

Resolution No. 52/22
of the KDPW_CCP S.A. Management Board
dated 5 December 2022

amending the Detailed Rules of the OTC Clearing System

Pursuant to § 3 subpara. 2, 4 and 8 of the Rules of Transaction Clearing (non-organised trading) and § 19 subpara. 2 of the KDPW_CCP S.A. Statute, the KDPW_CCP S.A. Management Board resolves as follows:

§ 1

The Detailed Rules of the OTC Clearing System attached to Resolution No. 21/16 of the KDPW_CCP S.A. Management Board dated 17 August 2016 (as amended) shall be amended as follows:

1/ § 13d subpara. 2 shall be replaced by the following:

“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 as 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.”;

2/ § 32 subpara. 2 shall be replaced by the following:

“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.”;

3/ § 44c shall be replaced by the following:

“§ 44c

On written request of a clearing member that fulfils the conditions referred to in § 44, KDPW_CCP shall 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.”;

4/ § 51 subpara. 5 shall be replaced by the following:

“5. Assets in PLN shall be deposited as 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 margin 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.”;

5/ § 64 subpara. 2 shall be replaced by the following:

“2. The orders referred to in subpara. 1 delivered to KDPW_CCP after the close of the clearing session on day R shall not be executed.”;

6/ § 69b subpara. 1 shall be replaced by the following:

“1. Subject to subpara. 2-3, the provisions of § 67 - § 69a shall apply accordingly to on-demand transfers of positions.”;

7/ in Appendix 6, point 1 “Overview” shall be replaced by the following:

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

8/ Appendices 7, 8 and 9 shall be replaced by Appendices 1, 2 and 3 hereto, respectively.

§ 2

This Resolution shall come into force on 19 December 2022.

Maciej Trybuchowski
President
of the Management Board

Sławomir Panasiuk
Vice-President
of the Management Board

Appendix 7 to the Detailed Rules of the OTC Clearing System

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)

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

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

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 the message otcm.val.rep.01 (valuationReport).

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 the message otcm.val.rep.01 (valuationReport).

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 the message otcm.val.rep.01 (valuationReport).

Appendix 8 to the Detailed Rules of the OTC Clearing System

AUTOMATIC CLOSING OF POSITIONS

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

1. Preparing the auction

In case of default, KDPW_CCP sends the message `auct.ntf.001.01` (value `AuctionNotice` in field `AuctnStag`) 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 the message `auct.ntf.001.01` (value `NewAuction` in field `AuctnStag`) 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.

In addition, `FpML otcml.clr.sts.01` (`clearingStatus`) messages are sent, containing details of the transactions offered in the auction for each segment (a separate message is sent for each transaction).

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 the message `auct.qtn.001.01`.

The clearing member's `auct.qtn.001.01` 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 the message `auct.qtn.001.01` 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 message `auct.ntf.001.01`.

The quote sent by the clearing member in the message `auct.qtn.001.01` is subject to a content check. In response, the clearing member receives the message `auct.stq.001.01`.

If the clearing member receives the message `auct.stq.001.01` which specifies errors, the clearing member must resend the message `auct.qtn.001.01` 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.

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 message `auct.ntf.001.01`. 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.

`KDPW_CCP` informs the participants that the auction is closed in the message `auct.ntf.001.01` (value `AuctionClosed` in field `AuctnStag`), and then sends the auction results in the message `auct.ntf.001.01` (value `AuctionResult` in field `AuctnStag`).

Transactions accepted in the auction are settled and the participant is informed thereof in the FpML messages: `otcm.clr.cnf.01` (*clearingConfirmed*) – transaction accepted for clearing, and `otcm.val.rep.01` (*valuationReport*) – collateral and limit report.

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

Appendix 9 to the Detailed Rules of the OTC Clearing System

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 the message otcc.trm.001.01 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 message otcc.trm.001.01 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 otcc.trm.001.01 message structure described in the document 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, in particular, it checks whether the specified positions are registered in the designated clearing account.

KDPW_CCP confirms either acceptance or rejection of the request to close positions by sending the message otcc.str.001.01 to the clearing member who initiated the process. The clearing member may send the message otcc.trm.001.01 to the 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.

1.1. Starting the process of automatic closing of positions

Initiation of a process of automatic closing of positions is notified in the message auct.ntf.001.01 sent by KDPW_CCP to the clearing members. 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 "Automatic closing of positions".

1.2. Sending individual trade prices for opposite positions by clearing members to KDPW_CCP

In response to the message `auct.ntf.001.01`, clearing members send to KDPW_CCP the message `auct.qtn.001.01` 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 "Automatic closing of positions".

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 the message `auct.odr.001.01`. 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 the message `auct.oda.001.01`. 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 participating in the auction 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.