

## Detailed Rules of the OTC Clearing System

The Detailed Rules of the OTC Clearing System, referred to in § 1 subpara. 41 of the Rules of Transaction Clearing (Non-organised Trading), hereinafter the “Clearing Rules”, set out the detailed rules of operation of the OTC clearing system within the scope laid down in the Clearing Rules.

### CHAPTER 1 General provisions

#### § 1

1. The expressions and terms used in the Detailed Rules of the OTC Clearing System which are not defined or detailed in subpara. 2 shall be understood as defined in § 1 of the Clearing Rules.

2. Whenever the Detailed Rules of the OTC Clearing System refer to:

1/ **payment agent** – this shall be understood to mean the payment agent defined in § 1 subpara. 1 of the Clearing Rules, i.e., KDPW,

2/ **clearing bank** – this shall be understood to mean the clearing bank defined in § 1 subpara. 3 of the Clearing Rules, i.e., the National Bank of Poland for transactions in derivative instruments and for cash flows within the transaction clearing liquidity guarantee system, where for clearing in EUR orders are submitted under an agreement with the National Bank of Poland while cash accounts of participants used for payments in EUR may be maintained under agreements concluded by participants or payment agents with central banks other than the National Bank of Poland which operate payment systems within the TARGET2 system;

3/ **Clearstream** – this shall be understood to mean Clearstream Banking S.A. with its registered office in the Grand Duchy of Luxembourg;

4/ **margin** – this shall be understood to mean an initial deposit or an initial margin;

5/ **variation margin /VM/** – this shall be understood to mean a variation margin referred to in § 1 subpara. 6a of the Clearing Rules, determined for each transaction with margin (TDZ) for which payments are expressed in a given currency, on each day R relevant to the clearing of the transaction;

6/ **day R** – this shall be understood to mean a working day of the OTC clearing system on which clearing sessions are held and transactions registered in the OTC clearing system are cleared:

a) other than a holiday, a Saturday or another day excluded under a resolution of the KDPW\_CCP Management Board – for transactions expressed in PLN (day R for PLN clearing); or

b) which is a working day of the TARGET2 system, unless such day is excluded under a resolution of the KDPW\_CCP Management Board – for transactions denominated in EUR (day R for EUR clearing);

7/ **day R+1** – this shall be understood to mean a day following day R which is an operating day of the OTC clearing system for PLN clearing or for clearing in a given currency;

8/ **Euroclear** – this shall be understood to mean Euroclear Bank SA/NV with its registered office in the Kingdom of Belgium,

9/ **hypothetical transaction** – this shall be understood to mean a transaction which may be sent for clearing in the OTC clearing system;

10/ **account identifier** – this shall be understood to mean a unique identifier of the clearing account of a clearing member;

11/ **confirmation instruction** – this shall be understood to mean an order containing the terms of a transaction referred to in § 1 subpara. 9 letter (c) of the Clearing Rules, which is not an offer within the meaning of the provisions of the Civil Code;

12/ **derivative instruments** – this shall be understood to mean derivative instruments defined in § 1 subpara. 10 of the Clearing Rules, listed in Appendix 1 to the Detailed Rules of the OTC Clearing System;

13/ **confirmation** – this shall be understood to mean determination made by KDPW\_CCP to the effect that confirmation instructions submitted by clearing members which are counterparties to the clearing of a transaction contain mutually matching information concerning the transaction;

14/ **conversion** – this shall be understood to mean the conversion of a transaction with margin (TZD) into a transaction with settlement (TZR), referred to in § 74c of the Clearing Rules, performed in the OTC clearing system on the basis of an order of a clearing member being a counterparty to the clearing of such transaction on the terms set out in the Clearing Rules and the Detailed Rules of the OTC Clearing System, resulting in a change of the terms of the transaction to the effect that liabilities under a variation margin /VM/ which would become due as of the conversion date, referred to in § 62d subpara. 1, expire and the clearing counterparties are entitled to receive or obliged to pay, respectively, the TZR settlement amount on the terms of the transaction with settlement (TZR);

15/ **interest coupon** – this shall be understood to mean the amount of interest for a given interest period, calculated by KDPW\_CCP according to the terms of a derivatives transaction registered in the OTC clearing system, which a clearing counterparty designated by KDPW\_CCP is, respectively, entitled to receive or obliged to pay;

16/ **adjustment amount** – this shall be understood to mean, respectively:

a) for clearing of a sell transaction or a closing transaction, or an opening transaction which is to be settled after the day of its registration in the OTC clearing system – the amount calculated in current clearing as the amount of the cumulative variation margin /CVM/ calculated for the sell transaction or the opening transaction or the closing transaction, respectively, or

b) for current clearing of a transaction for the opposite position to be performed on the transaction date – the amount calculated in order to adjust the valuation of the transaction as part of the processing of closing of positions on demand, described in § 90 subpara. 1 of the Clearing Rules, or automatic closing of positions, described in § 96 subpara. 1 of the Clearing Rules, as the amount of the offer of concluding the transaction, accepted by the participant being its clearing counterparty or KDPW\_CCP, respectively, or

c) for a transfer of positions, referred to in § 110b or § 110c of the Clearing Rules, or a transfer on demand of a clearing member, referred to in Section IIIa of the Clearing Rules – the amount calculated in order to adjust the value of such positions after their transfer as the amount of the cumulative variation margin /CVM/ or the TZR cumulative settlement amount;

17/ **TZR settlement amount** – this shall be understood to mean a settlement amount referred to in § 1 point 16a of the Clearing Rules, denominated in a currency defined for a transaction with settlement (TZR) according to the settlement instruction, in the amount determined by KDPW\_CCP on the basis of the performed valuation of the transaction;

18/ **client classification number (NKK)** – this shall be understood to mean an identifier of a clearing member or a client or a group of clients of a clearing member defined according to predetermined parameters;

19/ **liquidation period** - this shall be understood to mean a risk parameter used by KDPW\_CCP to calculate margins, referred to in Article 1(8) of Commission Delegated Regulation (EU) No 153/2013 of 19 December 2012 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to regulatory technical standards on requirements for central counterparties (Official Journal of the EU L 52 from 2012, p. 41);

20/ **lookback period** – this shall be understood to mean a risk parameter used by KDPW\_CCP to calculate margins, referred to in Article 1(9) of Commission Delegated Regulation (EU) No 153/2013 of 19 December 2012 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to regulatory technical standards on requirements for central counterparties;

21/ **position indicator** – this shall be understood to mean registering in a clearing member's clearing account that member's credit or debit in relation to KDPW\_CCP S.A. arising from a transaction originating from novation or a transaction concluded in the transaction clearing liquidity guarantee system operated by KDPW\_CCP S.A.;

22/ **electronic platform** – this shall be understood to mean an electronic platform defined in § 1 subpara. 23 of the Clearing Rules, listed in Appendix 3 to the Detailed Rules of the OTC Clearing System;

23/ **entity which can be represented by a participant** – this shall be understood to mean an entity or a group of entities marked with the same identifier (NKK);

24/ **confidence interval** - this shall be understood to mean a risk parameter used by KDPW\_CCP to calculate margins, referred to in Article 1(2) of Commission Delegated Regulation (EU) No 153/2013 of 19 December 2012 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to regulatory technical standards on requirements for central counterparties;

25/ **collateral account** – this shall be understood to mean a collateral account operated under a service agreement for KDPW\_CCP as the party accepting collateral;

26/ **trade repository** – this shall be understood to mean a trade repository defined in § 1 subpara. 32 of the Clearing Rules, i.e., KDPW;

27/ **netting session** – this shall be understood to mean the time, falling within day R for clearing in a given currency, of netting of debits and credits arising from transactions expressed in that currency, and registration of the netting result in clearing accounts;

28/ **clearing session** – this shall be understood to mean the time, falling within day R for clearing in a given currency, of accepting those transactions for clearing for which payments are expressed in that currency;

29/ **payment system** – this shall be understood to mean a payment system defined in § 1 subpara. 36 of the Clearing Rules operated by the National Bank of Poland;

30/ **settlement system** – this shall be understood to mean a settlement system defined in § 1 subpara. 38 of the Clearing Rules operated by KDPW;

31/ **opening transaction** – this shall be understood to mean an opening transaction which is part of, respectively, a repo transaction or a sell/buy-back transaction accepted for clearing in the OTC clearing system, on whose basis a transfer of ownership in a specific quantity of securities bearing a given identifier takes place without blocking them on the buyer's side in exchange for a transfer of cash in the amount resulting from the terms of the transaction;

33/ **derivatives transaction** – this shall be understood to mean a derivatives transaction defined in § 1 subpara. 47 of the Clearing Rules, whose standard terms are set out in Appendix 1 to the Detailed Rules of the OTC Clearing System;

34/ **repo transaction** – this shall be understood to mean a transaction defined in § 1 subpara. 48 of the Clearing Rules whose standard terms are set out in Appendix 2 to the Detailed Rules of the OTC Clearing System, comprised of an opening transaction and a closing transaction, provided that wherever a repo type transaction is mentioned, this shall be understood to mean also a sell/buy-back transaction unless the Detailed Rules of the OTC Clearing System provide otherwise;

35/ **sell/buy-back transaction** – this shall be understood to mean a transaction defined in § 1 subpara. 48 of the Clearing Rules whose standard terms are set out in Appendix 2 to the Detailed Rules of the OTC Clearing System, comprised of an opening transaction and a closing transaction;

36/ **sell transaction** – this shall be understood to mean a sell transaction of securities referred to in § 1 subpara. 22 of the Clearing Rules whose standard terms are set out in Appendix 1a;

37/ **closing transaction** – this shall be understood to mean a closing transaction which is part of, respectively, a repo transaction or a sell/buy-back transaction accepted for clearing in the OTC clearing system, on whose basis a return transfer of purchased securities in the same quantity and bearing the same identifier as the securities in the opening transaction takes place in exchange for a transfer of cash in the amount resulting from the terms of the repo transaction or the sell/buy-back transaction;

38/ **transaction with margin (TZD)** – this shall be understood to mean a transaction registered in the OTC clearing system, subject to current valuation, resulting in a counterparty to the clearing of the transaction being entitled to receive or obliged to return, respectively, the amount determined by KDPW\_CCP as a variation margin /VM/ in order to secure the obligations of the clearing counterparties;

39/ **transaction with settlement (TZD)** – this shall be understood to mean a transaction registered in the OTC clearing system, which is not a transaction with margin (TZD) according to the indication of the clearing member being its clearing counterparty, subject to current valuation, resulting in a counterparty to the clearing of the transaction being entitled or obliged to receive, respectively, the settlement amount determined by KDPW\_CCP in the current clearing of the transaction;

40/ **transaction verification** – this shall be understood to mean the process of checking a clearing instruction accepted to the OTC clearing system resulting in registration in the system of the transaction identified on the basis of the instruction or rejection of the clearing instruction, comprised of:

a) a check of correctness and compliance of the clearing instruction with the Clearing Rules and the Detailed Rules of the OTC Clearing System,

b) a check of the collateral limit set for the participant who is a clearing counterparty to the transaction identified on the basis of the instruction,

c) a check of the limit set by the participant in the client clearing account or in the collateral account assigned to the client clearing account or accounts, where the participant has set such limit;

41/ **PAI** – this shall be understood to mean the amount of interest calculated by KDPW\_CCP on the cumulative variation margin /CVM/ which a participant being a clearing counterparty to the relevant transaction with margin (TZD) designated by KDPW\_CCP is, respectively, entitled to receive or obliged to pay, calculated on each day R for clearing in a given currency;

42/ **PAA** – this shall be understood to mean the amount of payment calculated by KDPW\_CCP on the TZR cumulative settlement amount which a participant being a clearing counterparty to the relevant transaction with settlement (TZR) designated by KDPW\_CCP is, respectively, entitled to receive or obliged to pay, calculated on each day R for clearing in a given currency;

43/ **relevant depository system** – this shall be understood to mean the depository system referred to in § 1 point 2a and § 86 subpara. 1 point 2 of the Clearing Rules and in the OTC Guarantee Fund Rules, attached as Appendix 2 to the Clearing Rules, in which a relevant securities account is maintained for a participant or its collateral agent through which the clearing member performs the obligation of depositing securities as margins or contributions to the OTC guarantee fund of such participant, this being Clearstream or Euroclear;

44/ **marking to market (MtM)** – this shall be understood to mean the amount resulting from the current valuation of a transaction registered in the OTC clearing system, calculated by KDPW\_CCP on each day R relevant for clearing in a given currency during the netting session relevant to the transaction on the basis of interest rates applicable on that day according to the rules set out in Appendix 6;

45/ **service agreement** – this shall be understood to mean an agreement concerning the service of establishing collateral in favour of KDPW\_CCP, concluded with an entity operating the relevant depository system, respectively, by:

a) KDPW\_CCP and separately by individual clearing members – for Clearstream, or

b) individual clearing members or their collateral agents and KDPW\_CCP – for Euroclear;

46/ **services** – this shall be understood to mean services provided by the entity operating the relevant depository system under a service agreement;

47/ **foreign custodian** – this shall be understood to mean a collateral agent which is a participant of the settlement system operated by Clearstream, for which Clearstream operates a separate securities account in the system, in which only such securities are registered which are held by the KDPW\_CCP clearing member which is the agent's client.

## § 2

1. Orders and information referred to in the Clearing Rules or the Detailed Rules of the OTC Clearing System shall be provided in electronic form via the SWI system unless the Detailed Rules of the OTC Clearing System or the Clearing Rules provide otherwise.

2. Subject to subpara. 3, orders referred to in subpara. 1 shall be effective in the clearing system once KDPW\_CCP confirms their execution, unless the Detailed Rules of Transaction Clearing or the Clearing

Rules provide otherwise.

3. Orders referred to in subpara. 1 for the opening or closing of an account in the clearing system or for modification of account attributes or provision of additional information about the account shall be effective in the clearing system as of the day following the day when KDPW\_CCP confirms the execution of such orders.

### § 3

1. Orders, information or declarations submitted in writing according to a template specified by KDPW\_CCP may be originally drawn up in English, subject to § 6.

2. KDPW\_CCP shall publish templates of declarations and information referred to in subpara. 1 on its website.

### § 3a

1. In the cases referred to in the Clearing Rules, documents may be transmitted to KDPW\_CCP, at the election of the participant, by email over the internet to the email addressed provided by KDPW\_CCP on its website as dedicated for such purposes.

2. Participants using the method of document transmission referred to in subpara. 1 shall send documents from the email address previously provided to KDPW\_CCP in the list of the participant's authorised contact persons for KDPW\_CCP.

3. Documents sent according to subpara. 1 and subpara. 2 shall be deemed delivered at the time of receipt at the email address provided by KDPW\_CCP.

### § 3b

1. Participants may additionally encrypt documents sent to KDPW\_CCP via SWI or by email over the internet, subject to subpara. 2 and § 3c.

2. Document encryption referred to in subpara. 1 shall follow a method approved by KDPW\_CCP. KDPW\_CCP publishes the approved encryption methods and the description of document encryption procedures on its website.

### § 3c

Documents containing inside information within the meaning of Article 7 of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse, shall be marked by the participant as "inside information" and where they are sent to KDPW\_CCP via SWI or by email over the internet, they shall be additionally encrypted in accordance with § 3b subpara. 2.

## CHAPTER 2

### Participation in the OTC clearing system

### § 4

Participants may be informed of the content of resolutions adopted by the Supervisory Board of

KDPW\_CCP or the Management Board of KDPW\_CCP, which result in conclusion, amendment or termination of a participation agreement, and the content of other resolutions of those bodies concerning participants, using the SWI system.

#### § 5

A participant may submit a request to amend a participation agreement or to terminate it by mutual agreement of the parties. In that case, the participant shall specify in the request the date agreed on a working basis as of which the participation agreement is to be amended or terminated, respectively.

#### § 6

1. Subject to § 32 subpara. 6 of the Clearing Rules and subpara. 2 hereof, where documents required of participants or the applicant have been drawn up in a foreign language other than English, they should be submitted in Polish or English translation, written and endorsed by a certified translator.
2. An application for conclusion, amendment or termination of a participation agreement and a statement on submission of disputes to the jurisdiction of the competent court should be submitted in Polish, and in addition they may be submitted in an English language version, however, in such instances it should be declared that the Polish language document shall be deemed the definitive version.

#### § 7

1. Official documents delivered by participants or an applicant, which have been drawn up outside the Republic of Poland, should become legally authorised in accordance with the relevant legal regulations under which they have been drawn up, subject to the provisions of subpara. 2.
2. If an official document has been drawn up in a country which is a signatory of the Hague Convention of 5 October 1961 abolishing the requirement of legalisation of foreign public documents, such document should contain an apostille issued by the relevant authority of the country issuing the document.

#### § 8

1. If, as a part of its KDPW\_CCP participation, a participant intends to:
  - 1/ participate in clearing expressed in EUR;
  - 2/ deposit margins or contributions to the OTC guarantee fund in debt securities denominated in EUR, issued by European Union member states other than the Republic of Poland, but it does not attach the relevant documents, referred to in § 23 subpara. 2 points 3-4 or point 6 of the Clearing Rules, to the participation application, it should provide such documents to KDPW\_CCP before starting operation to such extent.
2. If, as a part of its KDPW\_CCP participation, a participant intends to submit to KDPW\_CCP, for clearing, repo type transaction and sell transactions, but it does not attach the following documents to the participation application:
  - 1/ a declaration indicating the bank account for the payment of:
    - a) cash debits and credits related to the applicant's participation in the settlement system, or

b) cash debits and credits related to the participation of the settlement agent indicated by the applicant in such system;

2/ a declaration referred to in § 23 subpara. 2 point 2 of the Clearing Rules, it should provide such documents before starting operation to such extent.

3. If a participant or its settlement agent settles its cash debits and credits through two or more bank accounts held in the clearing bank, it shall additionally indicate in the declaration referred to in § 23 subpara. 2 point 3 of the Clearing Rules which of the accounts is the primary account within the meaning of regulations issued by KDPW.

#### § 9

1. If there is a take-over of an enterprise, within the meaning of Article 55<sup>1</sup> of the Civil Code of 23 April 1964 (Journal of Laws from 1964, No. 16, item 93, as amended), or an organised part of such enterprise, whose operation is related to participation in the clearing system operated by KDPW\_CCP, in the form of a sale of the enterprise or its organised part between participants, those participants who are parties to the action leading to the take-over shall immediately notify KDPW\_CCP of this fact in a written application to which they shall attach documents that constitute the basis of the take-over of the enterprise or its organised part, as well as appropriate declarations in writing.

2. In the event referred to in subpara. 1, KDPW\_CCP shall, by joint request of the interested participants, set the date of the merger of their liabilities and receivables resulting from participation in the OTC clearing system (OTC clearing system merger date).

3. The OTC clearing system merger date shall be the date at the end of which KDPW\_CCP ceases to clear the transactions of the participant whose enterprise or its organised part has been taken over to the extent arising from the documents that constitute the basis of the take-over of the enterprise referred to in subpara. 1 or its organised part.

4. As of the OTC clearing system merger date, the status of clearing member, to the extent of the enterprise taken over referred to in subpara. 1 or its organised part, previously held by the participant whose enterprise or its organised part is being taken over, shall be transferred to the participant taking over the enterprise or its organised part.

5. The liabilities of a participant whose enterprise or its organised part is being taken over, resulting from transactions accepted for clearing to which the participant is a clearing counterparty and from its participation in the OTC clearing system to the extent of the enterprise taken over or its organised part, shall be a liability of the participant and the participant taking over the enterprise or its organised part acting jointly and severally.

#### § 10

1. In case of taking over all rights and obligations of a clearing member related to participation in the OTC clearing system as a result of, respectively, that member's merger with another entity, transborder merger with another entity, or split of the clearing member, the clearing member shall immediately notify KDPW\_CCP of the intention to merge or split and attach the merger plan or split plan agreed with the entity involved in the merger or split.



2. The clearing member which is the acquiring entity and the clearing member which is the acquired entity shall immediately notify KDPW\_CCP, and attach relevant documents, of:

1/ adoption by the competent body of a resolution concerning the merger or split, amendment of the articles of association or partnership agreement;

2/ no opposition raised by the competent body if the requirement to obtain the consent of such body derives from relevant provisions of the law;

3/ issue of a statement of competent bodies confirming that the merger or split conforms to the provisions of the law applicable to the clearing member or the entity involved in the merger or split if the requirement to obtain such statement derives from relevant provisions of the law;

4/ making an entry in the relevant register which has the effect of, respectively, a merger or split and, where other entries are made concurrently with or as a result of such entry, then also making such entries.

3. An entity which is not a participant of the OTC clearing system and takes over the rights and obligations of a clearing member shall, before starting activities in the system, deliver written powers of attorney or the declarations referred to in § 23 subpara. 1 points 3-6, § 24 subpara. 1 points 4-6 of the Clearing Rules and in § 26 subpara. 1 and other documents referred to in § 23 subpara. 1-4 and § 25 subpara. 1 of the Clearing Rules, if they have to be modified.

4. On the basis of information received from the clearing member or the entity involved in the merger or split, KDPW\_CCP shall determine the OTC clearing system merger date as of which it shall cease to clear transactions for the clearing member to the extent arising from documents which constitute the basis of the merger or split and the status of clearing member shall be transferred to the extent arising from, respectively, the merger or split.

#### § 10a

The provisions of § 9 and § 10 shall apply accordingly where the rights and obligations of a non-clearing member are taken over in cases referred to therein.

#### § 10b

1. KDPW\_CCP shall issue an identifier in the clearing system to each participant (institution code). Where an institution code is issued to a non-clearing member, the clearing member that represents it shall be notified of the code by KDPW\_CCP.

2. If the scope of activity of a clearing member in the OTC clearing system includes the clearing of derivative transactions, then each institution code shall be assigned an identifier which identifies the clearing member on an electronic platform. The identifier shall be provided by the clearing member in a written declaration submitted before it starts its activity to KDPW\_CCP according to a template defined by KDPW\_CCP or in instructions submitted to KDPW\_CCP.

### **CHAPTER 3**

#### **Account system**

##### § 11

1. The clearing account system shall comprise own position accounts and client position accounts, as well as collateral accounts assigned to them.
2. Own position accounts shall be used to register positions, operations and balances referred to in § 52 subpara. 1 of the Clearing Rules resulting from transactions concluded by the clearing member on own account which have been accepted for clearing in the OTC clearing system.
3. Client position accounts shall be used to register positions, operations and balances referred to in § 52 subpara. 1 of the Clearing Rules resulting from transactions accepted for clearing in the OTC clearing system which have been concluded by:
  - 1/ the clearing member on account of its clients;
  - 2/ another entity which is represented by the clearing member in clearing in the OTC clearing system.

##### § 12

1. An assigned collateral account shall be maintained for each clearing account, subject to subpara. 2.
2. One collateral account shall be assigned to clearing accounts marked with the same NKK number.

##### § 13

1. Clearing account attributes and client classification number (NKK) attributes are set out in Appendix 4.
2. The client classification number (NKK) shall be a clearing account attribute and a collateral account attribute.
3. The client classification number (NKK) may define only one collateral account maintained for a given participant.
4. If the client classification number (NKK) defines two or more clearing accounts, one collateral account maintained for the given participant shall be assigned to all such accounts and that client classification number (NKK) shall be its attribute.
5. Where a clearing member intends to represent in the OTC clearing system another entity which concludes transactions cleared in the OTC clearing system, it should open for such entity a separate clearing account marked with a client classification number (NKK), which shall identify exclusively that entity.

##### § 13a

1. KDPW\_CCP shall register entries in clearing accounts for each position including the following information:
  - 1/ identifier of the transaction registered in the OTC clearing system,
  - 2/ position indicator,
  - 3/ transaction price and position value in each currency,
  - 4/ quantity of financial instruments in the transaction, including the quantity of securities in the

- transaction – for a sell transaction or a repo type transaction,  
5/ ISIN code issued by KDPW to securities referred to in point 4,  
6/ identifier of the platform on which the transaction was concluded,  
7/ transaction expiry date and time - for a derivatives transaction.
2. KDPW\_CCP shall update the information referred to in subpara. 1 immediately on any change.
3. The provisions of subpara. 1 shall apply accordingly to registration of a transfer of positions whereby entries referred to in subpara. 1 in the clearing account of the participant transferring the positions shall be registered in the clearing account of the participant receiving such positions.
4. If, according to clearing members' instructions, a transfer of positions concerns positions registered in a clearing account at the time of submission of matching transfer instructions, KDPW\_CCP shall register the time separately in the account system and inform the participants which submit such instructions thereof.

#### § 13a<sup>1</sup>

1. If derivative transactions are registered in a clearing account, then each client classification number (NKK) which is an attribute of the account shall be assigned an identifier which identifies the clearing member or its client on an electronic platform.
2. The identifier referred to in subpara. 1 shall be provided by the clearing member in instructions submitted to KDPW\_CCP, subject to subpara. 3.
3. If the clearing member fails to assign the identifier referred to in subpara. 1 to the client classification number (NKK), the identifier assigned to the member's institution code shall be deemed to be such identifier.

#### § 13b

1. KDPW\_CCP shall register in collateral accounts information concerning:
- 1/ the amount of cash deposited in PLN or EUR credited as margins,
  - 2/ the value of securities denominated in PLN or EUR credited as margins,
  - 3/ the quantity of securities denominated in PLN and their ISIN code issued by KDPW;
  - 4/ the amount of cash deposited in PLN or EUR credited as contributions to the OTC guarantee fund;
  - 5/ the value of securities denominated in PLN or EUR credited as contributions to the OTC guarantee fund;
  - 6/ the quantity of securities denominated in PLN and their ISIN code issued by KDPW;
  - 7/ the value of the variation margin and the value of entitlements calculated on the variation margin.
2. KDPW\_CCP shall update the information referred to in subpara. 1 immediately on any change.
3. The provisions of subpara. 1 shall apply accordingly to registration of a transfer of positions and collateral whereby entries referred to in subpara. 1 in the collateral account of the participant transferring the positions shall be registered in the collateral account of the participant receiving such positions.

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<sup>1</sup> added according to the Resolution No. 33/18 of the KDPW\_CCP S.A. Management Board dated 8 October 2018 amending the Detailed Rules of the OTC Clearing System

## § 13c

Subject to § 13a subpara. 1 and § 13b subpara. 1, KDPW\_CCP shall register the following information in the OTC clearing system:

- 1/ the date and time of registration of a transaction in the clearing system;
- 2/ the detailed terms of a derivatives transaction, including the nominal value, the transaction currency, the underlying and the reference rate,
- 3/ the transaction clearing mode,
- 4/ the terms and conditions of transaction settlement,
- 5/ the transaction settlement date,
- 6/ the date and time of conclusion of the original transaction,
- 7/ the original terms and counterparties of the contract,
- 8/ the identifiers of the clearing members participating in the position transfer,
- 9/ the identifier of the non-clearing member whose positions have been transferred in the position transfer,
- 10/ the position transfer date and time,
- 11/ the number of transferred positions,
- 12/ the date of entry of the position transfer instructions into the clearing system,
- 13/ the date of sending KDPW\_CCP's confirmation that submitted position transfer instructions match,
- 14/ the prices, interest rates or other indicators used to calculate the value of the position in derivatives transactions.

## § 13d

1. KDPW\_CCP shall register in the OTC clearing system each transaction with margin (TZD) or transaction with settlement (TZR) according to the indication of a clearing member being its clearing counterparty for a given clearing account subject to subpara. 3.
2. Subject to § 62a subpara. 1 point 2, a clearing member may, after opening a clearing account but no later than the day preceding the day when positions are first registered in such account, indicate that only transactions with settlement (TZR) are to be registered in such account. The indication shall be made by providing KDPW\_CCP with an order according to a template defined by KDPW\_CCP. The order shall cover all transactions to be registered in the indicated clearing account and it shall be valid until the relevant clearing account is closed. Orders delivered after the time limit set in this subpara. or delivered at the conversion date referred to in § 62d or prepared in breach of the Detailed Rules of the OTC Clearing System, shall not be accepted for execution.
3. If a clearing member fails to indicate in the manner and within the time limit referred to in subpara. 2 or in Chapter 13 that only transactions with settlement (TZR) are to be registered in an opened clearing account, this shall mean that only transactions with margin (TZD) shall be registered in such account.
4. In a submitted order, referred to in subpara. 2, the clearing member shall make a declaration to the effect that each transaction sent to the clearing account indicated by the clearing member is to be a transaction with settlement (TZR) and if a transaction with margin (TZD) is sent as a result of a transfer

of positions, it shall be converted into a transaction with settlement (TZR) according to Chapter 13, and the clearing member shall:

- 1/ ensure that the terms of each transaction to be registered in such account in connection with the calculation of the TZR settlement amount, the TZR cumulative settlement amount and PAA, referred to in § 1 point 42, comply with the Detailed Rules of the OTC Clearing System, and confirm that the registration of a transaction in the OTC clearing system as a TZR transaction is not in breach of the terms on which the transaction sent for clearing was concluded, and that such terms comply with the Detailed Rules of the OTC Clearing System;
- 2/ ensure that transactions with settlement (TZR) are sent for clearing only to the clearing account dedicated to such transactions;
- 3/ not modify or cancel a submitted order within the lifetime of the clearing account concerned by such order, and consequently waive the right to modify or cancel such order.

#### **CHAPTER 4**

##### **Opening and closing clearing accounts and collateral accounts**

###### § 14

The first own position clearing account shall be opened on the basis of an account opening order delivered by the clearing member before starting operation in the OTC clearing system, which specifies the account attributes, where the type of account which the participant may open depends on the status held by the member in the clearing system, including the type of operation.

###### § 15

1. A clearing member may open client position accounts provided that an own position account is first opened.
2. Client position accounts shall be opened:
  - 1/ for clearing of transactions concluded by a clearing member on account of its clients – on the basis of a client position account opening order delivered by the clearing member to KDPW\_CCP before that member starts activities in the OTC clearing system in the type of participation for which the client position account is to be opened;
  - 2/ for clearing of transactions concluded by another entity which is represented by the clearing member in clearing in the OTC clearing system – on the basis of the declaration referred to in § 25 subpara. 1 of the Clearing Rules and an account opening order delivered by the clearing member to KDPW\_CCP before such transactions are sent for clearing in the OTC clearing system.
3. In the client position account opening order, the clearing member shall define in the account attributes including the client classification number (NKK).
4. [revoked]

###### § 15a

1. For the clearing of transactions concluded by an entity represented by a clearing member in clearing in

the OTC clearing system, the member shall apply for the opening of a clearing account referred to in § 13 subpara. 6 before such transactions are sent for clearing in the OTC clearing system.

2. A clearing account shall be opened in the event referred to in subpara. 1 based on the declaration referred to in § 25 subpara. 1 and § 26 subpara. 1 of the Clearing Rules and an account opening order delivered by the clearing member to KDPW\_CCP.

3. The clearing member shall specify in the declaration referred to in subpara. 1 the client classification number (NKK) defined for the entity referred to in subpara. 1.

#### § 16

[revoked]

#### § 17

1. In order to close a clearing account, the clearing member shall deliver to KDPW\_CCP an account closing order wherein it shall specify the identifier of the clearing account to be closed.

2. Subject to subpara. 3, a clearing account shall be closed on the day when the clearing member submits an account closing order provided that:

1/ on the account closing day, no positions, operations or balances referred to in § 52 subpara. 1 of the Clearing Rules are registered in the account,

2/ on the account closing day, no assets deposited as margins are registered in the collateral account assigned to it,

3/ by the day on which the account is to be closed, KDPW\_CCP has not received any clearing instructions designating this account for clearing in the OTC clearing system.

3. The clearing account closing date shall be no earlier than the day following the day when the order referred to in subpara. 2 is delivered to KDPW\_CCP. If the condition is not met, the order shall be executed on day R following the day of its submission to KDPW\_CCP.

4. KDPW\_CCP shall close a clearing account and concurrently close the collateral account assigned to that clearing account unless the collateral account is assigned to other clearing accounts.

5. KDPW\_CCP shall send to the clearing member information that the clearing account has been, respectively, opened or closed which specifies the account identifier.

#### § 18

[revoked]

#### § 19

[revoked]

### CHAPTER 5

#### Setting limits of clearing accounts or collateral accounts

#### § 20

1. A limit of a collateral account assigned to a client position account or accounts shall be set on the basis

of an order delivered by the clearing member to KDPW\_CCP which specifies:

- 1/ the collateral account identifier;
- 2/ the type of limit: binding or for information;
- 3/ the account limit.

1a. The provisions of subpara. 1 shall apply accordingly where a limit referred to in § 51 of the Clearing Rules is set for a clearing account and where an information limit is set for a clearing account.

2. Setting a binding limit in an account shall mean that transactions concluded by an entity referred to in subpara. 1 shall not be accepted in the OTC clearing system where the participant which set the limit for the account became their clearing counterparty if its conclusion of the transaction caused a breach of the limit.

3. Setting a limit for information in an account shall mean that, once the account limit is exceeded as a result of acceptance of a transaction for clearing in the OTC clearing system, the member shall be immediately notified thereof.

#### § 21

The limits referred to in § 20 shall be set in relation to the amount of margins required of the participant securing:

- 1/ positions registered in a clearing account – for a limit set for the clearing account,
- 2/ positions registered in a clearing account or accounts to which the same collateral account is assigned – for a limit set for a collateral account

as well as the marking-to-market amount determined for such positions.

#### § 22

In order to lift or modify a limit of a collateral account or a limit of a clearing account, the clearing member shall deliver to KDPW\_CCP, respectively, an order to lift or modify the limit. The provisions of § 20 subpara. 1 shall apply accordingly.

#### § 23

KDPW\_CCP shall enter into the OTC clearing system an order to, respectively, set, lift or modify a limit referred to in § 20 subpara. 1 or subpara. 1a immediately upon its delivery.

### **CHAPTER 5a**

#### **Designation of a clearing account as the default account**

##### § 23a

1. Clearing members may designate a clearing account as the default account to be used where clearing instructions concerning a derivative transaction concluded for the own account of the clearing member indicates no clearing account maintained in the OTC clearing system for the member. To make such designation, clearing members shall provide KDPW\_CCP with a declaration according to a template defined by KDPW\_CCP which shall designate a clearing account as the default account for the

registration in the clearing system of derivative transactions concluded for the own account of the clearing member.

2. The declaration referred to in subpara. 1 shall be effective as of the next day after submission to KDPW\_CCP.

3. Clearing members may cancel the designation of a clearing account as the default account. The provisions of subpara. 1 and 2 shall apply accordingly to any such cancellation.

## **CHAPTER 6**

### **Clearing transactions**

#### § 24

Clearing of transactions in the OTC clearing system shall be performed separately for transactions for which payments, according to the terms of the transactions, are expressed in another currency.

#### § 25

1. KDPW\_CCP shall accept transactions for clearing in the OTC clearing system on every day R relevant to clearing in a given currency during a clearing session relevant to such transactions.

2. KDPW\_CCP shall perform netting in a netting session for transactions for which payments are expressed in a given currency on every day R relevant to clearing in a given currency.

3. The timetable of clearing sessions and the netting sessions for individual transactions as well as the number of sessions are set out in Appendix 5.

4. KDPW\_CCP shall accept to the OTC clearing system clearing instructions delivered in electronic form by the entity operating an electronic platform, in the form and structure agreed with that entity.

#### § 26

1. Transaction verification shall take place upon delivery of a clearing instruction to the OTC clearing system on day R for the clearing of transactions concerned by the instruction, during a clearing session relevant to such transaction.

2. As a result of transaction verification, KDPW\_CCP shall assign the transaction a number and subsequently register the transaction in the clearing account specified in the clearing instruction, within the time limit set in § 57 subpara. 2 of the Clearing Rules, or reject the clearing instruction.

3. The information provided by KDPW\_CCP to a clearing member according to § 57 subpara. 2 of the Clearing Rules which confirms the registration of a transaction shall specify:

1/ the time of registration of the transaction in the OTC clearing system;

2/ the designation of positions resulting from the transaction registered in the clearing account;

3/ the identifier of the clearing account in which the positions referred to in point 1 are registered;

4/ the amount of required collateral determined for positions registered in clearing accounts assigned to the collateral account.

4. If a transaction is not accepted for clearing, KDPW\_CCP shall provide the participant with information which shall specify:



- 1/ the designation of the clearing instruction;
  - 2/ the statement of reasons for which the clearing instruction has been rejected.
5. Where clearing instructions under verification concerning a derivative transaction fail to identify a clearing account and the clearing member holding the status of clearing member for the transaction has designated a clearing account for such purpose according to § 23a and has not cancelled the designation, then:
- 1/ the clearing member shall be deemed to have designated a clearing account as the default account for such transaction;
  - 2/ KDPW\_CCP shall register such transaction in the clearing account designated as the default account.

#### § 27

1. KDPW\_CCP shall take actions, defined in § 49 subpara. 1 of the Clearing Rules, in order to make cash payments resulting from the clearing of derivatives transactions on day R relevant to clearing in a given currency preceding the day on which such payments should be made.
2. A settlement order for a repo type transaction or a sell transaction sent by KDPW\_CCP to the settlement system shall specify the settlement accounts specified in the clearing instruction. If the clearing instruction does not specify an account for the settlement of the transaction and the transaction is settled in KDPW, KDPW\_CCP shall specify in the settlement order the default account within the meaning of regulations issued by KDPW, maintained for a participant holding the status of clearing member for such transaction or for its settlement agent.
3. Cash payments resulting from the clearing of derivatives transactions shall be settled by, respectively, debiting or crediting the bank account designated by the clearing member according to § 23 subpara. 2 point 3 of the Clearing Rules.

#### § 28

The amount of cash receivables referred to in § 59 subpara. 7 of the Clearing Rules shall be calculated separately for each opening transaction.

#### § 29

A clearing member shall ensure timely settlement of liabilities resulting from the clearing of a transaction or the contribution of required collateral by means of crediting the bank account in a given currency designated according to § 23 subpara. 2 point 3 of the Clearing Rules with amounts necessary to settle its liabilities resulting from participation in the OTC clearing system on the date of, respectively, the settlement of the opening or the closing transaction, the sell transaction, or the date of the cash payments resulting from the clearing of derivatives transactions.

#### § 30

On every day R, KDPW\_CCP shall issue and deliver to clearing members information including without limitation:

- 1/ a list of positions registered in all clearing accounts maintained for the member on the given day R;

- 2/ a list of positions registered in clearing accounts maintained for the member whose interest coupons are settled on day R;
- 3/ a list of positions registered in clearing accounts maintained for the member netted according to § 61 subpara. 1 of the Clearing Rules, on the terms laid down in Chapter 9, and the surplus remaining after netting them;
- 4/ the amount of marking to market (MtM) calculated on day R for each position registered in a clearing account;
- 5/ a list of liabilities and receivables resulting from the current clearing of transactions in a given currency;
- 6/ a list of balances of securities contributed as margins, denominated in individual currencies;
- 7/ a list of balances of securities contributed to the OTC guarantee fund, denominated in individual currencies;
- 8/ the amount of required margins;
- 9/ the amount of interest coupons calculated on day R for positions registered in clearing accounts maintained for the member;
- 10/ PAI and PAA calculated on the given day R;
- 11/ adjustment amounts calculated on the given day R for the relevant clearing counterparty;
- 12/ the amount of cash in PLN contributed by the member as margins;
- 13/ the amount of securities contributed by the member and credited to margins;
- 14/ the amount of cash credited to margins.

#### § 31

On every day R relevant for a given currency, KDPW\_CCP shall calculate the liabilities and receivables resulting from the current clearing for every transaction with settlement (TZR) or transaction with margin (TZD) expressed in such currency and registered in the OTC clearing system, and notify the clearing members for such transactions thereof.

#### § 32

1. KDPW\_CCP shall perform cash netting separately for debits and credits arising from transactions for which payments are expressed in different currencies, subject to subpara. 2.
2. Netting referred to in subpara. 1 for transactions for which payments are expressed in PLN shall additionally include:
  - 1/ amounts calculated according to § 31 including interest coupons, TZR settlement amounts, variation margins /VM/, PAI and PAA;
  - 2/ adjustment amounts;
  - 3/ amounts paid to update the initial margin;
  - 4/ amounts paid to update the OTC guarantee fund;
  - 5/ cash liabilities resulting from the valuation of financial instruments recognised as contribution to the OTC guarantee fund;
  - 6/ amounts paid to update the additional margin.

**§ 33**

1. On every day R, KDPW\_CCP shall perform the valuation of transactions which are a transaction with margin (TZD) or transaction with settlement (TZR) according to the Detailed Rules of the OTC Clearing System and the terms of the transaction.
2. The detailed rules of the valuation of transactions referred to in subpara. 1 are set out in Appendix 6.
3. KDPW\_CCP shall provide clearing members, on request, with the valuation of transactions they send for clearing, including the prices, interest rates or other indicators, referred to in § 13c subpara. 14, used by KDPW\_CCP to calculate the value of positions in derivatives transactions.

**§ 33a**

1. KDPW\_CCP shall determine the TZR settlement amount for each transaction with settlement (TZR) on each day R during the netting session and notify the clearing member being the clearing counterparty thereof.
2. PAA shall be calculated for a given clearing counterparty on each day R for the clearing of transactions with settlement (TZR) starting on the day following the day of the registration of the transaction in the OTC clearing system or following the conversion date, until the day up to which the clearing member is entitled to dispose of resulting amounts, inclusive.
3. PAA shall be calculated for a period equal to the number of calendar days between day R when the calculation is performed (inclusive) and day R+1 (exclusive) for the clearing of transactions with settlement (TZR) using the POLONIA interest rate for transactions with settlement (TZR) cleared in PLN and the EONIA rate for transactions with settlement (TZR) cleared in EUR.

**§ 33b**

After the end of the netting session on each day R, the marking to market (MTM) of transactions with settlement (TZR) shall be equal to 0, which shall be without prejudice to the obligation of each counterparty to the clearing of that transaction to execute payments determined until the end of the netting session.

**CHAPTER 7****Repo type transactions for which KDPW\_CCP is the electronic platform and sell transactions****§ 34**

The provisions of Chapter 6 shall apply to repo type transactions, subject to the following provisions.

**§ 35**

1. KDPW\_CCP shall make confirmation of, respectively, a repo type transaction during the relevant clearing session performed for such transaction on each day R, upon the delivery of matching confirmation instructions concerning the transaction.
2. Confirmation shall be made separately for each repo type transaction.
3. Confirmation instructions may be delivered to KDPW\_CCP on every day R. If a confirmation instruction

is delivered after the close of the relevant clearing session performed for the repo type transaction concerned by the instruction, its confirmation shall take place on the opening of the next clearing session performed for such transaction in order to clear, respectively, the repo type transaction.

### § 36

1. Confirmation shall take place by means of pairing matched confirmation instructions delivered by clearing members upon the delivery of a confirmation instruction by the other clearing counterparty of, respectively, the repo type transaction concerned by the delivered instructions.

2. A confirmation instruction shall contain:

1/ designations of the operation concerned by the delivered confirmation instruction:

- a) market code – OC;
- b) operation type – TR;
- c) trading mode – ZG;

2/ designation of the transaction type, as follows:

- a) repo transaction – R1;
- b) sell/buy-back transaction – R4;

3/ securities identifier (ISIN);

4/ quantity of securities;

5/ date of the transaction, provided that the date of the transaction may not be specified later than the opening transaction settlement date;

6/ settlement date of the opening transaction of the repo type transaction;

7/ settlement date of the closing transaction of the repo type transaction;

8/ value of the opening transaction and value of the closing transaction of the repo type transaction;

9/ code of the transaction currency of clearing and subsequent settlement;

10/ shared identifier assigned by each counterparty to the clearing of the transaction concerned by the confirmation instruction, if specified by either counterparty;

11/ number of the account maintained in the settlement system in which non-cash payments are to be settled in the system arising from the transaction concerned by the delivered confirmation instruction;

12/ number of the clearing account maintained in the OTC clearing system for the clearing member delivering the confirmation instruction in which the transaction is to be registered;

13/ individual instruction identifier assigned by the clearing member delivering the confirmation instruction.

3. Confirmation instructions shall be deemed to match if they contain mutually matching information referred to in subpara. 1 points 1-10, subject to subpara. 4.

4. Confirmation instructions shall also be deemed to match if matching confirmation instructions do not specify:

1/ date of the transaction – this shall mean that the date of the transaction is the date of confirmation of the instructions and KDPW\_CCP shall be authorised to complete the date in the clearing instruction on behalf of the clearing member;

2/ designations of the operation referred to in subpara. 2 point 1 letter (b) or (c) – in that case,

KDPW\_CCP shall be authorised to complete such designations in the clearing instruction on behalf of the clearing member.

5. If delivered confirmation instructions match, KDPW\_CCP shall declare the clearing instruction to be introduced to the OTC clearing system and verify the transaction concerned by the matching instructions and assign an identifier in the OTC clearing system to the repo type transaction.

#### § 37

1. A confirmation instruction delivered by a clearing member to KDPW\_CCP which has not been matched with another confirmation instruction may be cancelled by the clearing member, subject to subpara. 2.

2. A confirmation instruction shall not be cancelled after a confirmation instruction to be matched with it has been delivered to KDPW\_CCP.

3. A request of a clearing member to cancel a confirmation instruction shall be made by means of introducing a technical instruction of the clearing member to the OTC clearing system which clearly identifies the confirmation instruction to be cancelled.

4. If a confirmation instruction or a technical instruction referred to in subpara. 1 has been delivered to KDPW\_CCP after the close of the relevant clearing session, KDPW\_CCP shall, at the next clearing session relevant to the repo type transaction concerned by the delivered instruction, perform operations in the order of instructions introduced to the OTC clearing system which concern the transaction.

#### § 38

A confirmation instruction shall be removed from the OTC clearing system if:

1/ it does not contain all required information referred to in § 36 subpara. 2;

2/ information contained in the instruction becomes obsolete as the instruction awaits it the system;

3/ KDPW\_CCP concludes as a result of confirmation that the delivered confirmation instruction does not match another confirmation instruction, which shall also be removed for that reason.

#### § 39

Delivery by clearing members of matching confirmation instructions shall mean that the clearing members confirm that a repo type transaction has been concluded on the terms defined in the instructions.

#### § 40

Any amendment or modification of a confirmation instruction delivered to KDPW\_CCP shall require its cancellation according to § 37 and delivery of an amended or modified confirmation instruction.

#### § 41

1. The settlement date specified in the clearing instruction for the opening transaction and the closing transaction shall not be the same date.

2. The settlement date of liabilities resulting from a transaction sent for clearing in the OTC clearing system specified in the clearing instruction concerning such transaction shall be no earlier than the

registration date of the transaction in the OTC clearing system.

3. Instructions which do not meet the conditions set out in subpara. 1 or 2 shall be rejected in the system.

4. The closing transaction shall be settled on the date specified in the clearing instruction issued by KDPW\_CCP according to § 66 of the Clearing Rules.

#### § 42

1. KDPW\_CCP shall send settlement orders for the sell transaction and the opening transaction and the closing transaction to the settlement system on day R preceding the day specified in the clearing instruction on which the transactions are to be settled under the regulations governing the system, subject to subpara. 2.

2. If an opening transaction is to be settled in a settlement system on its registration date in the OTC clearing system (R+0), KDPW\_CCP shall send the transaction settlement order on that day to the next settlement session performed in the multi-session system following the registration of the transaction in the OTC clearing system provided that the clearing instruction concerning such transaction is delivered during a clearing session, no later than 15:30h CET on that day.

3. KDPW\_CCP shall send settlement orders, for respectively, the closing transaction or the opening transaction which is to be settled in the settlement system after its registration date in the OTC clearing system and specify therein that such transactions should be settled together with a cash payment in the amount of the cumulative variation margin /CVM/ for the opening transaction or the closing transaction, respectively.

4. If a transaction referred to in subpara. 3 is not settled on due date and, as a result, the cash payment in the amount referred to in subpara. 3 is not made on that date, then on the following day R, KDPW\_CCP shall perform marking to market (MtM) and adjust the payment with the variation margin /VM/ calculated on that day for that transaction.

### **CHAPTER 8**

#### **Transaction reports**

#### § 43

KDPW\_CCP shall send transaction reports to the trade repository for entities subject to the reporting obligation according to the applicable legal provisions other than KDPW\_CCP immediately upon the clearing of transactions, subject to the fulfilment of the conditions referred to in § 44.

#### § 44

1. Subject to subpara. 3-6, KDPW\_CCP shall send transaction reports for entities subject to the reporting obligation according to the applicable legal provisions other than KDPW\_CCP provided that the clearing member designates KDPW\_CCP in the declaration referred to in § 24 subpara. 1 point 6 of the Clearing Rules as the entity to report transactions to the relevant trade repository and subsequently designates for this purpose, according to the procedure referred to in subpara. 2, the accounts to be reported.

2. The account shall be designated in in the account opening application or, if the account was opened earlier, send for this purpose to KDPW\_CCP a message in the form and structure defined by KDPW\_CCP on its website.

3. If a participant delegates to KDPW\_CCP reporting of transactions to a trade repository for clearing accounts indicated by the participant, such accounts shall be defined by the participant by means of the client classification number (NKK) only for one client of the participant.

4. KDPW\_CCP shall report transactions provided that additional information referred to in § 44a subpara. 1-2 is received for each clearing account, where reporting of such information to a trade repository is mandatory according to the applicable legal provisions and the rules defined by the trade repository to which such information is to be reported. KDPW\_CCP shall publish the valid trade repository rules on its website or indicate the place of publication of such rules and their amendments.

5. KDPW\_CCP shall report transactions registered in clearing accounts defined according to the procedure referred to in subpara. 1-4 and KDPW\_CCP assumes that every transaction registered in such accounts, which meets the reporting obligation criteria laid down in regulations, is subject to the obligation of reporting to the trade repository according to the applicable legal provisions.

6. If a clearing member has not concluded an OTC transaction but has become a clearing counterparty to such transaction by representing in clearing another entity that has concluded the transaction on that market, KDPW\_CCP shall report transactions for:

1/ that member – provided that:

a) it specifies KDPW\_CCP as the reporting entity in the declaration referred to in § 24 subpara. 1 point 6 of the Clearing Rules,

b) it has a LEI or pre-LEI,

c) it provides all information concerning the entity as required according to the declaration template referred to in item (a);

2/ entities subject to the reporting obligation according to the applicable legal provisions other than KDPW\_CCP and that member – subject to the fulfilment of the conditions referred to in subpara. 1-5 and, if KDPW\_CCP is to report transactions to the trade repository for an entity acting as a client's intermediary without becoming a clearing counterparty of transactions subject to the reporting obligation according to the applicable legal provisions and such transactions are to be registered in a clearing account opened by the clearing member for the client for which the entity acts as an intermediary, then provided that the member designates that entity in the declaration referred to in § 24 subpara. 1 point 6 of the Clearing Rules and provides all information concerning the entity as required according to the declaration template.

#### § 44a

1. A clearing member that completes the actions referred to in § 44 subpara. 1 shall provide KDPW\_CCP with the following information for the reporting of transactions:

1/ whether the client classification number (NKK) has been assigned to a client subject to the reporting obligation according to the applicable legal provisions (such information shall be provided according to the rules defined by the trade repository to which transactions are reported);

- 2/ LEI or pre-LEI of the client assigned the client classification number (NKK);
- 3/ identifier of the client assigned the client classification number (NKK) as financial/non-financial counterparty within the meaning of Article 2(8) or Article 2(9) of EMIR, respectively – not applicable where that person is a participant;
- 4/ the trading capacity of the client assigned the client classification number (NKK) for the clearing account – if the client is a counterparty to transactions registered in the account;
- 5/ whether the client/counterparty is established outside EEA - not applicable where that person is a participant;
- 6/ LEI or pre-LEI of the entity acting as the client's intermediary without becoming a transaction counterparty;
- 7/ identifier of the final beneficiary on whose order transactions registered in the clearing account are concluded but who is not a direct counterparty to such transactions – if transactions are concluded by the client for another entity;
- 8/ whether transactions registered in the clearing accounts are objectively measurable as reducing risks directly relating to the commercial activity or treasury financing activity of the client, as per Article 10(3) of EMIR – not applicable to a client that is a financial counterparty within the meaning of Article 2(8) of EMIR;
- 9/ whether the client has crossed the clearing threshold as per Article 10(2) of EMIR – not applicable to a client that is a financial counterparty within the meaning of Article 2(8) of EMIR;
- 10/ whether collateral has been deposited for the clearing member and, where its client has concluded the transaction, also for the client;
- 11/ whether portfolio collateral has been deposited for the clearing member and, where its client has concluded the transaction, also for the client;
- 12/ portfolio code for which collateral was deposited for transactions registered in the clearing account – where portfolio collateral is deposited for the clearing member and, where its client has concluded the transaction, also for the client;
- 13/ value of collateral deposited for the clearing member and, where its client has concluded the transaction, also for the client (where portfolio collateral is deposited, the value of all collateral deposited for the portfolio shall be specified);
- 14/ currency of the collateral for transactions registered in the clearing account –deposited for the clearing member and, where its client has concluded the transaction, also for the client;
- 15/ whether transactions registered in the clearing account are intragroup transactions within the meaning of Article 3 of EMIR.

2. The clearing member shall specify in the declaration referred to in § 24 subpara. 1 point 6 of the Clearing Rules its LEI or pre-LEI together with other information as required according to the declaration template and in addition, if it has completed the actions referred to in § 44 subpara. 1 and transactions are to be reported for own position accounts, additionally the information referred to in subpara. 1 points 6 and 15.

3. A clearing member shall provide KDPW\_CCP with the information referred to in subpara. 1 points 1-12 and point 15 separately for each clearing account by sending to KDPW\_CCP a message in the form and



structure defined by KDPW\_CCP on its website.

4. If a clearing member specifies KDPW\_CCP in the declaration referred to in § 24 subpara. 1 point 6 of the Clearing Rules, KDPW\_CCP shall start sending transaction reports to the trade repository on day R following the day when all of the following conditions are met:

- 1/ the participant provides the information referred to in subpara. 1 to KDPW\_CCP, and
- 2/ the participant designates accounts according to § 44 subpara. 1 and 2.

#### § 44b

1. Subject to subpara. 2, KDPW\_CCP shall send transaction reports to the trade repository including all transaction information required according to the applicable legal provisions including the information:

- 1/ included in the clearing instruction and the declaration referred to in § 24 subpara. 1 point 6 of the Clearing Rules;
- 2/ if the clearing member completes the actions referred to in § 44 subpara. 1 and provided KDPW\_CCP with the information referred to in § 44a – also that information.

2. If the clearing member fails to provide all information referred to in subpara. 1, KDPW\_CCP shall send to the trade repository transaction reports including the information it has received, unless information not provided by the participant is required according to the applicable legal provisions including the provisions of the Commission Implementing Regulation (EU) No 1247/2012 of 19 December 2012 laying down implementing technical standards with regard to the format and frequency of trade reports to trade repositories (Official Journal of the EU L 352 from 2012, p. 20) as well as the rules defined by the trade repository to which such information shall be reported. If the clearing member fails to provide all information referred to in subpara. 1 and KDPW\_CCP sends to the trade repository transaction reports which do not include certain required information, KDPW\_CCP shall not be liable to the participant for rejection of such reports by the trade repository.

3. KDPW\_CCP shall inform the clearing members on its website of the terms of assignment, according to the applicable legal provisions and the rules defined by the trade repository, of transaction reference numbers (TRN) and unique transaction identifiers (UTI) included in transaction reports sent to the trade repository.

#### § 44c

On written request of a clearing member that fulfils the conditions referred to in § 44, KDPW\_CCP shall, at the end of each quarter, provide a declaration of performance, according to the applicable legal provisions, of the obligation of reporting transactions to a trade repository for the transactions indicated by the member in the request.

### **CHAPTER 9**

#### **Cancelling opposite positions**

#### § 45

1. KDPW\_CCP shall cancel opposite positions registered in a clearing account on the basis of a message

received from the clearing member, in the form and structure defined by KDPW\_CCP on its website, which specifies the identifier of the clearing account maintained for the member in which opposite positions are to be cancelled.

2. Cancellation referred to in subpara. 1 shall be performed during each netting session following the close of a clearing session.

3. KDPW\_CCP shall start cancelling transactions registered in the account specified in the message referred to in subpara. 1 as of the day of receipt of the message, subject to subpara. 4.

4. If the message referred to in subpara. 1 is submitted after the start of a netting session, the provisions of subpara. 3 shall apply provided that it is still technically feasible, taking into account the session timetable. If the condition is not met, KDPW\_CCP shall start cancelling transactions as of the day following the day of receipt of the message.

5. KDPW\_CCP shall stop cancelling transactions in the clearing account as of the day of receipt of the clearing member's message requesting that cancellation of positions should end, in the form and structure defined by KDPW\_CCP on its website, which specifies the identifier of the clearing account concerned by the request. Subpara. 3 shall apply accordingly to the position cancellation end date.

#### § 46

1. Opposite positions shall be cancelled on a FIFO (first in first out) basis. This means that:

1/ if more than one opposite position registered in a clearing account specified by the clearing member fulfils the cancellation criteria, those positions which were registered in the clearing account first shall be cancelled first;

2/ if it is not possible to cancel the entire value of a position, KDPW\_CCP shall cancel it to the extent possible and concurrently change the value of positions registered in the clearing account.

2. KDPW\_CCP shall notify the clearing member of performed cancellation referred to in subpara. 1 by sending, before the end of the relevant netting session, information which specifies the positions cancelled in full and the positions cancelled in part.

### **CHAPTER 10**

#### **Collateral**

#### § 47

1. Margins shall secure the liabilities of the participant who deposits the margins, which arise from the clearing member status held by the participant, including both liabilities which arise before the margins are deposited and liabilities which arise after the margins are deposited.

2. Margins shall be established on the day they are deposited according to the provisions of Title V Section IV "Transaction Clearing Liquidity Guarantee System" of the Clearing Rules and the Detailed Rules of Transaction Clearing, and shall expire on 1 January 2100, subject to subpara. 3-5.

3. The term of a margin set in subpara. 2 may change prior to expiry.

4. A margin shall also expire on the day of:

- 1/ termination of participation in the OTC clearing system, provided that positions in clearing accounts maintained for the entity whose participation is to expire have been cancelled or it has performed all obligations arising from participation in the system; or
  - 2/ KDPW\_CCP has returned assets deposited as a margin according to the provisions of Title V Section IV “Transaction Clearing Liquidity Guarantee System” of the Clearing Rules and this Chapter, up to the amount of returned assets.
5. The law governing the establishment of collateral in securities registered in the relevant depository system and governing contributions of such securities shall be:
- 1/ the applicable law in the state of the registered office of Clearstream – for securities registered in an account with Clearstream, or
  - 2/ the applicable law in the state of the registered office of Euroclear – for securities registered in an account with Euroclear.

#### § 47a

1. KDPW\_CCP shall, on each day R, calculate the amount of relevant margins required from each clearing member in PLN according to the calculation algorithm referred to in Appendix 6, using the following risk parameters to ensure stable and prudent estimation of margin requirements:
  - 1/ confidence interval not lower than 99.5%,
  - 2/ position liquidation period not shorter than five working days,
  - 3/ market data lookback window of at least the last 12 months.KDPW\_CCP shall publish on its website the determined risk parameters referred in points 1-3 as well as the structure of messages which notify of the risk parameters used in the calculations.
2. KDPW\_CCP shall determine the margin requirement for a clearing member taking into account the correlation of the member’s positions in different clearing accounts for the following groups of transactions:
  - 1/ derivatives transactions,
  - 2/ sell transactions and repo type transactions.Margin reductions shall be capped at the amount necessary to cover the risk of change in the correlation of positions.
3. The detailed method of calculating relevant margins is described in Appendix 6.

#### § 47b

1. The value of securities or cash credited as initial deposits, initial margins or contributions to the OTC guarantee funds in the form of:
  - 1/ securities, including securities denominated in EUR,
  - 2/ cash in EURshall be determined on the basis of the applicable haircut rate referred to in § 48.
2. A 100% haircut rate assigned to securities bearing a specific identifier or cash in EUR shall mean that, in the period of such assignment, no part of the value of such securities or cash shall be recognised in determining the value of collateral deposited by the participant. KDPW\_CCP shall assign a haircut rate of

100% to securities which are deposited with KDPW\_CCP as margins or as contributions to the OTC guarantee fund but do not meet the criteria of acceptable securities.

3. Assets designated as initial margin shall be credited as such margin as follows:

1/ cash, including cash in EUR, shall be deposited and credited in the amount of the difference between the initial margin calculated for the relevant client classification number (NKK) and the value of securities credited to the margin, deposited in the collateral account assigned to the clearing account or accounts of the participant, subject to § 80 subpara. 1-3 of the Clearing Rules;

2/ securities referred to in § 79 subpara. 3 of the Clearing Rules shall be credited up to 60% of the initial margin amount calculated for the relevant client classification number (NKK) according to § 82 subpara. 4 of the Clearing Rules, subject to § 80 of the Clearing Rules.

4. Securities referred to in § 4 subpara. 1 points 2 and 3 of the OTC Guarantee Fund Rules shall be credited to the participants' contribution to the OTC guarantee fund up to 90% of the sum of updated amounts of its contributions to the fund.

5. KDPW\_CCP shall credit to relevant margins indicated by the participant only such securities which are deposited for such purpose according to the Clearing Rules unless crediting them causes the concentration limits referred to in § 86a of the Clearing Rules to be breached. KDPW\_CCP shall credit to a contribution to the OTC guarantee fund only such securities which are deposited for such purpose according to the rules of the fund.

6. Securities deposited by a participant or its agent shall be credited to the initial deposit or the initial margin provided that the securities are transferred according to § 86 subpara. 1 of the Clearing Rules to the KDPW\_CCP securities account no later than 18:00 on the day when the clearing member is notified by KDPW\_CCP that the member is required to deposit or adjust the margin.

7. Cash shall be credited to the initial deposit or the initial margin provided that the account indicated by KDPW\_CCP as referred to in § 51 subpara. 1 is credited no later than 18:00 CET on the day when the clearing member is notified by KDPW\_CCP that the member is required to deposit or adjust the required margin.

8. Assets deposited as an initial deposit or an initial margin or as a contribution to the OTC guarantee fund shall be credited by registering the value of the deposited collateral in the clearing system, which shall take place no later than 18:00 CET on day R when such assets are transferred to KDPW\_CCP. Until the time of the credit, the value of the deposited assets shall not be included in KDPW\_CCP's calculation of the value of margins or contributions to the OTC guarantee fund deposited by the participant.

9. The provisions of subpara. 6-8 shall apply accordingly to an adjustment contribution to the OTC guarantee fund in securities or in cash.

10. A participant's liabilities in respect of margins shall be equal to the sum of margins required from the participant calculated separately for each collateral account.

#### § 47c

1. Acceptable securities referred to in § 4 subpara. 1 point 2 of the OTC Guarantee Fund Rules shall only include Treasury bonds traded in the territory of the Republic of Poland.

2. Subject to subpara. 3, acceptable securities referred to in § 79 subpara. 3 point 4 of the Clearing Rules and § 4 subpara. 1 point 3 of the OTC Guarantee Fund Rules shall only include bonds issued by European Union member states other than the Republic of Poland which meet the following conditions:

- 1/ for bonds registered in the relevant depository system – they are acceptable to the entity operating the system as securities eligible for a service agreement,
- 2/ the rating of the bonds, or
- 3/ the rating of the member state which issued the bonds

is not lower than:

- a) AA- if rated by Standard & Poors Rating Services,
- b) AA- if rated by Fitch Ratings,
- c) AA3 – if rated by Moody's Investors Service.

Where both the bonds and the member state which issued the bonds are rated or where more than one rating agency referred to in items (a)-(c) issued a rating, the acceptability of the securities shall be assessed on the basis of the lower of the rating of the bonds or the member state.

3. Acceptable securities referred to in subpara. 2 shall only include securities registered in an account with:

- 1/Clearstream,
- 2/ Euroclear,
- 3/ KDPW.

4. If a participant deposits securities referred to in subpara. 2 as margins or contributions to the OTC guarantee fund, this shall imply that:

- 1/ the securities are free of any encumbrances with the rights of third parties restricting the effective satisfaction of KDPW\_CCP claims with such securities with precedence over other parties,
- 2/ the service agreement under which the securities are deposited has been executed by duly authorised representatives of the participant or its collateral agent,
- 3/ the orders to deposit the securities were submitted on the basis of valid and effective authorisations by duly authorised representatives of the participant or its collateral agent.

5. Acceptable securities referred to in § 79 subpara. 3 point 4 of the Clearing Rules and in § 4 subpara. 1 point 3 of the OTC clearing fund rules shall be deposited as margins or contributions to the OTC guarantee fund through the entity operating the relevant depository system.

6. KDPW\_CCP shall determine the value of acceptable securities registered in the relevant depository systems through the entities operating such systems under service agreements concluded with them. KDPW\_CCP shall determine and communicate to the entities operating such systems the haircuts of acceptable securities to apply when determining the value of such securities.

7. The entities referred to in subpara. 6 shall determine the value of acceptable securities on the terms laid down in the service agreements, using current data available from the agencies named in the agreements or other sources named therein.

#### § 48

The list of securities, referred to in § 80 subpara. 4 of the Clearing Rules, and the assigned haircut rates

shall be:

- 1/ notified to the clearing members via the SWI system in a message;
  - 2/ effective as of notification to the clearing members according to point 1.
2. The list of securities referred to in subpara. 1 shall also include acceptable securities which may be contributed to the OTC guarantee fund.
3. If a security is excluded from the service agreement by the entity operating the relevant depository system, it shall no longer be an acceptable security. In that case, KDPW\_CCP shall immediately update the list of securities referred to in subpara. 1.
4. The provisions of subpara. 1 shall apply accordingly to KDPW\_CCP's publication of the haircut for cash deposited in EUR as:
- 1/ margins,
  - 2/ contributions to the OTC guarantee fund.

#### § 49

1. For a clearing member to deposit a margin in acceptable securities registered in the system operated by KDPW or to contribute such securities to the OTC guarantee fund, the clearing member which is a participant of KDPW shall submit to KDPW\_CCP an instruction to deposit the securities as a margin. On its receipt of the instruction, KDPW\_CCP shall immediately issue on its basis a relevant settlement instruction for KDPW. As a result of the execution of such instruction, under a relevant agreement concluded with KDPW, securities concerned by such instruction shall be registered in a securities account maintained by KDPW for KDPW\_CCP, respectively.
2. For a clearing member to deposit a margin or make a contribution to the OTC guarantee fund in acceptable securities registered in the system operated by KDPW through a settlement agent, the agent shall submit directly to KDPW a settlement instruction whose execution results in a transfer of securities from the securities account of the settlement agent to the account of KDPW\_CCP maintained for it in the institution. In that case, the instruction shall be submitted according to the rules of the settlement institution provided that such instruction specifies the information referred to in subpara. 3. Where securities are deposited as a margin through a settlement agent, the clearing member shall obligate the agent, before submitting the first instruction, to submit to KDPW\_CCP a written declaration which designates the clearing member for which the margins are to be deposited in securities through the agent. Margins and contributions referred to in the first sentence may be deposited through a settlement agent also on the basis of the participant's instructions submitted by it to KDPW\_CCP on the terms defined in subpara. 1.
3. A margin shall be deposited by a participant acting through a settlement agent in securities recorded in the account maintained by KDPW for KDPW\_CCP.
4. To deposit margins or contributions to the OTC guarantee fund in acceptable securities registered in the relevant depository system, the participant shall:
  - 1/ conclude a service agreement:
    - a) for Clearstream – with the entity operating the system and, where it has access to the system through a foreign custodian, additionally an agreement with the entity operating the system and the foreign

custodian, or

b) for Euroclear – with the entity operating the system and with KDPW\_CCP (tri-party agreement) and authorise directly, or through the foreign custodian, the entity operating the system, to the extent required by that entity, to take all actions in the system necessary for effective transfers of securities from the participant’s account to the collateral account maintained for KDPW\_CCP in the system when depositing margins or contributions to the OTC guarantee fund by the participant;

2/ notify KDPW\_CCP, which is not a party to the agreement referred to in point 1, of the conclusion of the service agreement in order to enable it to activate the service of establishing collateral in the relevant depository system for such participant and, respectively, of its participant identifier or account identifier in the system.

In the notification referred to in point 2, the participant shall:

a/ represent that it has taken the actions referred to in points 1, 4-5 and 7-9 according to the requirements of the Clearing Rules and the Detailed Rules of the OTC Clearing System;

b/ specify its participant identifier or account identifier in the relevant depository system;

c/ give the consent referred to in point 10; and

d/ authorise KDPW\_CCP to take actions necessary to activate for the participant the option of establishing collateral in acceptable securities registered in the relevant depository system;

3/ submit to KDPW\_CCP orders which specify the value equal to the value of acceptable securities (after the application of the haircut) deposited by the participant in the system as margins or contributions to the OTC guarantee fund;

4/ take actions required under the service agreement, necessary for the entity operating the relevant depository system to activate services, and submit to the entity operating the relevant depository system instructions according to the orders referred to in point 3;

5/ deposit securities under the service agreements executed by duly authorised representatives of the participant or its collateral agent;

6/ submit orders to the relevant depository system according to the service agreement, through duly authorised representatives of the participant or its collateral agent acting on the basis of valid and effective authorisations;

7/ authorise the collateral agent or the entity operating the relevant depository system, respectively, to flag securities which:

a) are to be deposited by the participant as margins or contributions to the OTC guarantee fund; and

b) are to be released by KDPW\_CCP from the collateral account maintained by the entity for KDPW\_CCP;

c) are to be substituted on the terms of the service agreement

where the entity operating the relevant depository system shall be authorised in the service agreement or on the terms defined by that entity;

8/ ensure the service of establishing and using collateral according to the Clearing Rules and the Detailed Rules of the OTC Clearing System;

9/ take other actions required under the service agreement or other rules or regulations defined by the entity operating the relevant depository system where necessary for the proper implementation of the service agreement according to the Clearing Rules or resolutions of the Management Board issued under

the Clearing Rules;

10/ give its consent for KDPW\_CCP to notify the entity operating the relevant depository system of an event of default of the participant as the basis of the use of collateral in securities deposited by it for KDPW\_CCP in the system.

5. A participant depositing margins referred to in subpara. 4 through a collateral agent who is not a foreign custodian shall ensure that its agent takes the actions referred to in subpara. 4 point 1, 3-6 and 8-9. A participant depositing margins referred to in subpara. 4 through a collateral agent who is a foreign custodian shall ensure that its agent takes the actions referred to in subpara. 4 point 3-6 and 8-9.

6. A margin or contribution to the OTC guarantee fund shall be deposited by a clearing member in securities deposited in the collateral account maintained for KDPW\_CCP in the relevant depository system through the entity operating the system and, where the participant acts through a collateral agent, additionally through the agent.

7. A clearing member shall not appoint as its collateral agent any entity which:

1/ is a participant of the relevant depository system and has been appointed as a collateral agent for another clearing member, or

2/ a clearing member who is a participant of the relevant depository system and deposits with KDPW\_CCP securities registered in the system as margins or contributions to the OTC guarantee fund.

3. Instructions referred to in subpara. 1-2 and orders of a participant referred to in subpara. 4 point 3 shall specify, respectively:

1/ the type of margin for which the securities are deposited,

2/ the participant for whom the margin is deposited, where the instruction is submitted by the settlement agent,

3/ the settlement agent or the collateral agent, where the instruction is submitted by a participant depositing collateral through such agents,

4/ the participant's relevant clearing account for which the collateral is deposited,

5/ the quantity of securities and their ISIN code – for securities registered in KDPW,

6/ the code of the entity operating the relevant depository system,

7/ the value of contributions to the OTC guarantee fund, indicating the type of contribution to the fund and the type of activity for which such contributions are made – where the instruction is submitted by a participant referred to in subpara. 4.

9. Securities deposited as margins or contributions to the OTC guarantee fund shall be transferred according to § 86 subpara. 1 of the Clearing Rules to the KDPW\_CCP securities account from the account indicated by the clearing member according to § 23 subpara. 2 point 2 or 6 of the Clearing Rules.

10. Assets deposited in securities as a margin or contribution to the OTC guarantee fund shall be credited by being registered in the clearing system. From the moment securities are credited to a margin or contribution, their value after valuation shall be included in the calculation of the participant's debits in respect of the adjustment of margins or contributions to the OTC guarantee fund.

11. A participant shall be notified in a relevant message that the following have been credited to a relevant margin or contribution to the OTC guarantee fund:



- 1/ specific securities, and their value after the application of the haircut – for securities registered in KDPW, or
- 2/ a specific value of securities (calculated before and after the currency conversion) – for securities registered in the relevant depository system.

At the written request of the participant, KDPW\_CCP shall notify the participant in writing of the securities referred to in point 2 which have been deposited by the participant or credited to margins or contributions to the OTC guarantee fund. In the request, the participant shall specify the period of such notification.

#### § 50

1. A return transfer of securities registered in KDPW, deposited as margins or contributions to the OTC guarantee fund, shall take place on request of the clearing member submitted to KDPW\_CCP as an order or as a result of KDPW's execution of a settlement instruction submitted to it by the settlement agent, matched with the corresponding instruction submitted to KDPW by KDPW\_CCP. An order or instruction should specify:

- 1/ the securities to be returned,
- 2/ the date of return of securities, in a way that allows to execute the order in the settlement system operated by KDPW,
- 3/ the identifier of the relevant clearing account of the participant, for which the collateral is established.

2. On the day R following the day of receipt of an order referred to in subpara. 1, KDPW\_CCP shall submit to the settlement system operated by KDPW an instruction to transfer the securities specified in the order to the account maintained in the system from which the securities were deposited as a margin or contribution to the OTC clearing fund. If a participant of the settlement system operated by KDPW is no longer the settlement agent of the clearing member, KDPW\_CCP shall submit to the system an instruction to transfer the securities referred to in subpara. 1 to the account maintained in the system for such participant or for its new settlement agent, indicated to KDPW\_CCP by the participant in the update of the data referred to in § 23 subpara. 2 point 6 of the Clearing Rules.

3. Establishing a margin or making a contribution to the OTC guarantee fund by a clearing member through a settlement agent shall be tantamount with the participant's consent for the securities deposited by the participant in the KDPW\_CCP account to be returned to the participant to the securities account of the settlement agent from which the securities were deposited with KDPW\_CCP.

4. Subject to subpara. 1 point 2, a return transfer of securities shall take place on the date specified in the order or instruction referred to in subpara. 1 provided that:

- 1/ they do not need to be used in order to settle liabilities of the clearing member secured with the margin deposited by the participant in the form of such securities,
- 2/ the conditions set out in § 86 subpara. 5 of the Clearing Rules are fulfilled or the participant who deposits the margin no longer holds the status of clearing member,
- 3/ the order was submitted to KDPW\_CCP before 18:00 CET on the day preceding the day of the return transfer of the securities.

5. Subject to subpara. 6, securities registered in the relevant depository system, deposited with KDPW\_CCP as margins or contributions to the OTC guarantee fund, shall be returned at the request of the participant on the basis of an order submitted by the participant to KDPW\_CCP which specifies the value of securities up to which, following the application of the haircut, the securities are to be returned to the participant. If such value does not represent an integer number of securities to be returned, the order shall be executed in the value corresponding to the maximum integer number of securities which may be returned to the participant on the terms of the service agreement. The provisions of § 49 subpara. 8 shall apply accordingly to such orders. On the basis of an order received from the participant, KDPW\_CCP shall submit a relevant instruction to the relevant depository system to ensure the execution of the instruction on its due date.

6. Securities registered in the relevant depository system, deposited as margins or contributions to the OTC guarantee fund, to the extent that due to an increase in value their value exceeds the value specified by the participant in the instruction referred to in § 49 subpara. 4 point 2 or subpara. 5, shall be released through the entity operating the relevant depository system, under the service agreement, on the basis of settlement instructions issued by such entity. The provisions of the second sentence of subpara. 5 shall apply accordingly.

7. If the entity operating the relevant depository system terminates the service agreement with the clearing member or its collateral agent, effective immediately, KDPW\_CCP may submit to the relevant depository system an instruction which specifies the value of securities to be deposited in the KDPW\_CCP collateral account equal to zero. On the execution of such instruction, securities deposited by the participant in the collateral account shall be returned to the participant or its agent through the entity operating the relevant depository system and the participant shall be unable to deposit such securities as new margins or contributions in the collateral account. In that case, the participant shall immediately adjust margins and contributions to the OTC guarantee fund with other assets acceptable to KDPW\_CCP. If KDPW\_CCP waives the right referred to in the first sentence, KDPW\_CCP shall return securities to the participant, in cases referred to in subpara. 5-6, after the participant once again fulfils the conditions referred to in § 49 subpara. 4-7.

8. Establishing a margin or making a contribution to the OTC guarantee fund by a clearing member through a collateral agent shall be tantamount with the participant's consent for the securities deposited by the participant in the collateral account to be returned to the participant to the securities account of the collateral agent from which the securities were deposited with KDPW\_CCP.

## § 51

1. An initial deposit shall be deposited in cash:

1/ in EUR, and

2/ in PLN

by debiting the relevant bank account indicated by the participant according to § 23 subpara. 2 point 3 of the Clearing Rules and by crediting the KDPW\_CCP bank account maintained for KDPW\_CCP by the National Bank of Poland.

2. Assets referred to in subpara. 1 shall be deposited according to an order of the clearing member which

shall specify the following:

- 1/ the currency and the amount of deposited assets,
- 2/ the type of margin for which the assets are deposited,
- 3/ the identifier of the participant in the system or the identifier of the clearing account for which the collateral is established,
- 4/ the payment agent if the payment takes place through the payment agent's bank account,
- 5/ the date of depositing the assets.

An order for cash:

in EUR – should be submitted no later than 10:00 on day R when the order is to be executed,

in PLN – should be submitted no later than 17:15 on day R when the order is to be executed

(cut-off time). Orders submitted after the cut-off time shall be rejected.

3. Cash referred to in subpara. 2 shall be credited to an initial margin provided that KDPW\_CCP approves the order referred to in subpara. 2.

4. The provisions of subpara. 1-3 shall apply accordingly to contributions to the OTC guarantee fund made in EUR. In that case, the order should additionally specify the guarantee fund to which the contribution is made, the type of contribution, and the type of activity for which the contribution is made.

5. Assets in PLN shall be deposited as an additional margin or an initial margin by debiting the relevant bank account indicated by the participant according to § 23 subpara. 2 point 3 of the Clearing Rules up to the amount of the clearing member's liabilities in respect of such margins determined by KDPW\_CCP. The account shall be debited by KDPW\_CCP or KDPW acting to such extent by order of and according to instructions issued by KDPW\_CCP.

6. A participant's order, referred to in subpara. 2, and an order concerning a contribution to the OTC guarantee fund shall be executed on the date specified in the order.

7. Cash referred to in subpara. 1 shall be credited to a margin by being registered in the clearing system. A participant shall be notified in a relevant message that cash has been credited to a relevant margin or contribution to the OTC guarantee fund. From the moment cash is credited, the value of cash deposited as a margin or contribution to the OTC guarantee fund shall be included in the calculation of the participant's debits in respect of the adjustment of margins or contributions to the OTC guarantee fund.

## § 52

[revoked]

## § 53

1. A return transfer of cash referred to in § 51 subpara. 1 and 4 shall take place on the basis of an order of the clearing member which specifies:

- 1/ the currency and the amount of returned assets,
- 2/ the type of margin for which the assets are returned and, for a release of assets deposited as a contribution to the OTC guarantee fund – the guarantee fund of the released contribution, the type of released contribution, and the type of activity for which the contribution is to be released,

- 3/ the identifier of the participant in the system or the identifier of the clearing account for which the collateral is returned,
- 4/ the payment agent if the assets are returned through the payment agent's bank account,
- 5/ the date of the return.

An order for cash:

in EUR – should be submitted no later than 14:00 on day R when the order is to be executed,

in PLN – should be submitted no later than 17:15 on day R when the order is to be executed

(cut-off time). Orders submitted after the cut-off time shall be rejected.

2. Cash referred to in subpara. 1 shall be returned to the account of the clearing member or its payment agent maintained in the relevant currency and indicated by the clearing member according to § 23 subpara. 2 point 3 or 4 of the Clearing Rules. Cash referred to in subpara. 1 shall be returned on the date specified in the order referred to in subpara. 1 unless it must be used to ensure the performance of obligations of the clearing member secured with its margin comprised of such cash.

3. Cash referred to in § 51 subpara. 4 shall be returned by crediting the relevant bank account indicated by the clearing member according to § 23 subpara. 2 point 3 or 4 of the Clearing Rules up to the amount of the surplus of assets deposited by the clearing member as such margins determined by KDPW\_CCP. The account shall be credited by KDPW\_CCP or KDPW acting to such extent by order of and according to instructions issued by KDPW\_CCP.

4. If the entity indicated by a participant is no longer the payment agent, cash referred to in § 51 subpara. 4 shall be returned or released to the account of the participant or its new payment agent indicated to KDPW\_CCP by the participant in the update of the data referred to in § 23 subpara. 2 point 4 of the Clearing Rules.

5. Establishing a margin in cash or making a contribution to the OTC guarantee fund in cash by a clearing member through a payment agent shall be tantamount with the participant's consent for the cash deposited in the KDPW\_CCP account to be returned to the participant to the account of the payment agent from which the cash was deposited with KDPW\_CCP.

#### § 54

1. A clearing member who has received the information referred to in § 31 and who is obliged to make a cash payment in respect of liabilities resulting from the clearing of transactions according to that information shall be obliged, not later than 15 minutes before a clearing session opens on day R+1, to hold in the bank account maintained in the clearing bank designated pursuant to § 23 subpara. 2 point 3 of the Clearing Rules, an amount sufficient to settle such liabilities to KDPW\_CCP taking into consideration other liabilities of the member arising in connection with its participation.

2. If, after the expiry of the time limit referred to in subpara. 1, there is a shortage of balance in the bank account maintained in the clearing bank designated by the clearing member pursuant to § 23 subpara. 2 point 3 of the Clearing Rules, the value of the initial deposit in cash deposited by the member shall be reduced by the amount equivalent to the shortage of balance. The initial deposit shall be reduced before a clearing session opens on day R+1.

## § 55

1. KDPW\_CCP shall determine the market value of the currency EUR according to current market data available from the following news services:

- 1) Thomson Reuters, or
- 2) Bloomberg.

2. In determining the market value of EUR, KDPW\_CCP shall use in the first place data available from the Bloomberg service. If data from the service are incomplete on any clearing day, their availability is limited or the adequacy of the data raises reasonable doubt in the opinion of KDPW\_CCP, then KDPW\_CCP shall use data available from the Thomson Reuters service.

3. KDPW\_CCP shall determine the market value of the currency EUR at each day R by downloading at 17:00 the market data from the agency referred to in subpara. 1. If such data is not available, KDPW\_CCP shall determine the market value of the currency EUR according to the mid exchange rate of EUR published by NBP at such day.

4. The valuation of cash deposited by clearing members in the currency EUR at day R, before the valuation on the terms defined in subpara. 3 at such day, shall be made at previous day's value.

5. The value of a foreign currency other than EUR shall be determined in the Polish currency on the terms defined in subpara. 1 – 4 accordingly.

6. The value of securities referred to in § 79 subpara. 3 point 4 of the Clearing Rules shall be determined by entities operating the relevant depository systems on the terms laid down in service agreements concluded with them and, where KDPW\_CCP has no access to such valuation, by KDPW\_CCP on the terms laid down in subpara. 1 – 4 which shall apply accordingly. Entities operating the relevant depository systems shall determine the value of securities referred to in the first sentence in EUR. KDPW\_CCP shall convert EUR to PLN by using the rules laid down in subpara. 1 – 4 accordingly.

## § 56

1. KDPW\_CCP shall set a variation margin (VM) for each transaction with margin (TZD) on each day R during the netting session and notify the clearing member being the clearing counterparty thereof.

2. Interest on a deposited cumulative variation margin /CVM/ shall be calculated for a given clearing counterparty on each day R for the clearing of transactions with margin (TZD) starting on the day following the day of registration of the transaction in the OTC clearing system until the day up to which the clearing member is entitled to dispose of resulting amounts, inclusive.

3. Interest on a deposited variation margin /VM/ shall be calculated for a period equal to the number of calendar days between day R when the calculation is performed (inclusive) and day R+1 (exclusive) for the clearing of transactions with margin (TZD) using the POLONIA interest rate for transactions with margin (TZD) cleared in PLN and the EONIA rate for transactions with margin (TZD) cleared in EUR.

**CHAPTER 11  
Risk monitoring**

## § 57

1. On every day R, KDPW\_CCP shall monitor the impact of transactions accepted for clearing in the OTC clearing system on the utilisation of the collateral limit.
2. KDPW\_CCP shall inform the clearing member of the utilisation of the collateral limit upon the registration in the OTC clearing system of each next transaction to which the member is a clearing counterparty.
3. The detailed rules of calculating collateral limits are set out in Appendix 7.

## § 58

[revoked]

## § 59

[revoked]

## § 60

[revoked]

**CHAPTER 12  
Processing automatic closing of positions and closing of positions on demand**

## § 61

Processing of the automatic closing of positions is described in Appendix 8.

## § 62

Processing of the closing of positions on demand is described in Appendix 9.

**CHAPTER 13  
Conversion**

## § 62a

1. To convert a transaction with margin (TDZ) into a transaction with settlement (TZR), the clearing member shall:
  - 1/ submit an order indicating the clearing account in which transactions with margin (TZD) to be converted into transactions with settlement (TZR) are registered, or
  - 2/ submit an order to transfer positions for a transaction with margin (TZD) to the clearing account which was previously indicated according to § 13d or § 62b for a transaction with settlement (TZR).
2. The conversion of a transaction on the basis of an order referred to in points 1 and 2 shall only be executed in own position accounts.

## § 62b

1. An order referred to in § 62a subpara. 1 point 1 shall be submitted by the clearing member according to the template defined by KDPW\_CCP no later than the business day preceding the conversion date referred to in § 62d subpara. 1. The order shall cover all transactions registered in the indicated account at the conversion date and subsequent transaction sent for clearing or subject to a transfer of positions to be registered in such account, and it shall be valid until the relevant account is closed.

2. In the order referred to in subpara. 1, the clearing member shall:

1/ indicate the conversion date of the order in compliance with § 62d subpara. 1, which is no earlier than day R after the delivery of the order by the participant to KDPW\_CCP;

2/ give consent for the conversion, on the terms referred to in the Detailed Rules of the OTC Clearing System, at the indicated conversion date, of transactions registered in the indicated clearing account before the conversion date and transactions to be registered as of the conversion date, into transactions with settlement (TZR);

3/ confirm that the terms of the transactions to be converted in connection with the calculation of the TZR settlement amount, the TZR cumulative settlement amount and PAA, referred to in § 1 point 42, comply with the Detailed Rules of the OTC Clearing System;

4/ confirm that the conversion of the transactions referred to in subpara. 1 into transactions with settlement (TZR) is not in breach of the terms on which the transaction sent for clearing was concluded;

5/ to the extent of transactions to be converted and subsequent transactions sent to the OTC clearing system or subject to a transfer of positions as of the conversion date:

a/ make a declaration to the effect that each transaction sent to the clearing account indicated in the order is to be a transaction with settlement (TZR) and if a transaction is sent as a result of a transfer of positions, it shall be converted into a transaction with settlement (TZR) according to this Chapter;

b/ ensure that the terms of each transaction to be registered in the indicated clearing account in connection with the calculation of the TZR settlement amount, the TZR cumulative settlement amount and PAA, referred to in § 1 point 42, comply with the Detailed Rules of the OTC Clearing System, and confirm their compliance with the foregoing provisions;

c/ confirm that the registration of a transaction in the OTC clearing system as a TZR transaction is not in breach of the terms on which the transaction sent for clearing was concluded and that such terms comply with the Detailed Rules of the OTC Clearing System;

6/ not modify or cancel a submitted order within the lifetime of the clearing account concerned by such order, and consequently waive the right to modify or cancel such order.

3. An order submitted at the conversion date referred to in § 62d subpara. 1 or prepared in breach of the Detailed Rules of the OTC Clearing System shall not be accepted for execution.

## § 62c

1. The clearing member being a counterparty to the clearing of a transaction with margin (TZD), who previously effectively submitted an order referred to in § 13d subpara. 2 or § 62a subpara. 1 point 2, may submit to KDPW\_CCP an order to transfer positions for such transaction referred to in § 62a subpara. 1 point 2. The submission of an order by the clearing member shall be tantamount to the clearing

member's unconditional consent to have the transaction concerned by the order converted on the terms defined in the Detailed Rules of the OTC Clearing System.

2. The order to transfer positions, referred to in § 62a subpara. 1 point 1, should be submitted to KDPW\_CCP before the end of the clearing session on the conversion date referred to in § 62d subpara. 1. The order shall not be accepted for execution if the clearing member failed to submit it on time or the order referred to in § 13d subpara. 2 of § 62a subpara. 1 point 1 was not effectively submitted previously for the clearing account in which positions arising from the transaction to be converted into a transaction with settlement (TZR) is to be registered or in the event of any other breach of the Detailed Rules of the OTC Clearing System. If the order is not accepted, the transfer of positions arising from the transaction to be converted to a transaction with settlement (TZR) shall not be executed, either.

#### § 62d

1. KDPW shall perform the conversion of transactions with margin (TZD) indicated by the clearing member in the order referred to in § 62a subpara. 1 point 1 or point 2, respectively, submitted in accordance with § 62b or § 62c, respectively, into transactions with settlement (TZR) on each day R after the end of the clearing session, effective as of the start of the netting session on that day, and in the event of the conversion of the transaction on the basis of an order to transfer positions referred to in § 62a subpara. 1 point 2 – at the same time effective as of the execution of the transfer in the OTC clearing system (conversion date).

2. At the conversion date:

1/ KDPW\_CCP shall make an entry in the OTC clearing system for transactions registered in the own position account indicated by the participant or transactions subject to a transfer of positions, including the information that these are, according to the order of the participant referred to in § 62a subpara. 1 point 1 or point 2, respectively, transactions with settlement (TZR), subject to § 62e;

2/ the amount provided on the basis of the transaction to be converted as a variable margin shall become the TZR settlement amount and it shall be included in the valuation of transactions with settlement (TZR).

#### § 62e

1. KDPW\_CCP shall consent to the conversion of a transaction with margin (TZD) to a transaction with settlement (TZR) at the conversion date referred to in § 62d subpara. 1 provided that:

1/ the order referred to in § 13d subpara. 1, § 62a subpara. 1 and 2, respectively, was submitted to KDPW\_CCP on the terms and within the time limits defined in the Detailed Rules of the OTC Clearing System;

2/ no event of default or suspension of participation in the OTC clearing system is identified with respect to the clearing member being the counterparty to the clearing of the transaction at the conversion date;

3/ if the clearing member submits an order to transfer positions referred to in § 62a subpara. 1 point 2, the transfer of the position arising from the transaction to be converted into a transaction with settlement (TZR) has been executed.



2. The conversion of a transaction with margin (TZD) to transactions with settlement (TZR) shall be without prejudice to the obligations arising from such transaction which became due before the conversion date.

§ 63

[revoked]

#### **CHAPTER 14**

##### **Checking the impact of a hypothetical transaction on the utilisation of the collateral limit**

§ 64

1. On every day R during a clearing session, the clearing member may deliver to KDPW\_CCP an order to check the impact of a hypothetical transaction on the utilisation of the collateral limit.
2. The orders referred to in subpara. 1 delivered to KDPW\_CCP after the close of the clearing session on day R shall be executed on the opening of the clearing session on the following day.

§ 65

Immediately upon receipt from the clearing member of an order referred to in § 64, KDPW\_CCP shall inform the member about the hypothetical utilisation of the collateral limit in case of acceptance of the hypothetical transaction for clearing.

#### **CHAPTER 15**

##### **Transfers of positions**

§ 65a

Where securities registered in the relevant depository system are deposited as margins or contributions to the OTC guarantee fund, the collateral comprised of such securities may only be transferred to a clearing member which is a participant of the relevant depository system or has a collateral agent in that system.

#### **CHAPTER 15A**

##### **Processing on-demand transfers of positions or assets securing such positions**

§ 66

On-demand transfers shall include:

- 1/ transfers of positions and assets securing such positions,
- 2/ transfers of positions,
- 3/ transfers in a participant's accounts.

§ 67

1. Orders to transfer positions and assets securing such positions recognised as initial margin shall be submitted in writing.

2. Subject to subpara. 3, a transfer order shall include the following:

1/ a clear indication that the transfer is to cover all positions which are or will be registered in the clearing account on the day of the transfer and all assets registered in the collateral account assigned to that account,

2/ the identifiers of the clearing accounts between which the transfer is to be executed,

3/ the date of the transfer, which is a day R falling no earlier than the date of submission of the order,

4/ the amount of assets to be transferred in a given currency, registered in the collateral accounts as a margin, indicating that the transfer is to cover all assets registered in the collateral account assigned to the clearing account from which the positions are to be transferred,

5/ the quantity and the ISIN code or other identifier in the relevant depository system of securities whose value is credited to the initial margin, indicating that the transfer is to cover all assets registered in the collateral account assigned to the clearing account from which the positions are to be transferred.

3. Position transfer orders shall be deemed to match if they contain matching information to the extent laid down in subpara. 2.

#### § 68

KDPW\_CCP shall transfer positions and assets registered in the clearing account and the collateral account, respectively, from which they are to be transferred provided that on the transfer day the number of positions of the same type and the amount of assets of the same type, credited to initial margins, specified in the orders to transfer them from such accounts, is equal to the number of positions of the same type and the amount of assets of the same type, credited to initial margins, registered in the clearing account and the collateral account, respectively, from which they are to be transferred.

#### § 68a

Transfers of positions or assets securing such positions, deposited as or credited to the initial margin, shall be performed immediately on the day specified in matching transfer orders provided that the transfer orders are submitted no later than the opening of the netting session on the day of the transfer.

#### § 69

1. KDPW\_CCP shall notify the participants who submit the orders referred to in § 67 that:

1/ the order submitted by them does not match the order submitted by the non-clearing member or the clearing member to whose accounts they are to be transferred, respectively;

2/ positions and assets securing such positions recognised as initial margin have been transferred according to the orders submitted by them.

2. The notifications referred to in subpara. 1 shall be given:

1/ to a non-clearing member – by email over the Internet to the email address specified in the information card referred to in § 23 subpara. 1 point 5 of the Rules;

2/ to a clearing member – electronically in a message.

3. The notifications referred to in subpara. 1 shall be given by KDPW\_CCP immediately on the performance of operations in the clearing system.

**§ 69a**

1. In order to cancel an order to transfer positions registered in the clearing system as a result of an OTC transaction, a participant shall submit to KDPW\_CCP a cancellation instruction, which should clearly identify the document to be cancelled.
2. A cancellation instruction referred to in subpara. 1 may be submitted until the time that the transfer procedure begins.
3. A position transfer shall be cancelled unilaterally by the participant which submitted the transfer order, which need not be matched with an order submitted by another participant, as a result of the execution of an order referred to in subpara. 1 submitted by such participant.
4. After transfer orders are matched, the transfer shall be cancelled provided that both participants submit matching transfer cancellation instructions to KDPW\_CCP.
4. Transfer cancellation instructions shall be deemed to match if documents to be cancelled indicated in these instructions are the basis of the same operation in the clearing system.
5. Transfer cancellation instructions shall not be executed after the position transfer covered by the instructions is registered in the system.

**§ 69b**

1. Subject to subpara. 2-3, the provisions of § 67 - §69a shall apply accordingly to on-demand transfers of positions.
2. An order to transfer positions shall specify:
  - 1/ the number and the value of transferred positions arising from a given type of transactions,
  - 2/ the identifiers of the clearing accounts between which the transfer is to be executed,
  - 3/ the date of the transfer, which is a day R falling no earlier than the date of submission of the order.
3. Transfer orders shall be deemed to match if they contain matching information to the extent laid down in subpara. 2.

**§ 69c**

1. In the event of transfers in a participant's accounts including:
  - 1/ a transfer of positions and assets securing such positions, the provisions of § 67 - §69a shall apply accordingly;
  - 2/ a transfer of positions, the provisions of §69b shall apply accordingly.

**CHAPTER 15B****Processing transfers of positions of a non-clearing member and assets securing such positions in the event of clearing member default****§ 69d**

Subject to § 69e, the provisions of § 67 - § 69a shall apply accordingly to transfers of positions arising from transactions concluded by a non-clearing member and assets securing such positions in the event of clearing member default.

**§ 69e**

In the event referred to in § 110c of the Clearing Rules, KDPW\_CCP shall transfer positions and assets registered in the clearing account and the collateral account, respectively, from which they are to be transferred provided that on the transfer day the sum of all positions of the same type and the sum of all assets of the same type, credited to initial margins, specified in all orders to transfer them from such accounts, is at least equal to the number of positions of the same type and the amount of assets of the same type, credited to initial margins, registered in the clearing account and the collateral account, respectively, from which they are to be transferred.

**CHAPTER 16  
Complaints****§ 70**

1. Complaints filed by participants in writing on matters referred to in § 128 of the Clearing Rules shall have the heading “Complaint” and include the following information:

- 1/ date of the complaint;
- 2/ details of the participant filing the complaint: company name and registered address of the participant;
- 3/ details of the contact person authorised by the participant to handle the complaint including their position, telephone and fax number, email address, and authorisation to provide additional clarifications for the participant;
- 4/ description of the incident:
  - a) date and course of the incident;
  - b) if the incident affects a specific transaction – transaction identifier, amount and type;
  - c) if the incident affects a specific instruction – identifier of the instruction in the clearing system;
- 5/ claims of the participant;
- 6/ justification for the claims of the participant.

2. Complaints shall be signed by authorised representatives of clearing members filing the complaints.

3. Where a member files a complaint requesting re-examination of the matter or an appeal, the provisions of subpara. 1 and 2 shall apply accordingly. The member shall specify the reference number of the letter which has been answered or the reference number of the resolution of the Management Board concerning the complaint.

**§ 71**

While reviewing a complaint, KDPW\_CCP may request the person specified in the complaint according to § 70 subpara. 1 point 3 to provide additional clarifications.

**CHAPTER 17**  
**Provision of invoice analysis**

§ 72

By written request of a participant, KDPW\_CCP shall provide the participant for a fee with an analysis of an invoice issued to the participant.

Appendix 1 to the Detailed Rules of the OTC Clearing System

**I. Forward Rate Agreement (FRA)**

1. Description of the transaction

In a FRA, the counterparties set the interest rate to apply in the future to a specific amount arising from a transaction, expressed in a given currency, for a predefined period. The FRA settlement amount is the difference between the amount of interest calculated at the FRA rate and the amount of interest calculated at the reference rate.

2. Detailed terms of the transaction

Underlying instrument	WIBOR interest rate	EURIBOR Interest rate
FRA rate	$R_{FRA}$ ; fixed interest rate set by counterparties at trade execution date ( $t_0$ )	
Nominal value	Any	
Currency	PLN	EUR
Trade date	Any business day	
FRA settlement date/ FRA start date	Day $t_1$ , which is the deposit period start date as well as the FRA settlement date	Day $t_1$ , which is the deposit period start date as well as the FRA settlement date
FRA end date	Day $t_2$ , which is the deposit period end date not later than the novation date + spot + 24M, set according to the convention defined in the terms of the transaction.	Day $t_2$ , which is the deposit period end date not later than the novation date + spot + 36M, set according to the convention defined in the terms of the transaction.
Reference rate	WIBOR: 1M, 3M, or 6M	EURIBOR: 1M, 3M, or 6M

Fixing date	Reference rate fixing day, which is two business days before the FRA settlement date $t_1$ .
FRA settlement amount	<p>Set at settlement date according to the formula:</p> $W = \frac{[R_r - R_{FRA}] \times N \times yf(t_1; t_2)}{1 + R_r \times yf(t_1; t_2)}$ <p>where:</p> <p><math>R_r</math> – reference rate  <math>R_{FRA}</math> – FRA rate  <math>N</math> – contract nominal value  <math>yf(t_1; t_2)</math> – part of the year determined according to the interest base defined in the contract</p> <p>If <math>R_r - R_{FRA} \geq 0</math>, then:</p> <p>- the counterparty with a long position is credited with the settlement amount and the counterparty with a short position is debited with the settlement amount.</p> <p>If <math>R_r - R_{FRA} &lt; 0</math>, then:</p> <p>- the counterparty with a long position is debited with the settlement amount and the counterparty with a short position is credited with the settlement amount.</p>

### 3. Other terms of the transaction

Furthermore, the terms of the transaction may specify the amount of additional cash payments at specific future dates.

The other terms of the transaction, including the terms of valuation, are set according to the Clearing Rules and the Detailed Rules of the OTC Clearing System.

## II. Interest Rate Swap (IRS)

### 1. Description of the transaction

In an IRS, the counterparties agree to exchange a series of interest payments calculated for an agreed nominal amount and for a specified period but calculated on different terms.

One counterparty to IRS agrees to pay for a predefined period interest on the nominal amount arising from the transaction calculated at a predefined fixed rate. In the same period, the other counterparty agrees to pay interest on the same amount calculated at a floating rate. Both payment streams have the same currency.

### 2. Detailed terms of the transaction

Underlying instrument	WIBOR interest rate	EURIBOR Interest rate
IRS rate	$R_{IRS,n}$ ; interest rate set by counterparties at trade execution date ( $t_0$ ), for interest period n: fixed or floating according to the defined schedule	
Nominal value	Fixed or floating according to a schedule	
Currency	PLN	EUR
Trade date	Any business day	
Maturity / IRS end date	$t_m$ ; End date of the last interest period not later than the novation date +spot+3Y - contracts with underlying WIBOR1M;  novation date +spot+20Y- contracts with underlying WIBOR3M and WIBOR6M;  set according to the convention defined in the terms of the transaction.	$t_m$ ; End date of the last interest period not later than the novation date+spot+50Y, set according to the convention defined in the terms of the transaction.



Interest payment date	Fixed and/or floating interest payment date set according to the convention defined in the terms of the transaction.	
Floating rate margin	Amount added to the floating rate, fixed or floating according to the defined schedule	
Floating rate in the first interest period	R <sub>1</sub> ; fixed interest rate for the first interest period for the floating rate, if set.	
Fixing date	Floating reference rate fixing date, which is two business days before the floating interest period start date.	
Reference rate	WIBOR: 1M, 3M, or 6M	EURIBOR: 1M, 3M, or 6M
Settlement amount	<p>At interest payment date, for the fixed rate – the counterparty which pays the fixed rate is debited with the settlement amount and the counterparty which receives the fixed rate is credited with the settlement amount:</p> $W_n = N_n \times R_{IRS,n} \times yf(tp_{s,n}; tk_{s,n})$ <p>At interest payment date, for the floating rate – the counterparty which pays the floating rate is debited with the settlement amount and the counterparty which receives the floating rate is credited with the settlement amount:</p> $W_n = N_n \times R_n \times yf(tp_{z,n}; tk_{z,n}) \text{ where:}$ <p>R<sub>IRS,n</sub> – IRS rate in period n  R<sub>n</sub>– floating reference rate in the n-th period plus floating rate margin in the period  N<sub>n</sub> – contract nominal value in period n  n – interest period index</p> <p>tp<sub>s,n</sub> – start date of n-th fixed rate interest period, set according to the convention defined in the terms of the transaction  tk<sub>s,n</sub> – end date of n-th fixed rate interest period, set according to the convention defined in the terms of the transaction  yf(tp<sub>n</sub>; tk<sub>n</sub>) – part of the year determined according to the interest base defined in the contract</p> <p>tp<sub>z,n</sub> – start date of n-th floating rate interest period, set according to the convention defined in the terms of the transaction</p>	

	<p><math>tk_{z,n}</math> – end date of n-th floating rate interest period, set according to the convention defined in the terms of the transaction</p> <p>Payments of both legs at the same date are settled in the net amount.</p>
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### 3. Other terms of the transaction

Furthermore, the terms of the transaction may specify the amount of additional cash payments at specific future dates.

The other terms of the transaction, including the terms of valuation, are set according to the Clearing Rules and the Detailed Rules of the OTC Clearing System.

### III. Overnight Index Swap (OIS)

#### 1. Description of the transaction

In an OIS, the counterparties agree to exchange periodic interest payments calculated for an agreed nominal amount and for specified periods but calculated on different terms.

One counterparty agrees, for the term of the agreement, to pay the amount of interest on the nominal amount calculated at a predefined fixed interest rate; the other counterparty agrees to pay the amount of interest on the nominal amount calculated by compounding daily floating interest rates in annual interest periods. Both payment streams have the same currency.

#### 2. Detailed terms of the transaction

Underlying instrument	POLONIA interest rate	EONIA interest rate
OIS rate	$R_{OIS}$ ; fixed interest rate set by counterparties at trade execution date ( $t_0$ )	
Nominal value	Any	
Currency	PLN	EUR
Trade date	Any business day	
Contract start date	$t_1$ , date set according to the convention defined in the terms of the transaction.	$t_1$ , date set according to the convention defined in the terms of the transaction.
Maturity	$t_2$ , date not later than the novation date + spot +1Y, set according to the convention defined in the terms of the transaction.	$t_2$ , date not later than the novation date + spot +30Y, set according to the convention defined in the terms of the transaction.
Reference rate	OIS; POLONIA interest rate	OIS; EONIA interest rate
Fixing date	Reference rate fixing date; every business day	

Settlement date	For transactions with maturities up to 1 year, settlement at $t_2+1$ , set according to the convention defined in the terms of the transaction. For transactions with longer maturities, settlement at the end of defined interest periods.
Settlement amount	<p>For the fixed leg, set at settlement date according to the formula:</p> $W_{s,n} = N \times R_{OIS} \times yf(tp_{s,n}; tk_{s,n})$ <p>where:</p> <p><math>W_{s,n}</math> – settlement amount for the fixed leg in the n-th interest period</p> <p><math>R_{OIS}</math> – OIS fixed rate</p> <p><math>N</math> – transaction nominal value</p> <p><math>yf</math> – year fraction according to the convention set in the terms of the transaction</p> <p><math>tp_{s,n}</math> – start date of the n-th interest period for the fixed rate according to the convention set in the terms of the transaction</p> <p><math>tk_{s,n}</math> – end date of the n-th interest period for the fixed rate according to the convention set in the terms of the transaction</p> <p>For the floating leg, set at settlement date according to the formula:</p> $R_{z,n} = \left( \prod_{i=1}^K (1 + OIS_{i-1} \times yf(t_{i-1}; t_i) - 1) \right) / yf(tp_{z,n}; tk_{z,n})$ $W_{z,n} = N \times R_{z,n} \times yf(tp_{z,n}; tk_{z,n})$ <p>where:</p> <p><math>OIS_i</math> – reference rate for i-th day of the contract</p> <p><math>R_{z,n}</math> – floating rate for interest period n rounded off to four decimal places</p> <p><math>N</math> – contract nominal value</p> <p><math>i</math> – POLONIA/EONIA rate fixing date index</p> <p><math>K</math> – number of business days in interest period n</p> <p><math>yf</math> – year fraction according to the convention set in the terms of the transaction</p> <p><math>tp_{z,n}</math> – start date of the n-th interest period for the floating rate</p>

	according to the convention set in the terms of the transaction $tk_{z,n}$ – end date of the n-th interest period for the floating rate according to the convention set in the terms of the transaction  Payments of both legs at the same date are settled in the net amount.
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### 3. Other terms of the transaction

Furthermore, the terms of the transaction may specify the amount of additional cash payments at specific future dates.

The other terms of the transaction, including the terms of valuation, are set according to the Clearing Rules and the Detailed Rules of the OTC Clearing System.

## IV. Basis Swap

### 1. Description of the transaction

In a Basis Swap, the counterparties agree to exchange a series of interest payments calculated for an agreed nominal amount and for a specified period but calculated on different terms.

One counterparty agrees to pay within the term of the contract interest on the nominal amount of the swap calculated at one reference rate. In the same period, the other counterparty agrees to pay interest on the same amount calculated at another reference rate. Both payment streams have the same currency.

### 2. Detailed terms of the transaction

Underlying instrument	WIBOR interest rate	EURIBOR interest rate
Nominal value	Fixed or floating according to a schedule	
Currency	PLN	EUR
Trade date	Any business day	
Maturity / Transaction end date	$t_m$ ; End date of the last interest period, set according to the convention defined in the terms of the transaction, not later than the novation date +spot +3Y - contracts with underlying WIBOR1M vs WIBOR3M and WIBOR1M vs WIBOR6M;  novation date +spot +20Y - contracts with underlying WIBOR3M vs WIBOR6M.	$t_m$ ; End date of the last interest period set according to the convention defined in the terms of the transaction, not later than the novation date +spot+50Y
Reference rate A, B	WIBOR: 1M, 3M, or 6M	EURIBOR: 1M, 3M, or 6M
Rate A/B margin	Margin on rate A/B, fixed or floating according to the defined schedule	
A/B fixing date	A/B reference rate fixing date, which is two business days before the interest period start date.	
Start date of n-th interest period	Start date of the A or B reference rate interest period ( $tp_{A,n}$ or $tp_{B,n}$ respectively), set according to the convention defined in the terms of the transaction.	
End date of n-th interest	End date of the A or B reference rate interest period ( $tk_{A,n}$ or $tk_{B,n}$ )	

period	respectively), set according to the convention defined in the terms of the transaction.
Interest payment date	Interest payment date
Settlement amount	<p>At interest payment date, for rate A – the counterparty which receives rate A is credited with the settlement amount and the counterparty which pays rate A is debited with the settlement amount:</p> $WA_n = N_n \times R_{A,n} \times yf(tp_{A,n};tk_{A,n})$ <p>At interest payment date, for rate B – the counterparty which receives rate B is credited with the settlement amount and the counterparty which pays rate B is debited with the settlement amount:</p> $WB_n = N_n \times R_{B,n} \times yf(tp_{B,n};tk_{B,n})$ <p>where:</p> <p><math>R_{A,n}</math> – reference rate A in period n plus margin A in the period  <math>N_n</math> – contract nominal value in n-th period  n – interest period index  <math>tp_{A,n}</math> – start date of n-th interest period for reference rate A, set according to the convention defined in the terms of the transaction  <math>tk_{A,n}</math> – end date of n-th interest period for reference rate A, set according to the convention defined in the terms of the transaction  yf – part of the year set according to the convention defined in the terms of the transaction  <math>R_{B,n}</math> – reference rate B in period n plus margin B in the period  <math>tp_{B,n}</math> – start date of n-th interest period for reference rate B, set according to the convention defined in the terms of the transaction  <math>tk_{B,n}</math> – end date of n-th interest period for reference rate B, set according to the convention defined in the terms of the transaction</p> <p>Payments of both legs at the same date are settled in the net amount.</p>

### 3. Other terms of the transaction

Furthermore, the terms of the transaction may specify the amount of additional cash payments at specific future dates.

The other terms of the transaction, including the terms of valuation, are set according to the Clearing Rules and the Detailed Rules of the OTC Clearing System.

## Sell transaction

### 1. Description of the transaction

In a sell transaction between two counterparties, the seller agrees to transfer rights in Treasury bonds to the buyer and the buyer agrees to pay the agreed purchase price of the bonds to the seller.

### 2. Detailed terms of the transaction

Instrument	Treasury bonds
Type of bonds	The list of acceptable securities is published by KDPW_CCP on its website.
Designations of operation codes for sell transaction	Operation type: TR Market code: OC Trading mode: ZG
Currency	PLN,
Trade date	Any BondSpot SA session day
Settlement date	Date set in the instruction
Quantity of securities	Quantity of securities set in the instruction
Sale value	Settlement amount set in the instruction
Settlement mode	DVP settlement: at settlement date, the seller receives the settlement amount and the buyer receives the securities.

### 3. Other terms of the transaction

The other terms of the transaction, including the terms of valuation, are set according to the Clearing Rules and the Detailed Rules of the OTC Clearing System. The rules of valuation of a repo transaction are set out in Appendix 6.



**Repo Transaction / Sell/buy-back Transaction**

1. Whenever this Appendix refers to a repo transaction, this shall be understood to mean accordingly also a sell/buy-back transaction.
2. A Repo Transaction consists of an opening transaction and a closing transaction. The opening transaction consists in the transfer of ownership of securities designated with a specific identifier to the account of the buyer in exchange for the payment of a specific amount in cash (purchase amount). The closing transaction consists in the return transfer of purchased securities in the same quantity and designated with the same identifier as the securities subject to the transaction in exchange for the payment of a specific amount in cash (repurchase amount). Parties concluding a Repo Transaction within the meaning of the Clearing Rules set in particular the following Terms of the Transaction:
  - a. Repo Transaction type;
  - b. Repo Transaction execution date;
  - c. Seller;
  - d. Buyer;
  - e. Transferrable securities identifier (ISIN);
  - f. Quantity of sold securities;
  - g. Purchase price;
  - h. Purchase date;
  - i. Repurchase price;
  - j. Repurchase date.
3. KDPW\_CCP shall not accept a repo transaction for clearing if:
  - a. the transferrable securities specified in the transaction are not allowed for repo transactions by KDPW\_CCP,
  - b. the record date of rights to interest payment of the specified securities is later than the purchase date and earlier than a specific number of days after the securities repurchase date as set by KDPW\_CCP,
  - c. the record date of rights to redemption of the specified securities is earlier than a specific number of days after the repurchase date as set by KDPW\_CCP.
4. Detailed terms of the transaction

Designations of operation codes for repo transactions	Operation type: TR Market code: OC Trading mode: ZG
Designation of repo transaction type	Repo transaction: R1 Sell/buy-back transaction: R4

Trade execution date	Any business day (no later than the first leg settlement date).
Sold securities	Polish Treasury bonds, the list of acceptable securities is published by KDPW_CCP on its website.
Purchase date	$t_1$ ; Settlement date of purchase of bonds in the Repo transaction. Date within the range $\langle \text{trade date}; \text{trade date} + \text{spot} \rangle$ , according to the convention set in the terms of the transaction.
Repurchase date	$t_2$ ; date within the range $\langle \text{trade date} + 1D; \text{trade date} + \text{spot} + 24M \rangle$ ; $t_2 > t_1$ , according to the convention set in the terms of the transaction.
Purchase price	P1; Price per monetary unit of the nominal value of sold securities, paid by the buyer to the seller at purchase date.
Purchase amount	Purchase price times quantity of sold securities times unit nominal value of securities rounded off to the second decimal place.
Repurchase price	P2; Price per monetary unit of the nominal value of sold securities, paid by the seller to the buyer at repurchase date.
Repurchase amount	Repurchase price of the bonds times quantity of sold securities times unit nominal value of securities rounded off to the second decimal place.
Settlement mode	DvP (delivery versus payment): at purchase date, the buyer (seller) of bonds pays (receives) the purchase amount against receipt (delivery) of bonds, and at repurchase date the buyer (seller) delivers (receives) bonds against receipt (payment) of the repurchase amount.

## 5. Other terms

The other terms of the transaction, including the terms of valuation, are set according to the Clearing Rules and the Detailed Rules of the OTC Clearing System. The rules of valuation of a repo transaction are set out in Appendix 6.

**ELECTRONIC PLATFORMS APPROVED BY KDPW\_CCP**

<b>Types of trade concluded or confirmed on the electronic platform</b>	<b>Name of the electronic platform</b>
Derivative trade in derivative instruments	1/ MarkitWire platform operated by MarkitSERV (direct connection with KDPW_CCP) or 2/ platform operating via MarkitWire (platform identified by an identifier held by the platform and supported by MarkitWire; indirect connection with KDPW_CCP exclusively via MarkitWire)
Repo transactions	1/ platform operated by BondSpot  2/ platform operated by KDPW_CCP
Sell transactions	1/ platform operated by BondSpot

## Appendix 4 to the Detailed Rules of the OTC Clearing System

Appendix describes:

1. attributes of clearing accounts,
2. attributes of client classification numbers (NKK)
3. Identifiers used on OTC confirmation platforms.

### **1. Attributes of clearing accounts**

- ownership type (1 A)
- participation type (2 A)
- representation agreement identifier (2 A)
- account type (2 A)
- client classification number (NKK) (8 A)
- portfolio number (2 A)

Every account described by the presented set of attributes is identified as:

- institution code (4 A)
- clearing account identifier (16 A)

A securities settlement account maintained by KDPW may be assigned to every clearing account. The relevant settlement account is designated by the Clearing Member in the KDPW\_CCP clearing account opening instruction. The assignment of a settlement account to a clearing account may be modified by means of an instruction sent to KDPW\_CCP.

After the relation between a clearing account and a securities settlement account is cancelled, default securities settlement accounts in KDPW are used for settlement.

### **2. Attributes of client classification numbers (NKK)**

Every NKK has attributes assigned to it according to the required classification of clients or groups of clients. The following types of NKK apply:

- RESI resident,
- NRES non-resident,
- OMNI omnibus account holder,
- NOAP (not applicable).

Depending on the type of client, the following types of NKK apply:

- Individual (INDI) for individual clients
- Collective (COLL) for groups of clients

Appendix 5 to the Detailed Rules of the OTC Clearing System

**1. Framework timetable of accepting trade for clearing**

Session no.	Hours of accepting trade to the OTC clearing system	Type of trade covered by the session
Session No. 1	9.00 -17.30	1/ Derivatives trade, 2/ Repo trade except opening transactions to be settled on the day of acceptance for clearing in the OTC clearing system, 3/ Sell Transactions.
Session No. 2	9.00 – 15.30	Repo trade to be settled on the day of acceptance for clearing in the OTC clearing system (R+0)

**2. Framework timetable of a clearing day**

Netting session no.	Session opening time	Type of transactions covered by the session
No. 1	17.30	1/ Derivatives transactions, 2/ Repo transactions, 3/ Sell Transactions.

## Margin Calculation Methodology and Derivatives, Repo and Sell Transactions Valuation Methodology

### 1. Overview

This Appendix presents the valuation formulas for interest rate derivatives and repo transactions implemented in the kdpw\_otc system, as well as the calculation algorithms used to determine the yield curve and to calculate historically simulated value at risk.

### 2. Valuation formulas for different types of financial instruments

#### 2.1 Definitions

The valuation of a transaction is performed in the currency of the contract.

The definitions of symbols used in the valuation formulas are presented below.

$r_{t,Z}$	is the rate for curve $Z$ at date $t$
$df_t$	is the discount factor for a discount curve at date $t$
$df_{Z,t}$	is the discount factor at date $t$ for curve $Z$ consistent with the instrument tenor
$znak$	is the counterparty sign, possible values: 1 or -1
$N$	is the contract nominal amount
$r_{FRA}$	is the FRA rate
$t(d_1, d_2)$	is the year fraction between date $d_1$ and $d_2$ , calculated according to the relevant convention
$eff$	is the instrument effective date or coupon start date
$mat$	is the instrument maturity date or coupon end date

#### 2.2 FRA valuation

FRAs are agreements where the counterparties determine the interest rate to be used at a future date for a specific amount in the transaction currency for a determined period. The FRA value is determined differently before and after the reference rate is set.

The value is determined as follows:

- before the reference rate is set:

$$PV_{FRA} = znak N \left[ df_{eff} - \left( 1 + r_{FRA} t(eff, mat) \right) df_{eff} \frac{df_{Z,mat}}{df_{Z,eff}} \right]$$

- after the reference rate is set:

$$PV_{FRA} = znak \frac{(r_{fixing} - r_{FRA}) N t(eff, mat)}{1 + r_{fixing} t(eff, mat)} df_{eff}$$

### 2.3 IRS valuation

Interest Rate Swaps is an agreement to exchange interest rate periodic and are made up of two interest cash flows. One counterparty pays interest calculated at a fixed interest rate (fixed leg) and receives interest calculated at a floating rate (floating leg); the other counterparty does the opposite. The contract value is the difference between the valuation of the received leg and the valuation of the paid leg. The valuation of each IRS leg is presented below.

- Fixed leg valuation:

$$PV_{fixed}(t) = \sum_{j: mat(j) > t}^{M_{fixed}} r_{IRS,j} N_j t(eff(j), mat(j)) df_j$$

where:

- $M_{fixed}$  - is the number of interest periods of the fixed leg
- $N_j$  - nominal amount of the contract in interest period  $j$
- $r_{IRS,j}$  - contractual IRS rate in interest period  $j$

- Floating leg valuation:

$$PV_{float}(t) = \sum_{j: mat(j) > t}^{M_{float}} N_j (r_j + m_j) t(eff(j), mat(j)) df_j$$

$$r_j = \begin{cases} r_{t_{refix_j}, index} & t_{refix_j} \leq t \\ r_{j, \alpha} & t_{refix_j} > t \end{cases}$$

where:

- $r_{j, \alpha}$  - is the rate at date  $j$  for curve  $\alpha$ , where  $j = 0$  (first coupon cash flow) the rate may be set explicitly without an input rate
- $r_{t_{refix_j}, index}$  - observed index rate on day  $t_{refix_j}$
- $M_{float}$  - is the number of interest periods of the floating leg
- $m_j$  - is the additive margin (spread) in interest period  $j$

### 2.4 Basis Swap valuation

Basis Swaps are a type of interest rate swaps for which both parties pay interest at a different floating rate. The contract value is the difference between the valuation of the received leg and the valuation of the paid leg. The valuation of each leg is presented below.

$$PV_A(t) = \sum_{j:mat(j)>t}^T N_j(r_{j,A} + m_{A,j}) t(eff(j), mat(j)) df_j$$

$$PV_B(t) = \sum_{j:mat(j)>t}^T N_j(r_{j,B} + m_{B,j}) t(eff(j), mat(j)) df_j$$

where:

$$r_j = \begin{cases} r_{t_{refix_j}, index} & t_{refix_j} \leq t \\ r_{j, \alpha} & t_{refix_j} > t \end{cases}$$

$r_{t_{refix_j}, index}$	- the index rate observed on day $t_{refix_j}$
$index$	- rate index for a given floating leg
$r_{j, \alpha}$	- is the rate at date $j$ for curve $\alpha$ , where $j = 0$ it is the rate which may be determined for the first cash flow
$T$	- is the number of interest periods
$m_{A,j}, m_{B,i}$	- is the additive margin (spread) in the interest period

## 2.5 OIS valuation

OIS are fixed to floating interest rate swaps where the floating leg is indexed to the overnight rate (POLONIA rate in Poland, EONIA in EUR currency). OIS swap two cash flows: a fixed leg which is a one-off cash flow of interest set at a fixed rate determined in the contract for a specific nominal amount, and a floating leg which is a one-off cash flow of interest compounded over every day set at an overnight rate for a specific nominal amount. The settlement amount is the absolute value of the difference between the two legs. The valuation of each leg is presented below.

$$PV_{fixed} = \sum_{j:mat(j)>t}^T N r_{OIS} t(eff(j), mat(j)) df_{OIS,j}$$

where:

$r_{OIS}$  - set fixed rate of the contract

$$PV_{float}(t) = NR' t( eff, mat) df_{OIS,mat}$$

$$R' = int(R * 10^4 + 0,5)/10^4$$

$$R = \left( \prod_{i=1}^T (1 + r_i t( eff(i), mat(i))) - 1 \right) / t( eff, mat)$$



where:

$$T \quad - \text{ is the number of interest periods in the term of the contract,}$$

$$r_i = \begin{cases} r_{i,index} + s & i \leq t \\ r_{i,OIS} + s & i > t \end{cases}$$

$r_{i,index}$  - observed the index rate at day i

$r_{i,OIS}$  - OIS curve rate at the start date of interest period i

s - is the additive margin (spread)

R - is the effective interest rate

R' - is the effective interest rate rounded off to four decimal places

## 2.6 Valuation of additional cash flows

If there are additional cash flows under the terms of the transaction, their valuation is determined as follows:

$$NPV_{f_{es}} = \sum_{i=1}^k \text{znak } F_i df_i$$

where:

k - number of additional cash flows

$F_i$  - amount of i-th cash flow

znak - 1 if the additional cash flow is to be received or -1 if the additional cash flow is to be paid

## 2.7 Valuation of repo transactions

The contract value before the settlement of the first leg is calculated as follows:

$$PV = \text{znak} (N_{Bonds} \text{MarketPrice}(t) df_{spot} - \text{GrossAmount1} df_{t1}) \\ - \text{znak} (N_{Bonds} \text{MarketPrice}(t) df_{spot} - \text{GrossAmount2} df_{t2})$$

where:

$N_{Bonds}$  - is the transaction volume

t1 - is the settlement date of the first leg

t2 - is the settlement date of the second leg

GrossAmount1 - is the settlement amount of the first leg

GrossAmount2 - is the settlement amount of the second leg

MarketPrice (t) - is the settlement price of bonds on day t (including interest accrued since the last coupon payment date)

$df_{spot}$  - discount factor from day t+2 to current date

$df_{t2}$  - discount factor from day t2 to current date

$znak$  - constant equal to -1 for the repo counterparty and 1 for the reverse repo counterparty

The contract value after the settlement of the first leg is calculated as follows:

$$PV = -znak(N_{Bonds} MarketPrice(t)df_{spot} - GrossAmount2df_{t2})$$

## 2.8 Valuation of sell transactions

$$PV = znak(N_{Bonds} MarketPrice(t)df_{spot} - GrossAmountdf_t)$$

where:

$znak$  - constant equal to -1 for the seller and 1 for the buyer

$GrossAmount$  - sell transaction settlement amount

$df_t$  - discount factor from day  $t$  to current date

## 3. Determining the yield curve

Yield curve generation is an essential step in the valuation of interest rate products. The curve represents the relationship between the interest rate and time for a specific currency.

Yield curves are implied from market observable interest rate instruments (input rates).

The yield curve is made up of a term structure of observable input interest rates of different maturities  $r_t$  and the resultant zero coupon discount factors  $df_t$  implied by the input rates at time  $t$ .

Each term structure groups input rates with a common asset, tenor and currency but of different maturities.

Discount factors are derived from the CASH, FRA, IRS and OIS observable input rates using the bootstrapping method. Discount factors between intermediary points are derived using the loglinear interpolation method.

### 3.1 Definitions

$df_t$  - is the discount factor at time  $t$

$r_t$  - is the input rate with maturity at time  $t$

$t(d1, d2)$  - is the year fraction between date  $d1$  and  $d2$

### 3.2 Curve bootstrapping

Discount factors are implied from input rates iteratively in order of maturity. The initial discount factor is derived first for the shortest maturity. Each next discount factor is derived from previously established values.

### 3.3 Curve generation for CASH and FRA inputs

#### 3.3.1 Calculation of initial discount factor

The first step of curve generation is to derive the initial discount factor  $df_{on}$ . It is derived from the overnight rate  $r_{on}$  as follows:

$$df_{on} = \frac{1}{1 + r_{on}t(0, on)}$$

#### 3.3.2 Calculation of remaining discount factors

The remaining discount factors are calculated in order of maturity (from the shortest to the longest) as follows:

$$df_{mat(i)} = \left( \frac{1}{1 + r_i t(eff(i), mat(i))} \right) df_{eff(i)}$$

where:

- $eff(i)$  - is the effective date of instrument  $i$
- $mat(i)$  - is the maturity date of instrument  $i$

If  $df_{eff(i)}$  is unknown, it is interpolated from the two nearest discount factors.

### 3.4 Curve generation for IRS inputs

The system supports two methods to derive the discount factor  $df_t$ , from an input swap rate  $r_t$ :

**FIXEDLEG** – the final fixed coupon is derived from all known fixed coupons for the swap

**FLOATLEG** – the final floating coupon is derived from all known fixed coupons and floating coupons for the swap.

#### 3.4.1 FIXEDLEG method

The final fixed cash flow is derived from all previous known fixed cash flows as follows:

For each input rate  $r_s(N,t)$ , the zero coupon rate for period  $t$  must be derived:

- $r_s$  - is the input rate for swap  $s$
- $N$  - is the number of coupons paid annually
- $t$  - is the tenor in years

In order to derive this rate, the theoretical price of a bond is calculated as the present value of the cash flows to be received in the future. As the par rate is used the present value of the future coupon payments and the nominal amount is equal to 1.

$$1 = \frac{(r_s(N,t)t(eff(1),mat(1))df_1) + (r_s(N,t)t(eff(2),mat(2))df_2) + \dots + (1 + r_s(N,t)t(eff(n),mat(n)))df_n}{df_{eff(s)}}$$

where:

- $df_{eff(s)}$  - is the discount factor on the effective date of swap  $s$
- $eff(n)$  - is the effective date of coupon  $n$
- $mat(n)$  - is the maturity date of coupon  $n$

This can be rearranged as:

$$df_n = \frac{1 - \frac{r_{s(N,t)}}{df_{eff(s)}} \sum_{i=1}^{n-1} t(eff(i), mat(i)) df_i}{(1 + r_{s(N,t)} t(eff(n), mat(n)))} df_{eff(s)}$$

This enables us to solve for  $df_n$  from the known fixed coupons.

### 3.4.2 FLOATLEG method

The FLOATLEG approach derives the final floating coupon from a combination of all known fixed and floating coupons. The fixed coupons are derived from the discount curve, and the floating coupons are derived from a combination of the discount curve and the forward curve.

The FLOATLEG bootstrap approach uses the following methodology.

For a par swap, the NPV of the fixed leg equals the NPV of the floating leg.

$$\sum_{i=1}^{n_{fixed}} r_s(N, t) df_{i,D} t(eff(i), mat(i)) = \sum_{i=1}^{n_{float}} r_i df_{i,D} t(eff(i), mat(i))$$

where:

- $r_i$  is the forward rate for floating coupon  $i$
- $df_{i,D}$  is the discount factor from discounting curve  $D$  for end day of coupon  $i$

Rearranging the above enables us to solve for the forward rate of the final floating coupon:

$$r_{n_{float}} df_{n_{float},D} t(eff(n_{float}), mat(n_{float})) = \sum_{i=1}^{n_{fixed}} r_{s(N,t)} df_{i,D} t(eff(i), mat(i)) - \sum_{i=1}^{n_{float}-1} r_i df_{i,D} t(eff(i), mat(i))$$

The final discount factor can be derived from the implied forward rate as follows:

$$df_{n_{float},F} = \frac{df_{n_{float}-1,F}}{r_{n_{float}} t(eff(n_{float}), mat(n_{float})) + 1}$$

where:

$df_{n_{float},F}$  - is the discount factor from curve  $F$  for end date of coupon  $n_{float}$

The discount factors  $df_{n,D}$  are derived from the discount curve D using the FIXEDLEG method described in section 3.4.1. The discount factors  $df_{n,F}$  for curve F are derived iteratively using the above approach.

### 3.4.3 Swap rate interpolation

When the curve is bootstrapped, discount factors for more than one cash flow may be unknown. Interpolation is required in order to derive the unknown cash flows. KDPW\_CCP determines the unknown swap rates through cubic spline interpolation.

## 3.5 Interpolation methods

KDPW\_CCP system derives missing discount factors using the loglinear interpolation method.

### 3.6 Exceptions

In certain cases, curve inputs are not available due to lack of liquidity or for other reasons. Bootstrapping issues can also occur during the yield curve calculation process. This section describes common exceptions and how they are handled by the KDPW\_CCP system.

#### 3.6.1 First curve input effective date later than business date

If the first curve input effective date is after the business date, then both the effective date discount factor  $df_{eff}$  and the maturity date discount factor  $df_{mat}$  are unknown.

In that case, KDPW\_CCP approximates them as follows:

- First, an approximate discount factor  $df_{\sim mat}$  is calculated:

$$df_{\sim mat} = \frac{1}{1 + (r_t t(0, mat))}$$

$df_{eff}$  can then be interpolated:

$$df_{eff} = 1 - (1 - df_{\sim mat}) \frac{t(0, eff)}{t(0, mat)}$$

- Finally,  $df_{mat}$  can be derived in the same manner as other curve input points:

$$df_{mat} = \left( \frac{1}{(1 + (r_t t(eff, mat)))} \right) df_{eff}$$

### 3.6.2 Second curve input effective date later than business date

If the effective date of the second curve input is later than the business date, both  $df_{eff(2)}$  and  $df_{mat(2)}$  will be unknown for this curve input (unless the effective date for this curve input is the same as the maturity date of the first curve input).

Approximation is required to derive either  $df_{eff(2)}$  or  $df_{mat(2)}$ . The KDPW\_CCP system extrapolates  $df_{\sim eff(2)}$  from the first discount factor as follows:

$$df_{\sim eff(2)} = 1 - (1 - df_{mat(1)}) \frac{t(0, eff(2))}{t(0, mat(1))}$$

$df_{mat(2)}$  can then be derived in the same manner as other curve input points using  $df_{\sim eff(2)}$ .

### 3.6.3 Multiple curve inputs mature on the same date

If multiple curve input points have the same maturity date, KDPW\_CCP chooses one curve input only. Precedence is given to CASH rates over FRAs, and FRAs over Swaps.

## 4. Calculating the required initial margin

The required initial margin is equal to the value of HVaR (i.e. VaR calculated using historic scenarios) for a given account while applying the following parameters:

- holding period
- confidence level
- decay rate
- number of historical events (time horizon)
- method used to calculate rates for VaR scenarios

### 4.1 Overview

KDPW\_CCP performs a Value at Risk (HVaR) calculation. The model calculates a potential Profit / Loss (PL) based on historical market movements within the set time horizon. Statistical analysis of the P&L sample space is then used.

Calculation of margins (and other risk measures, if any) is a three-step process:

- generate scenarios from the market history;
- price the portfolio using each of the generated historical scenarios;
- calculate quantile values.

### 4.2 Scenario generation

The HVaR model generates market scenarios based on historical market movements over a specified date range, from today to a specified date in the past.

Scenarios are generated in the date range:

$(t - N)$  do  $(t)$

where:

$t$  - is the current business day

$N$  - is the number of the historical observation period

Each scenario  $i$  is defined as the vector of  $n$  market inputs that impact the value of the portfolio.

For interest rates, KDPW\_CCP calculates  $\delta_i$  using the additive movement which includes scaling of the portfolio holding period:

$$\delta_i = r_t + \sqrt{l} (r_{i+1} - r_i)$$

and for fx rates it uses the multiplicative movement:

$$\delta_i = \max(0, r_t (1 + \left(\frac{r_{i+1}}{r_i} - 1\right) \sqrt{l})).$$

### 4.3 Valuation under scenarios

The portfolio is valued as at today's business date for each scenario using the historical market inputs.

This results in the following vector  $V$  of potential loss:

$$V = \begin{bmatrix} \sum_{c=1}^Y (MtM_{1,c} - MtM_{t,c}) ExR_{1,c} \\ \sum_{c=1}^Y (MtM_{2,c} - MtM_{t,c}) ExR_{2,c} \\ \dots \\ \sum_{c=1}^Y (MtM_{N,c} - MtM_{t,c}) ExR_{N,c} \end{bmatrix}$$

where:

$N$  - is the number of scenarios,

$MtM_{i,c}$  - is the hypothetical value of the portfolio of transactions in currency  $c$  in scenario  $i$  in the range 1 to  $N$ ,

$MtM_{t,c}$  - is the mark to market of the portfolio of transactions in currency  $c$ ,

$ExR_{i,c}$  - is the fx rate under scenario  $i$ , used to convert the value of the portfolio in currency  $c$  to PLN.

Given a portfolio of  $m$  trades, the potential  $PV_i$  is calculated in PLN as:

$$MtM_{i,c} = \sum_{j=1}^m f(T_{j,c}, s_{i,c})$$

where:

$f$  - is the function which returns the valuation of transaction  $T_j$  in currency  $c$  in scenario  $s_i$

$T_{j,c}$  - is the  $j$ -th trade in currency  $c$  in the portfolio

$s_{i,c}$  - is scenario  $i$  for currency  $c$

**4.4 Calculating the margin**

In its statistical analysis of a sample of potential Profit / Loss values, KDPW\_CCP assumes that scenarios used in the portfolio valuation are assigned equal weights (each scenario has equal probability).

When calculating percentiles, vector values are ordered from lowest (largest loss) to highest (largest profit). Given  $N$  ranked valued from the sector  $V$ , the rank  $x$  L for target percentile  $P$  is calculated as:

$$x = \frac{P}{100} (N - 1) + 1$$

Then splitting  $n$  into its integer  $k$  and decimal component  $d$ , such that  $x = k + d$ , we calculate the percentile value  $P (v_p)$  as:

$$v_p = \begin{cases} v_1, & x = 1 \\ v_N, & x = N \\ v_k + d(v_{k+1} - v_k), & 1 < x < N \end{cases}$$

The value  $V_p$  is the required level of initial margin.

**5. Definition of projection curves and discount curves**

**5.1 Projection curves**

5.1.1 1M curve

	<b>PLN</b>	<b>EUR</b>
1M	WIBOR	EURIBOR
2M	FRA 1x2	IRS 2m1s
3M	FRA 2x3	IRS 3m1s
4M		IRS 4m1s
5M		IRS 5m1s
6M	IRS 6m1s	IRS 6m1s
7M		IRS 7m1s
8M		IRS 8m1s
9M		IRS 9m1s
10M		IRS 10m1s
11M		IRS 11m1s
1Y	IRS 1y1s	IRS 1y1s



2Y	IRS 2y1s	IRS 2y1s
3Y	IRS 3y1s	IRS 3y1s
4Y		IRS 4y1s
5Y		IRS 5y1s
6Y		IRS 6y1s
7Y		IRS 7y1s
8Y		IRS 8y1s
9Y		IRS 9y1s
10Y		IRS 10y1s
12Y		IRS 12y1s
15Y		IRS 15y1s
20Y		IRS 20y1s
25Y		IRS 25y1s
30Y		IRS 30y1s
40Y		IRS 40y1s
50Y		IRS 50y1s

### 5.1.2 3M curve

	<b>PLN</b>	<b>EUR</b>
3M	WIBOR	EURIBOR
4M	FRA 1x4	FRA 1x4
5M	FRA 2x5	FRA 2x5
6M	FRA 3x6	FRA 3x6
7M	FRA 4x7	FRA 4x7
8M	FRA 5x8	FRA 5x8
9M	FRA 6x9	FRA 6x9
10M	FRA 7x10	FRA 7x10
11M	FRA 8x11	FRA 8x11
1Y	FRA 9x12	FRA 9x12
15M	FRA 12x15	FRA 12x15
18M	FRA 15x18	

21M	FRA 18x21	
2Y	FRA 21x24	IRS 2y3s
3Y	IRS 3y3s	IRS 3y3s
4Y	IRS 4y3s	IRS 4y3s
5Y	IRS 5y3s	IRS 5y3s
6Y	IRS 6y3s	IRS 6y3s
7Y	IRS 7y3s	IRS 7y3s
8Y	IRS 8y3s	IRS 8y3s
9Y	IRS 9y3s	IRS 9y3s
10Y	IRS 10y3s	IRS 10y3s
12Y	IRS 12y3s	IRS 12y3s
15Y	IRS 15y3s	IRS 15y3s
20Y	IRS 20y3s	IRS 20y3s
25Y		IRS 25y3s
30Y		IRS 30y3s
40Y		IRS 40y3s
50Y		IRS 50y3s

### 5.1.3. 6M curve

	<b>PLN</b>	<b>EUR</b>
6M	WIBOR	EURIBOR
7M	FRA 1x7	FRA 1x7
8M	FRA 2x8	FRA 2x8
9M	FRA 3x9	FRA 3x9
10M	FRA 4x10	FRA 4x10
11M	FRA 5x11	FRA 5x11
1Y	FRA 6x12	FRA 6x12
15M		FRA 9x15
18M	FRA 12x18	FRA 12x18
2Y	FRA 18x24	IRS 2y6s
3Y	IRS 3y6s	IRS 3y6s

4Y	IRS 4y6s	IRS 4y6s
5Y	IRS 5y6s	IRS 5y6s
6Y	IRS 6y6s	IRS 6y6s
7Y	IRS 7y6s	IRS 7y6s
8Y	IRS 8y6s	IRS 8y6s
9Y	IRS 9y6s	IRS 9y6s
10Y	IRS 10y6s	IRS 10y6s
12Y	IRS 12y6s	IRS 12y6s
15Y	IRS 15y6s	IRS 15y6s
20Y	IRS 20y6s	IRS 20y6s
25Y		IRS 25y6s
30Y		IRS 30y6s
40Y		IRS 40y6s
50Y		IRS 50y6s

#### 5.1.4 OIS curve

	<b>PLN</b>	<b>EUR</b>
O/N	POLONIA (index)	EONIA
1W	OIS 1W	OIS 1W
2W	OIS 2W	OIS 2W
3W	OIS 3W	OIS 3W
1M	OIS 1M	OIS 1M
2M		OIS 2M
3M	OIS 3M	OIS 3M
4M		OIS 4M
5M		OIS 5M
6M	OIS 6M	OIS 6M
7M		OIS 7M
8M		OIS 8M
9M	OIS 9M	OIS 9M
10M		OIS 10M
11M		OIS 11M

1Y	OIS 1Y	OIS 1Y
15M		OIS 15M
18M		OIS 18M
21M		OIS 21M
2Y		OIS 2Y
3Y		OIS 3Y
4Y		OIS 4Y
5Y		OIS 5Y
6Y		OIS 6Y
7Y		OIS 7Y
8Y		OIS 8Y
9Y		OIS 9Y
10Y		OIS 10Y
12Y		OIS 12Y
15Y		OIS 15Y
20Y		OIS 20Y
25Y		OIS 25Y
30Y		OIS 30Y
40Y		OIS 40Y
50Y		OIS 50Y

## 5.2 Discount rate curves

### 5.2.1 PLN curve

O/N	POLONIA (index)
1W	OIS 1W
2W	OIS 2W
3W	OIS 3W
1M	OIS 1M
3M	OIS 3M
6M	OIS 6M
9M	OIS 9M

1Y	OIS 1Y
2Y	IRS 2y1s
3Y	IRS 3y1s
4Y	IRS 4y3s
5Y	IRS 5y3s
6Y	IRS 6y3s
7Y	IRS 7y3s
8Y	IRS 8y3s
9Y	IRS 9y3s
10Y	IRS 10y3s
12Y	IRS 12y3s
15Y	IRS 15y3s
20Y	IRS 20y3s

### 5.2.2 EUR curve

The EUR discount curve is the OIS EUR curve described in point 5.1.4.

## 6. Sources of market data

Sources of market data for respective types of financial instruments and data include:

1. For instruments cleared in PLN:
  - 1) WIBOR (index) – fixing organised by GPW Benchmark S.A.,
  - 2) POLONIA (index) – fixing organised by the National Bank of Poland,
  - 3) FRA, IRS, OIS (PLN) – market data from available news services and data from transactions sent for clearing to KDPW\_CCP,
2. For instruments cleared in EUR:
  - 1) EURIBOR (index) – fixing organised by the European Money Market Institute,<sup>1</sup>
  - 2) EONIA (index) – fixing organised by the European Money Market Institute,<sup>1</sup>

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<sup>1</sup> According to the agreement between KDPW\_CCP S.A. and the European Money Market Institute (EMMI), please note that the transaction clearing service is not in any way sponsored, endorsed, sold, or promoted by EMMI, and EMMI has no obligations or liability in connection with the use of any such service. EURIBOR and EONIA are compiled and calculated on behalf of EMMI. However, EMMI shall not be liable (whether in negligence or otherwise) to any person for any error in EURIBOR and/or EONIA or use of the same, whether or not arising from the negligence of EMMI, and EMMI shall not be under any obligation to advise any person of any error therein.

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- 3) FRA, IRS, OIS (EUR) – market data from available news services and data from transactions sent for clearing to KDPW\_CCP.

Market data are sourced via the news service SuperDerivatives (main news service), Bloomberg or Thomson Reuters on the terms defined below.

In determining reference rates for interest rate derivatives referred to in point 1 (3) and point 2 (3), KDPW\_CCP uses in the first place data available from the main news service.

If data from the main news service are incomplete on any clearing day, their availability is limited or the adequacy of the data raises reasonable doubt in the opinion of KDPW\_CCP (which impairs the quality of the data), then in order to ensure the safety of transaction clearing KDPW\_CCP may determine reference rates based on data sourced from other available news services referred to above, in whole or in part. The principle defined in the preceding sentence shall apply accordingly to data available from the next selected news service.

### Detailed rules of calculating collateral limits

Collateral limits referred to in § 1 subpara. 18 of the Clearing Rules and § 20 subpara. 1 and 1a of the Detailed Rules of the OTC Clearing System are calculated as follows:

#### 1. Collateral limit

The collateral limit is equal to the recognised margins deposited by a participant for own positions and client positions, registered in own and client clearing accounts maintained by KDPW\_CCP for the participant to which collateral accounts are assigned, whereby collateral deposited for clients' positions is recognised up to the requirement calculated for the positions while collateral deposited for the participant's own positions is recognised in the amount deposited by the participant. The participant's collateral limit is calculated according to the following formula.

Figure 1. Collateral limit (CL)

$$CL = \sum_{PB \text{ Client}} \min(IMR_{PB}, Coll_{PB}) + Coll_{House}$$

where:

$IMR_{PB}$  – margin requirement for account PB calculated according to the following formula:

$$IMR_{PB} = \max(IM_{PB} + OutMtM_{PB} + SAdj_{PB}, 0)$$

where:

$IM_{PB}$  – initial margin calculated for the collateral account PB

$OutMtM_{PB}$  – value of transactions accepted for clearing today, registered in the clearing account assigned to account PB, or value of transactions concluded as a result of closing of positions on demand or automatic closing of positions calculated for the clearing account assigned to account PB

$SAdj_{PB}$  – adjusting amount determined for the clearing account assigned to account PB, resulting from accepted quotes of a participant taking part in automatic closing of positions or closing of positions on demand

$Coll_{PB}$  – recognised value of collateral in account PB

$Coll_{House}$  – recognised value of collateral in participant's own account PB

#### Available collateral limit

The available collateral limit for a participant is the difference between the collateral limit and the sum of the margin requirements. A negative figure stands for a collateral limit overrun (deficit).

Figure 2. Available collateral limit (AL)

$$AL = CL - \sum_{PB} IMR_{PB}$$

Collateral limit utilisation is reported to participants in a Participant Notification message.

## **2. Individual limit for a clearing account and a collateral account**

Participants may set margin limits for each client clearing account and collateral account.

Clearing account (PA) and collateral account (PB) limits may be:

- for information only, or
- binding.

If a limit for information only is exceeded, the transaction is accepted and the limit overrun is reported to the participant in a Participant Notification.

If a binding limit for the account is exceeded, the transaction is not accepted for clearing. The limit overrun and the suspension of the acceptance of the transaction is reported to the participant in a Participant Notification.



## **Automatic closing of positions applies in case of clearing member default.**

### **1. Preparing the auction**

In case of default, KDPW\_CCP sends an AuctionNotification message to clearing members. The message notifies the clearing members of the planned automatic closing of positions of a clearing member including the planned timing, the type and the tenor of instruments.

Next, clearing members are notified of auction details in an AuctionDetail message which includes:

- 1) start and end time and results of the auction;
- 2) auction style (Vickrey, standard);
- 3) segments (portfolios) including:
  - a) number of units in the portfolio;
  - b) minimum number of units to be quoted by the clearing member;
  - c) unit description (details of trades in each unit except the terms of setting the variation margin or the settlement amount).

KDPW\_CCP sets the minimum number of units to be quoted by the clearing member on the basis of KDPW\_CCP exposure generated by the clearing member.

The minimum number of units is the total number of units in the segment times an augmenting parameter set by KDPW\_CCP times the contribution of the clearing member to the Guarantee Fund to the sum of contributions to the Guarantee Fund. The augmenting parameter is set by KDPW\_CCP in a Management Board Resolution.

### **2. Giving quotes**

In a process triggered by clearing member default, it is mandatory to send a quote separately for each segment within the auction. Otherwise, quotes are optional. Quotes are sent in an AuctionQuoteRequest message.

The clearing member's AuctionQuoteRequest message specifies:

- 1) clearing account in which transactions are to be registered;
- 2) auction number;
- 3) segment number;
- 4) number of quoted units and quoted prices.

If the clearing member specifies a clearing account where a transaction of a given type is to be registered, this means that the member submits an offer to conclude a transaction with settlement (TZR) or transaction with margin (TZD), respectively.

The clearing member may send multiple price quotes in an AuctionQuoteRequest message together with a number of units specified individually for each quote.

The total number of units in a portfolio to be closed quoted by the clearing member cannot be greater than the maximum or lower than the minimum number of units set by KDPW\_CCP in the AuctionDetail message.

The quote sent by the clearing member in the AuctionQuoteRequest message is subject to a check. If the quote does not meet the KDPW\_CCP requirements, the clearing member receives an AuctionError message which specifies errors. If the quote is correct, the clearing member receives an AuctionError message which specifies no errors, which means that KDPW\_CCP has received a correct quote.

If the clearing member receives an AuctionError message which specifies errors, the clearing member must resend the AuctionQuoteRequest message with a correct quote.

If the clearing member quotes an insufficient number of units in the portfolio, KDPW\_CCP reserves the right to use the quote.

The clearing member may resend a quote until the auction timeout. A resent quote replaces a preceding quote.

If no quote is received until timeout, the AuctionTimeout is sent to notify of the auction timeout.

### **3. Setting the price and selecting participants to take over positions**

Where the clearing member submits multiple price quotes for units to be taken over, KDPW\_CCP first uses the best quote. KDPW\_CCP may use a quote in part.

Trades on auction are taken over by the clearing member at a rate notified by KDPW\_CCP in an AuctionDetail message. The next KDPW\_CCP netting session performs marking to market including the current market rates (under general rules) and settlement of the amount based on quotes accepted by KDPW\_CCP.

The price at which units are taken over depends on auction style. For a standard auction, the price at which units are taken over is equal to the price quoted by the clearing member. For a Vickrey auction, the price of all units is set at the price of the least favourable unit accepted by KDPW\_CCP from all clearing members. After the auction closes, the clearing members receive an AuctionResult message which specifies the accepted number of quoted units of the portfolio and their prices.

After quotes are accepted, trades resulting from quoted units of the portfolio are registered in the accounts of the relevant clearing member.

### **4. Confirmation of a trade**

A ParticipantNotification message is generated for the clearing member to confirm that trades on auction have been accepted for clearing in KDPW\_CCP. ParticipantNotification and AuctionResult messages are confirmations sent to the clearing members. Such trades are not reflected in confirmation platforms.

## **Processing the closing of positions on demand**

### **1. Processing the closing of positions on demand**

Processing the closing of positions on demand of a clearing member, referred to in § 90 - § 95 of the Rules of Transaction Clearing (Non-organised Trading), requires the clearing member to send an OnDemandTerminationRequest message to the KDPW\_CCP clearing system and KDPW\_CCP to match parties to trade for the opposite position in the automatic closing of positions process.

The OnDemandTerminationRequest message requires the specification of key parameters necessary to identify the positions to be closed and to determine the opposite positions. The parameters are included in the OnDemandTerminationRequest message structure described in the document kdpw\_otc Message Structure published on the KDPW\_CCP website.

On receipt of the message, KDPW\_CCP checks the formal conditions necessary to start the processing of closing of positions on demand. The first check is to verify whether the clearing member requesting automatic termination has a relevant flag set up for the clearing account in the kdpw\_otc IT system necessary to perform automatic termination in the account in which the trades to be terminated are registered. Otherwise, the position closing request will be rejected at the stage of validation of the received OnDemandTerminationRequest message. The next check is to verify whether the specified positions are registered in the designated clearing account.

On receipt of the message requesting the closing of positions, KDPW\_CCP checks the collateral maintained in the accounts of the clearing member against margins required for the closing on demand to be executed. If the check indicates that the margins required after closing exceed the available collateral, then closing of positions on demand cannot be executed.

KDPW\_CCP confirms either acceptance or rejection of the request to close positions by sending an OnDemandTerminationResponse message to the clearing member who initiated the process. In case of acceptance, the requestAccepted field of the sent message is completed with the value "true".

The clearing member may send an OnDemandTerminationRequest message to the kdpw\_otc system by 16:00h on any business day on which a clearing session is held.

Closing on demand cannot be executed where:

- 1) the request is received too late to be finalised by the end of day;
- 2) automatic closing of positions due to default of another clearing member or request of another clearing member is being executed at the same time;
- 3) there is a high probability of default of another clearing member.

When accepting a request to start the process of closing positions on demand, KDPW\_CCP sets the following parameters:

- 1) auction style and timing;
- 2) number of units in the portfolio;
- 3) additionally generated portfolios (to prevent the identification of the actual portfolio on auction).

If KDPW\_CCP confirms acceptance of the position closing request, the other clearing members are notified of the initiated process of automatic closing of positions.

### **1.1 Starting the process of automatic closing of positions**

Initiation of a process of automatic closing of positions is notified in an AuctionDetail message sent by KDPW\_CCP to the clearing members participating in the process of closing positions on demand. The message contains basic information about the position portfolios including:

- 1) specification of positions being closed, except the terms of setting the variation margin or the settlement amount;
- 2) auction timeout;
- 3) auction style (Vickrey, standard).

A detailed description of this stage of the process is presented in Appendix 8 to the Detailed Rules of the OTC Clearing System "Processing automatic closing of positions".

### **1.2 Sending individual trade prices for opposite positions by clearing members to KDPW\_CCP**

In response to an AuctionDetail message, clearing members send to KDPW\_CCP an AuctionQuoteRequest message which includes the necessary details of the clearing account in which transactions are to be registered for the opposite position, as well as the prices of the offer to conclude transactions for the opposite position.

If the clearing member specifies a clearing account where a transaction of a given type is to be registered, this means that the member submits an offer to conclude a transaction with settlement (TZR) or transaction with margin (TZD), respectively.

In the next step, KDPW\_CCP selects the best offer.

In the processing of closing of positions on demand, KDPW\_CCP does not require the clearing members to present quotes for a specific minimum number of units.

#### **1.2.1 Setting the price of quoted trades**

The rules of setting prices for trades quoted by the clearing members participating in the process of automatic closing of positions are set out in Appendix 8 to the Detailed Rules of the OTC Clearing System "Processing automatic closing of positions".

#### **1.2.2 Calculating collateral required from clearing members participating in the process of closing positions on demand**

Successful processing of closing of positions on demand requires the participating clearing members, including both the initiating clearing member and the clearing members quoting trades for opposite positions, to maintain required collateral in their accounts. If the auction would cause required margins to exceed the deposited collateral, the closing cannot be executed. If the overrun affects the clearing member initiating the process, the process is terminated and the positions cannot be closed. If the overrun affects a clearing member taking over positions, that member is excluded from among the

clearing members quoting the positions. In that case, the system reallocates units disregarding the clearing member excluded from the process.

### **1.3 Ending the process of closing positions on demand**

On receipt of quotations from other clearing members, KDPW\_CCP immediately presents a price quote of closing the position in an OnDemandTerminationResult message. On receipt of the message, the requesting clearing member may close the position. The clearing member requesting the closing of positions should accept the terms of the quoted closing trade within a specific time limit after receipt of quoted prices by sending an OnDemandTerminationAcceptance message. If no confirmation is received within the time limit, KDPW\_CCP considers the quote to be rejected by the clearing member. The quoted trade price presented to the clearing member requesting the closing of positions is the best quote received by KDPW\_CCP from the clearing members responding to the position closing request. KDPW\_CCP notifies all clearing members of the result of the auction (acceptance or rejection of their quotes). If a quote is accepted by the clearing member, a position opposite to the position being closed is registered in the member's account to be netted during the netting session and to be cancelled together with the opposite position. Positions are cancelled on FIFO basis, whereby trades in the portfolio which meet the netting requirements are cancelled in the same order that they were registered in the member's account.

The position being closed is registered in the account of the clearing member whose quote has been accepted. The accepted quoted price is considered as an adjustment amount in the calculation of credits and debits in the evening clearing session. As a result of the closing of positions on demand, the opposite position is registered and cancelled in the account of the clearing member who initiated the process.