KDPW

Settlement

About the service

KDPW operates a securities settlement system in Poland under:

- Act of 29 July 2005 on Trading in Financial Instruments
- Act of 24 August 2001 on the finality of settlement in payment systems and securities settlement systems and on the terms of supervision over such systems
- Regulation (EU) 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories (CSDR)
- Commission Delegated Regulation (EU) No 2018/1229 of 25 May 2018 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on settlement discipline

- Directive No 98/26/EC of the European Parliament and of the Council of 19 May 1998 on settlement finality in payment and securities settlement systems, and other regulations implementing the Directive.

In operating the system, KDPW executes securities settlement orders and payments resulting from such orders by recording changes in depository accounts, omnibus accounts and securities accounts and by issuing instructions debiting or crediting participants' cash accounts.

KDPW performs settlement on the basis of settlement orders presented by direct participants of KDPW, the clearing house KDPW_CCP, the National Bank of Poland, and BondSpot.

Settlement cycle

The settlement cycle at KDPW for transactions executed in trading venues is T+2, which is the standard for transactions in the European Union.

Other operations and transactions are settled at any time agreed by the settlement counterparties as indicated in matching orders or as depending on the nature of the operations performed.

The accounting day timetable is set out in Appendix 2 to the Detailed Rules of Operation of KDPW. However, a non-standard accounting day timetable in each year is defined by a resolution of the KDPW Management Board (section Public Holidays).

Regulations: Part IV Chapter I of the KDPW Rules and Part Three Section 2 of the Detailed Rules of Operation of KDPW

Settlement model and systems

KDPW operates settlement in a multi-batch system and in the real-time settlement system RTGS including DVP settlement (Delivery Versus Payment) and FoP settlement (Free of Payment).

Regulations: Part IV Chapter I of the KDPW Rules and Part Three Section 2 of the Detailed Rules of Operation of KDPW

Fees: point 4 of the Table of Fees, section: fees charged from KDPW direct participants

Cash settlement

Payments resulting from settlement are made through cash accounts with the central bank:

1. for PLN, accounts managed by the National Bank of Poland in the Sorbnet2 system
2. for EUR, in the TARGET2 system in accordance with § 82 of the KDPW Rules.

Payments resulting from settlement orders are executed in PLN or in EUR.

Settlement in the multi-batch system involves multilateral netting (NETTO), while settlement in the RTGS system is gross settlement (GROS).

The NETTO mode covers transactions settled in the multi-batch system, collateral for automatic securities lending and negotiated securities lending.

After each settlement session, KDPW makes available to direct participants and their paying agents information on the volume of the actual cash flows.

For transactions to be settled in the real-time system, information on the amount of credits and debits is made available separately to direct participants and their paying agents if they are direct participants.

Direct participants may specify two or more bank accounts held with a settlement bank for itself or for different paying agents through which payments are to be made. However, they are obliged to specify one of such accounts as the primary account from which payments are made by default.

To use other accounts for cash settlement, such choice must be indicated in the relevant settlement orders entered into the depository system.

Forms for the selection of such accounts are available on the KDPW website under Document templates.

Regulations: Part IV Chapter I of the KDPW Rules and Part Three Section 2 of the Detailed Rules of Operation of KDPW

Functionalities supporting settlement and facilitating participant operations

As part of its securities settlement system, KDPW offers additional functionalities to support participants' operations.

1. Matching settlement orders

The mechanism allows transaction counterparties to clearly parameterise the orders presented for settlement and ensures the matching of:

– instruction type
– operation code
– ISIN code of the security
– quantity of securities
– trade date
– settlement date
– settlement system
– institution code
– entity account number
– amount and currency of the transaction (in case of instructions against payment)

The functionality is used by KDPW participants and the clearing house KDPW_CCP, as well as BondSpot, and covers DvP settlement (Delivery Versus Payment) and FoP settlement (Free of Payment).

The form "Consent to participate in settlements conducted without the participant having to confirm their terms" is available on the KDPW website under Document templates.

Regulations: Part Three Section 1 of the Detailed Rules of Operation of KDPW

2. Enriching settlement orders

The instruction enrichment service allows participants to specify the terms for the processing of specific orders and helps to increase the flexibility of settlement.

Where all the terms of an operation are not known at the time the instruction is initially sent or the terms have changed, participants may send a technical instruction to enrich a designated settlement instruction specifying the fields to be changed.

Once a settlement order entered by a direct participant into the depository system is confirmed as matching a settlement order entered into the system by the other settlement counterparty, the participant may only enrich it to the extent of the data that were not used to match the two orders.

The enrichment of an order to settle a transaction concluded on a trading venue may only complete those fields in the order which were not completed by the entity that entered the order into the depository system or, irrespective of how the order was completed by that entity, indicate the number of the entity account for the settlement of the transaction.

Regulations: Part Three Section 1 of the Detailed Rules of Operation of KDPW

3. Settlement order hold/release mechanism

The hold/release functionality streamlines the matching of orders and enables early confirmation of the terms of a transaction and the presentation of settlement orders depending on the participant's decision.

The hold/release functionality is executed by giving matched settlement orders the following status:

- "Hold" – suspends the settlement of the transaction to which the order relates
- "Release" – executes the settlement of the transaction

To change the status from "hold" to "release", the participant must send a technical instruction.

Regulations: Part IV Chapter I of the KDPW Rules and Part Three Section 1 of the Detailed Rules of Operation of KDPW

4. Complex transactions

The mechanism of complex (component) transactions is used to define the relationship between the settlement of presented orders and the conditional relationship with another component transaction.

Direct participants may link the settlement of:

- two or more component transactions,
- a component transaction which should be settled before, at the same time as, or after the settlement of another component transaction(s).

The mechanism allows participants to indicate the sequence of the settlement of transactions.

Regulations: Part Three Section 2 of the Detailed Rules of Operation of KDPW

5. Standing orders

Participants have the option to send a message regarding a standing order to be executed by KDPW with a specific frequency and at a specific time: DAIL – daily, WEEK – weekly, MNTH – monthly. Standing orders can only be defined for FoP (Free of Payment) settlement orders and are only generated in the KDPW system on behalf of the counterparty which is to deliver securities.

Under standing orders, it is possible to transfer securities to a securities account held at KDPW for the National Bank of Poland in order to secure the repayment of a technical (lombard) credit granted by the NBP to another direct participant.

Regulations: Part Three Section 1 of the Detailed Rules of Operation of KDPW

Fees: point 5 of the Table of Fees, section: fees charged from KDPW direct participants

6. Settlement with toleration limit

Where the amounts in settlement orders submitted by participants do not match in the KDPW system and the difference between the cash amount indicated in the orders does not exceed:

1. in the case of settlement of transactions in an amount less than or equal to EUR 100,000 – EUR 2
2. in case of settlement of transactions in an amount above EUR 100,000 – EUR 25

then KDPW executes the matching and settlement of such instructions.

For transactions to be settled in PLN, settlement orders are matched after the amount is converted into EUR according to the official EUR exchange rate announced by the European Central Bank and valid as of 1 January of each calendar year.

Under the CSDR, settlement with a tolerance limit is mandatory.

Regulations: Part IV Chapter I of the KDPW Rules and Part Three Section 1 of the Detailed Rules of Operation of KDPW

7. Partial settlement

To optimise the settlement process, KDPW offers the partial settlement of orders depending on the balance available on the participant's account.

This functionality improves liquidity by reducing the volume of settlement fails. Partial settlement is of particular importance for the clearing house KDPW_CCP, which sends settlement orders to KDPW on a net basis for multiple market transactions.

In the event of a shortage of securities necessary to settle the entire order, the functionality allows for the reduction of mutual credits and debits for settlement between the clearing house and its participants.

Participants may consent to partial settlement in a particular account or give or withdraw consent in the settlement order:

> PART – partial settlement of transactions allowed
>
> NPAR – partial settlement of transactions not allowed.

For settlement orders issued by KDPW_CCP, consent to partial settlement is mandatory.

Regulations: Part IV Chapter I of the KDPW Rules and Part Three Section 1 of the Detailed Rules of Operation of KDPW

8. Securities lending and borrowing – automatic loans

The automatic securities lending system is offered to prevent and remove settlement fails of transactions concluded on the regulated market or in an alternative trading system secured by the relevant clearing fund operated by KDPW_CCP.

Loan collateral may include cash or securities of the borrower. The value of the collateral must not be lower than the value of the securities borrowed. The value of the securities is accepted as equal to the market value and may be subject to reduction as a result of the application of appropriate weights.

The required coverage rate is 133%, unless otherwise specified for individual securities in communications distributed to direct participants. The coverage rate may be changed by KDPW in consultation with KDPW_CCP.

The choice of lender is made by selecting the account in which the securities to be lent automatically are recorded until the resources recorded in that account are exhausted, after which another choice is made. The selection is made in accordance with the following rules:

1. the smallest possible number of accounts is to be selected for any one loan,
2. if the need for securities can be fully met by alternative use of securities recorded in several accounts, the selection from among the accounts is made at random.

Collateral in cash is deposited in the bank account of KDPW, while securities are blocked in the relevant account maintained at KDPW for the borrower.

The service is mandatory for all participants as borrowers.

Lenders declare which financial instruments may be used for lending.

Regulations: Part IV Chapter III of the KDPW Rules and Part Three Section 6 of the Detailed Rules of Operation of KDPW.

Fees: The types, rules of calculation and amount of fees charged by KDPW are set out in the Table of Fees, Appendix 1 of the KDPW Rules. Fees for loans in the automatic securities lending system are set out point 6 of the Table of Fees, section: fees charged from KDPW direct participants.

9. Securities lending and borrowing – negotiated loans

In order to improve the liquidity of securities clearing and settlement, KDPW in cooperation with KDPW_CCP operates a negotiated securities lending system. The service is an important complement to KDPW's automatic securities lending system and gives counterparties more flexibility than automatic loans when deciding on the terms of their loans.

The role of KDPW is to match parties interested in concluding loans and to execute resulting settlements. The role of KDPW_CCP is to clear loans and to operate a system of guarantees for such clearing, including guarantees of the return of securities by the borrower and the return of the contractual collateral for loans by the lender, which uses KDPW_CCP's own funds.

The **forms** are available on the KDPW website under Document templates.

Regulations: Part IV Chapter IV of the KDPW Rules and Part Three Section 7 of the Detailed Rules of Operation of KDPW

Fees: point 7 of the Table of Fees, section: fees charged from KDPW direct participants

10. Blocking and collateral

1. Blocking participant accounts

It allows participants to segregate at KDPW level those securities which are held by the participant based on instructions to change asset status.

Status of assets used for blocking:

- BLPW – blocked due to the participant's blocking of securities in a securities account or omnibus account
- FOSG – blocked as contribution to a guaranteed protection fund created by a participant under the BFG regulations

2. Bilateral collateral

KDPW accepts settlement orders from participants to establish bilateral collateral. This is done by blocking securities on the donor's account rather than in the form of transfer of title. The service does not require a separate contract. The parties send settlement orders to be matched.

Status of assets used for collateral:

- COBI – blocked as financial collateral established by a direct participant in favour of another direct participant.

3. Blocking in favour of BFG

This functionality is related to the requirement to make contributions to the Bank Guarantee Fund (BFG) in the form of an obligation to pay under Article 304 of the Act on the Bank Guarantee Fund, Deposit Guarantee System and Forced Restructuring. Blocking at KDPW with simultaneous contributions to BFG in the form of an obligation to pay is only possible for participants who are holders of securities accounts at KDPW – depositors who have signed an agreement with KDPW concerning blocking of government securities.

Model agreements can be found on the KDPW website under the tab Blocking in favour of BFG.

Regulations: Part IV Chapter V of the KDPW Rules

Fees: point 9.11 of the Table of Fees, section: fees charged from KDPW direct participants

4. Pledge on securities accounts with KDPW or depository account

This service supports agreements between the Pledgor and the Pledgee by blocking government bonds recorded in a securities account or depository account with KDPW.

Examples of agreements:

- Framework agreement between a bank and the State Treasury represented by the Minister of Finance and agreement on the establishment of financial collateral between KDPW and the State Treasury represented by the Minister of Finance consisting in the blocking of securities – financial collateral agreement under which the bank establishes financial collateral in favour of the State Treasury on securities held by the bank in order to secure claims under the framework agreement (blocking status PLMF).
- Agreement concerning the terms and procedure for establishing a pledge on bonds held at KDPW concerning the refinancing of banks with lombard credit by NBP (blocking status PLLO).
- Agreement concerning the terms and procedure for the blocking of bonds on a depository account/securities account in KDPW (blocking status issued by KDPW) or (blocking status PEBI) where the European Investment Bank is a party to the agreement.

A party to a pledge agreement may be KDPW or a foreign entity which is not a KDPW participant.

Fees: as per the agreement.

CSDR – settlement fail cash penalties regime

Since 1 February 2022, KDPW charges cash penalties for settlement fails under CSDR.

Direct participants who fail to ensure the settlement of a transaction in due time because of:

- lack of coverage in the participant's registration account, or
- lack of coverage in the participant's cash account, or
- the suspension of a settlement order at the participant's request, or
- the participant's failure to enter a settlement order into the depository system allowing the execution of the settlement order in due time,

are required to pay to the participant who is the other settlement counterparty a cash penalty which is calculated and collected by KDPW if the settlement concerns securities which are admitted to public trading or are traded on a trading venue or are covered by clearing in a CCP.

Types of penalties:

- Settlement fail penalty – SEFP – non-settlement of instructions due to suspension of settlement – penalty is charged to any defaulting participant (shortage of assets for settlement: securities or cash).
- Late matching fail penalty – LMFP – matching of instructions after the expected settlement date, penalty charged to the participant who was the last to submit a settlement instruction counting from the expected settlement date to the date on which matching was completed.

Detailed information on cash penalties is available on the KDPW website in the section - CSDR - system of cash penalties for late settlement.

In accordance with the KDPW Rules, a procedure is available for the filing of complaints regarding cash penalties charged by KDPW.

The **form** for lodging complaints is available on the KDPW website under Document templates.

Regulations: Part IV Chapter VI of the KDPW Rules and Part Three Section 12 of the Detailed Rules of Operation of KDPW

Fees: point 8.5 of the Table of Fees, section: fees charged from KDPW direct participants