.xx (which is sent after any change in the value of collateral of a given type and at the end of the day) includes two FX rates: before and after the haircut (in the

fields <MktPric> and <ClctdPric> respectively). For the purpose of identifying cash in EUR (e.g., in colr.sm1.002.xx), the following ISIN code is used: EU0009656420.