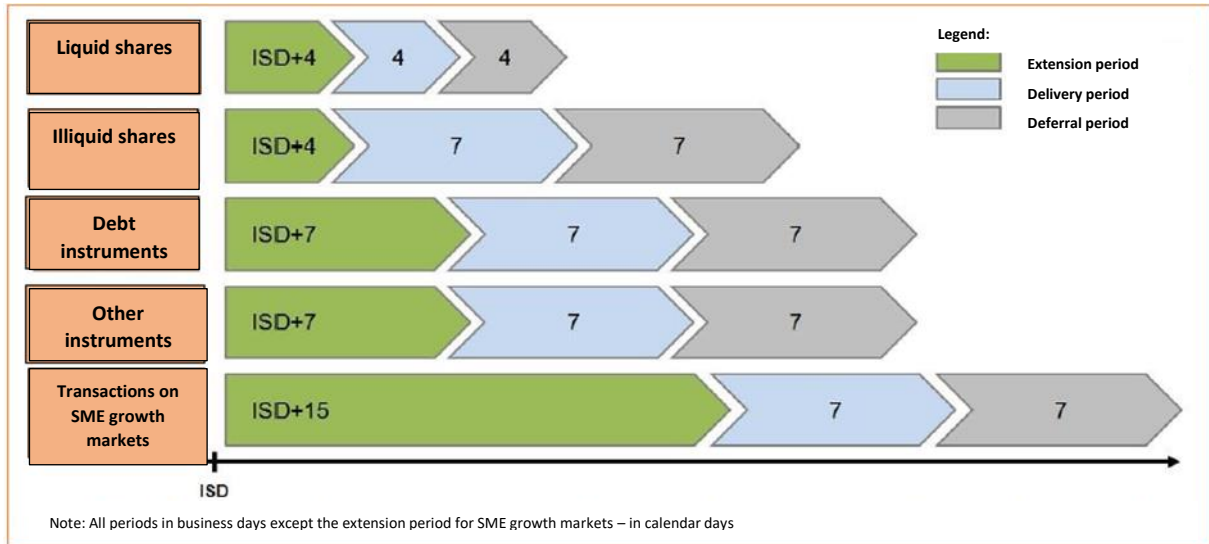


Handling the buy-in procedure initiated to eliminate settlement fails under settlement discipline

I Terms and definitions



II Procedure followed by KDPW_CCP

1. day T (first day after the extension period, the delivery period starts)
 - 7.30 a.m. - KDPW_CCP sends message secl.007.001.02¹ - *Notification of the start of the buy-in procedure* to the counterparty causing the settlement fail resulting from a settlement position;
 - 8.00 a.m. - settlement instructions causing the settlement fail are marked by KDPW_CCP with the HOLD status;
 - 9.00 a.m. - 3.00 p.m. - an auction is held where KDPW_CCP issues buy-in procedure orders to all clearing members. Auction launched daily during the delivery period.
2. No later than on the last day of the delivery period until 4.00 p.m., participants may send to KDPW_CCP a buy-in procedure deferral request in message secl.008.001.02 or in writing according to the deferral request template.
3. The following options are possible during the buy-in procedure:
 - A – full buy-in of securities – no accrual and no payment of compensation
 - B – partial buy-in of securities – modification of instructions in HOLD status plus accrual and payment of compensation
 - C – failure to buy in securities (due to lack of securities or if buy-in is not possible due to e.g. suspension of trading in securities) – accrual and payment of compensation
4. Option A – full buy-in of securities
 - After the buy-in transaction has been concluded and settled in KDPW, the participant causing the settlement fail receives the message secl.009.001.02². The message also

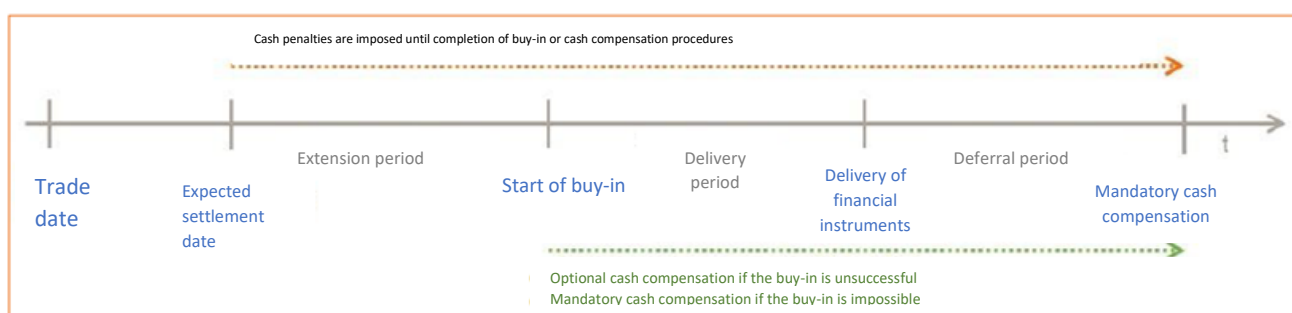
¹ The message is sent only once on the start day of the buy-in procedure. The structures and examples of ISO20022 messages from the collection used by KDPW_CCP are placed on the [MyStandards](#) platform. Message examples are available upon request sent to the following e-mail address: irm@kdpw.pl.

² The message is sent to participants and includes information about the buy-in transaction, the amount of cost reimbursement and the accrued compensation after the end of the buy-in procedure.

contains information on the potential reimbursement of buy-in costs in case the securities were purchased at a higher price than the value in the instructions causing the settlement fail (transfer 0645);

- After the settlement of the securities buy-in transaction, KDPW_CCP rejects the sell instruction in the HOLD status;
5. Option B – partial buy-in of securities
 - The same procedure as in option A, upon partial buy-in of the securities, the settlement instruction causing the settlement fail is modified accordingly in HOLD status (in order to correctly accrue cash compensation);
 - After the last KDPW settlement session on the last day of the delivery or deferral period, there remains an unsettled quantity of securities for which compensation is accrued and paid to the buying counterparty on the following day;
 6. After accepting offers in the auction, KDPW_CCP issues a buy-in settlement instruction (OTC buy-in transaction) for matching in KDPW, designated as TRAD//BISO. After matching with the instruction submitted by the clearing member whose offer was accepted in the auction, the buy-in transaction is settled in KDPW.
 7. Option C – in the event of a fully or partially unsuccessful buy-in of securities, on the following day (8.00-9.00) after the end of the delivery period, KDPW_CCP calculates the amount of compensation for the buying counterparty (in accordance with the settlement fail of settlement instructions in KDPW) according to the market value of the securities on the previous day. The market value is taken from the database dedicated to the calculation of cash penalties.
 8. The participant causing the settlement fail and the buying participant(s) are informed by KDPW_CCP of the amount of compensation in message secl.009.001.02.
 9. After compensation transfers (instruction code 0645 for PLN and EUR) are executed, the settlement instructions causing the settlement fail and the instructions of the buying counterparty/counterparties are rejected by KDPW_CCP. KDPW sends standard status messages for the deleted settlement instructions.

III KDPW_CCP's handling of cash penalties calculated by KDPW



1. Cash penalties are handled using the instruction code 0644 (Sorbn2) in PLN and in Target2 in EUR.
2. On the basis of reports made available by KDPW, KDPW_CCP executes payments related to the collection and redistribution of cash penalties in relation to clearing participants on the 17th day of a given month (Penalties Business Day, PBD) or on the first business day of KDPW_CCP after the 17th PBD on which the settlement currency is handled if the 17th PBD is a holiday or a day on which the currency is not settled.

3. Daily and monthly reports in the form of message semt.044.001.01 concerning accrued cash penalties for settlement fails are made available only by KDPW.

IV Fees for the settlement discipline mechanism

items in the Table of Fees (pending approval by the Polish Financial Supervision Authority)

- 4b.2. Fee for failed delivery of securities for the settlement in due time of:

a/ a repurchase transaction in securities concluded by a clearing member with KDPW_CCP in an open market buy-in or auction operation – 10,000 PLN

(...)

- 5.1. Fee for the processing of suspension of settlement due to a shortage of securities:

a/ 1,000 PLN – if the amount of failed settlement is no more than 5,000,000 PLN,

b/ 2,500 PLN – if the amount of failed settlement is more than 5,000,000 PLN

(...)

The fee referred to in point 5.1 is charged:

a/ for each commenced business day when transaction settlement is suspended due to a shortage of securities, from the last day of the extension period (exclusive) to the last day of an open market buy-in, including the deferred period (inclusive), and if an open market buy-in is unsuccessful or impossible and compensation is to be paid, then to the compensation payment day (inclusive),

b/ depending on the amount of failed settlement according to a settlement order submitted by KDPW_CCP.

The fees referred to in point 5.1 are charged to the clearing member who has not removed the suspension of transaction settlement owing to a shortage of securities.