Rules of Conduct in the Event of Default

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1 Purpose of the document

1.1 The purpose of these Rules of Conduct in the Event of Default is to provide key information on the actions taken by IRGiT and the procedure taken in the event an Default has been found to occur.

1.2 In the opinion of IRGiT, the transparency of the process launched against a Clearing House Member in the event of an Default is key for efficient risk management and minimizing the negative impact of such an event for all market participants.

1.3 The document presents IRGiT's actions with regard to:

- an analysis and evaluation of events that may constitute grounds to determine that an Default has occurred, as well as of the determination that an Default has been found in respect of a Clearing House Member,
- actions taken by IRGiT S.A. in order to mitigate the risk once grounds of an Default have arisen,
- informing market participants and regulators of an event of Default,
- the process of closing the open positions of a Clearing House Member involved in an Default,
- the sequence of using financial resources to cover the losses generated by the exposure of a Clearing House Member involved in an Default.

1.4 The process described below is based on IRGiT's regulations, in particular the Regulations of the Exchange Clearing House and the Regulations of the Clearing and Settlement House; any actions taken by IRGiT S.A. are consistent with their provisions.

2 Definitions

2.1 Default – a situation referred to in the Regulations of the Exchange Clearing House or the Regulations of the Clearing and Settlement House, whose examination by the Default Committee highlighted a material risk for the clearing guarantee system or the financial stability of a Clearing House Member.

2.2 House Member – member of the House within the meaning of the Exchange Clearing House Regulations or a House Member within the meaning of the Clearing and Settlement House Regulations.

2.3 Member of TGE S.A. - an entity which has concluded a membership agreement with TGE S.A. as regards the markets cleared by IRGiT.

2.4 Guarantee Fund – any of the guarantee funds: for the electricity and gas markets , within the meaning of the *Regulations of the Exchange Clearing House* or the Clearing and Settlement House Guarantee Fund within the meaning of the *Regulations of the Clearing and Settlement House* and the *Regulations* of the *Clearing and Settlement House Fund*.

2.5 Power Group – power group within the meaning of the *Exchange Clearing House Regulations.*

2.6 Net position – the entire exposure of the Clearing House Member in respect of whom an Default has been found, after taking into account mutual set-off of the positions, if any, in individual contracts and transfer, if any, of the positions of the clients of

such House Member or positions of the Trading Venue Members represented by the House Member.

2.7 ECH Regulations – Exchange Clearing House Regulations

2.8 CSH Regulations – Regulations of the Clearing and Settlement House

2.9 RMD – IRGiT Risk Management Department

2.10 TGE S.A. – Polish Power Exchange (PPE)

2.11 forward contracts – forward contracts within the meaning of ECH Regulations.

2.12 forward contracts with physical delivery of RES property rights – financial instruments within the meaning of CSH Regulations, for which RES property rights within the meaning of CSH Regulations are the underlying instrument.

2.13 clearing guarantee system - the clearing guarantee system within the meaning of the *Regulations* of the *Exchange Clearing House* or the *Regulations of the Clearing and Settlement House*.

3 Grounds serving as a basis to determine an event of Default in respect of a Clearing House Member

The grounds that for IRGiT S.A. may constitute a basis for determining an event of Default in respect of a Clearing House Member is non-performance of any obligations under a transaction, for a settlement of which a given entity is responsible (hereinafter an "Event"), in particular any of the events listed below:

1. ascertaining a shortage or lack of cash on the House Member's bank account maintained in the clearing bank or on the bank account of the payer of such House Member, required to cover its liabilities on account of settlement of concluded transactions,
2. the non-performance or improper performance by such Clearing House Member of the obligation to keep funds in the clearing guarantee system, in particular in the form of:
    - non-performance or improper performance of the duty to pay a collateral,
    - non-performance or improper performance of the duty to make a contribution into the guarantee fund,
    - the non-performance or improper performance of the obligation to provide collateral for a transaction margin in order to cover a delivery margin and historical margin,
3. the non-performance or improper performance by such House Member of the obligation to maintain the limit of open Positions imposed by IRGiT,
4. the non-performance or improper performance by such House Member of the obligation to close a Position upon a relevant call from IRGiT,
5. a situation where there is a justified risk that such entity might lose the ability to execute transactions, in particular in connection with:
    - withdrawal of KNF's license to conduct brokerage activity or repealing of a permit to operate a bank,
    - withdrawal or loss of validity of a concession to conduct activity associated with trading in electricity or gas fuels,

- becoming aware of KNF's decision to suspend the activity of a clearing Member being a bank,
- reduction of own funds referred to in Article 4(1)(118) of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176 of 2013) of a House Member being an investment firm to a level lower than the internal capital level,
- exclusion from the balancing markets by energy and gas system operators.
- filing with the court of a petition for bankruptcy of the Clearing House Member , or initiation of restructuring proceedings,
- issuance of a court decision on declaring liquidation bankruptcy or bankruptcy of a House Member, with the possibility of entering into a composition,
- the commencement of liquidation proceedings in respect of the Clearing House Member,

6. the House Member's failure to provide the information necessary to assess whether it satisfies the conditions for membership in the House, or information about events that might adversely affect the performance by such entity of the obligations arising from its House Member status,

7. the non-performance or improper performance by such House Member of other obligations specified in the Regulations, including, in particular, the obligation to ensure the proper settlement of transactions and the fulfillment of obligations associated with the clearing guarantee system,

8. any other event of similar nature, constituting a material risk to the financial stability of a Clearing House Member, including loss of VAT taxpayer status.

Every Clearing House Member is obligated, pursuant to the ECH Regulations and the CSH Regulations, to notify IRGiT S.A. immediately if any circumstances occur on its part that could constitute an event of Default or a reasonable concern that an Default could have occurred.

IRGiT S.A. is aware that in certain circumstances an Event need not lead to materialization of risk for the clearing guarantee system or a threat to the continued operation of the entity as a Clearing House Member; therefore, each such situation will be subject to a careful analysis. If the analysis shows that the Event does not generate actual risk, as referred to in the preceding sentence, IRGiT S.A. shall be entitled to take remedial actions, in particular consisting in:

- close scrutiny of a given Clearing House Member's operation, and requiring the Member to provide specified information regarding its financial stability,
- imposing a limit on such House Member's open positions,
- blocking the possibility of transactions to be concluded in the markets operated by TGE S.A., for the clearing of which such Clearing House Member is responsible (on all or selected markets, and groups of or individual instruments),
- liquidate any assets existing in non-cash form, contributed by such House Member to the clearing guarantee system, or deciding not to continue to accept any non-cash collateral provided by such House Member, and requiring this House Member to replenish the collateral in cash, whereby

until the collateral has been replenished in cash, any non-cash collateral may be used in accordance with the purpose for which it has been established,

- accepting additional collateral from the Clearing House Member, in the form and on the terms specified by the IRGiT S.A. Management Board, in order to reduce the potential risk,
- deciding to settle the liabilities and receivables of such Clearing House Member via the account in the Settlement Bank assigned to such Member and transfer to that account of cash contributed by the House Member to the transaction margin and the collateral margin,
- update the payment of such House Member to the guarantee funds and request the updated payment to be made to the guarantee fund,
- application in respect of such Clearing House Member of disciplinary and order maintaining measures as stipulated in the ECH Regulations and CSH Regulations.

The application of any one of the actions listed above shall not preclude the application of any other of them. At the same time, IRGiT S.A. sets a short, but reasonably feasible deadline for the Clearing House Member to properly perform its liabilities.

If the analysis of the occurrence of a certain Event indicates that there is a significant risk to the clearing guarantee system or a risk that a Clearing House Member will not meet its obligations, IRGiT S.A. will immediately initiate the process of management and mitigation of the risk associated with the grounds of a potential Default, which is described below.

4 Management and mitigation of risks associated with an Default

Appointment of the Default Committee

Each time when IRGiT S.A. identifies that it is justified to initiate the risk management and mitigation process in response to existing grounds to determine an Default in respect of a Clearing House Member, the Default Committee shall be appointed.

The composition of the Default Committee comprises the Management Board and the appointed members of IRGiT S.A.'a staff; its purpose is to:

- perform a detailed analysis of the grounds of the Default,
- determine whether an Default has occurred,
- effectively manage and mitigate the risk, and in particular manage the process of closing the open positions of the House Member in respect of whom the Default has been found, so as to simultaneously minimize the losses for the collateral guarantee system on this account and reduce the negative impact of the position closing on the market.
- coordinate external communications in relation of the occurrence of the Default,
- take decisions as regards the use of funds in the clearing guarantee system.

The Default Committee coordinates the actions within IRGiT S.A. and provides information about the Default to the Clearing House Members, TGE S.A. and the regulators.

Call to close open positions

If an Default is found, IRGiT S.A. calls the Clearing House Member concerned to immediately close specified positions cleared thereby and controls the process of the positions being closed. The calls referred to above sets the final time limit by which the House Member is obliged to close the positions. If this time limit is not held, IRGiT S.A. takes the decision to block the House Member from placing orders, independently or by TGE S.A. Members it represents, and the positions shall be closed by IRGiT S.A. pursuant to the principles described below.
If the Clearing House Member is a member of a Power Group, IRGiT S.A. informs the remaining House Members from the group of the situation and calls them to immediately pay the outstanding overdue amounts of the House Member concerned, pursuant to the Agreement on the rules of establishing financial collateral for a Power Group ("Set-off Agreement").

Notification of an Default in respect of a Clearing House Member

The information about an event of Default and initiation of the risk management and mitigation process in respect of the House Member's Default is communicated electronically to all Clearing House Members (with the Member's identity not revealed), TGE S.A. and the regulator (with the Member's identity revealed).

Position closing by IRGiT S.A.
If the Clearing House Member does not close the positions according to the aforementioned rules, IRGiT S.A. immediately closes the positions of the Member involved in the Default, as well as the positions of its clients or TGE Members represented thereby.
If the Clearing House Member in respect of whom an Default has been found is a member of a Power Group, IRGiT S.A. prepares for the event of Default, if any, and for the closing of the positions of the entire Power Group. The closing of the positions of such House Member (together with the positions of the remaining members of the Power Group) takes place upon identification of an Default involving all Clearing House Members belonging to the same Power Group. Such a situation occurs when the remaining Power Group members have not covered the overdue amounts of this Clearing House Member by the deadline and based on the rules specified in the Set-off Agreement.

Due to the specificity of the markets, the position closing for forward contracts for electricity or gas is different than in the case of forward contracts with physical delivery of RES property rights.

A. Electricity Forward Market and Gas Forward Market – cleared by ECH

The closing of positions in the commodity forward instruments market regarding forward contracts for electricity ("Electricity Forward Market") and forward contracts for gas ("Gas Forward Market") proceeds as follows:

a) IRGiT S.A. determines the net position of the Clearing House Member in respect of whom an Default has been found in the given market (in the case of House Members acting on the clients' account or as a representative of

TGE S.A. Members, the position is calculated separately for each of the clients or TGE S.A. Members, and as a sum total for the House Member). For the purposes of calculation of the net position in the Electricity Forward Market, the possibility of a set-off of positions is taken into account, resulting from the portfolio structure in BASE/PEAK and OFFPEAK contracts,

The position may be closed through using:

- transactions concluded during a session,
- the auction mechanism operating at TGE S.A. for quarterly and annual contracts for electricity, and monthly, quarterly, seasonal and annual contracts for gas.

The decision as regards the method of closing the net position is made by the Default Committee. The main criterion for selection of the method of closing the position is maximization of the cost effectiveness and minimization of the negative impact on the market, with special focus on the impact on the volatility and liquidity of the quoted instruments.

Position closing mechanism through TGE S.A. auctions

The Default Committee may decide that IRGiT organize a TGE auction in the name of the Clearing House Member involved in the Default. The auction mechanism is described in Polish Power Exchange Commodity Market Trading Regulations.

TGE S.A. immediately informs the Exchange Members about the planned auction, which is carried out according to general rules. In accordance with the assumptions, to enter into transactions, auction participants submit buy orders (in the case of a sales auction) or sell orders (in the case of a purchase auction), respectively. As a result, during the auction the orders of auction participants are executed with a price limit equal to or - in the case of a sales auction - higher, and in the case of a purchase auction - lower, than the price limit set by IRGiT S.A.

If the Auction remains unresolved, further decisions on the method of closing the positions are made by the Default Committee.

B. Commodity Forward Instruments Market for Property Rights – cleared by CSH

A position on the commodity delivery forward market for RES property rights ("CFIMPR") is closed in the following manner:

a) IRGiT S.A. determines the net position of the Clearing House Member in respect of whom an Default has been found (in the case of House Members acting on the clients' account and/or as a representative of Trading Venue Member, the position is calculated separately for each of the clients and/or TGE S.A. Members, and as a sum total for this House Member).

b) The net position of the Clearing House Member in respect of whom an Default has been found, may be closed:

- in transactions directly in the market – through executing the opposite position in relation to the position of the Clearing House Member involved in the Default,
- through the Auction mechanism operated by IRGiT S.A.

If the Clearing House Member in respect of whom an Default has been found has a short net position in Property Rights under Certificates of Origin, and its collateral margin comprises Property Rights under Certificates of Origin, they may be used for the purposes of the future clearing with delivery.

The decision as regards the method of closing the net position is made by the Default Committee. The main criterion for selection of the method of closing the position is maximization of the cost effectiveness and minimization of the negative impact on the market, with special focus on the impact on the volatility and liquidity of the quoted instruments.

IRGiT Auction mechanism

The Auction mechanism is used by IRGiT to maximize cost effectiveness. The Default Committee may decide to close the position through an Auction organized by IRGiT S.A. based on the rules laid down in the CSH Regulations. The Auction is a separate mechanism from Auctions at TGE S.A., which are used in the case of the Commodity Forward Instruments Market for Electricity and the Commodity Forward Instruments Market for Gas.

The Auction mechanism operated by IRGiT S.A. is described in the steps below:

- in the first step, the Net Position is divided into homogenous bundles, so as to achieve the best coverage of the delivery dates envisaged by the contracts in the market,
- next, IRGiT S.A. sends to all Clearing House Members who as at the starting date of the Auction maintain a contribution to the Guarantee Fund of the Clearing and Settlement House a call to participate in the Auction, giving the details thereof,
- The Auction is conducted in a secret bidding procedure.
- the auction bids must be sent in accordance and by the time limit specified in the call,
- immediately after the bidding period is over, IRGiT S.A. prepares a schedule of the bids, and the winning bids are chosen based on their position the sequence, from the most favorable to the least favorable,
- for a given auctioned bundle, all bids shall be accepted starting from the most favorable bid until the exhaustion of the full volume of the given bundle. In the event the remaining volume is smaller than the next bid in the sequence made in the Auction, the bid may be realized in part. If two bids with the same price are received from two different Auction participants, the order in which the bids were received shall decide.

The bid made earlier is accepted before the bid made later,

- once the bid is accepted by IRGiT S.A., a transaction is concluded, with all its consequences,
- after the Auction is closed, IRGiT S.A. sends notices to all Auction Participants with information about the accepted bids and conclusion of the transaction, or else about withdrawal from executing the bids made by an Auction Participant, and the transactions are recorded in the system.

If the Auction remains unresolved, further decisions are made by the Default Committee.

At the end of the position closing process, IRGiT S.A. sums up the losses, if any, incurred on account of closing the positions of the Clearing House Member in respect of whom an Default has been found. The losses are covered in accordance with the cascade coverage of losses in the event of Default of a Clearing House Member described in chapter 5 below.

5 Cascade coverage of losses in an event of Default and initiation of the risk management and mitigation process

In the event an Default is found in respect of a Clearing House Member, any losses are covered from the following sources, in the sequence specified in IRGiT S.A.'s regulations, as described below:

1. collateral and transaction margins paid by the House Member in respect of whom an Default has been found and its receivables, if any, arising from concluded transactions. If the House Member in respect of whom an Default has been found belonged to a Power Group, next, the contributions of the remaining Power Group members are allocated to cover the losses associated with closing of the positions - in accordance with the Set-off Agreement,
2. contributions of the House Member to individual Guarantee Funds:
   - Guarantee Fund for Exchange Clearing House,
   - Guarantee Fund of the Clearing and Settlement House;
3. the monies paid in by the remaining Clearing House Members contributing to the relevant Guarantee Funds – IRGiT S.A. uses the contributions of each of the House Members contributing to the given Guarantee Fund in the amount prorated to its share in the fund in accordance with the ECH Regulations, the CSH Regulations and the Regulations of the Clearing and Settlement House Guarantee Fund,
4. replacement payments to the given Guarantee Fund of the remaining House Members,
5. additional contributions of the remaining House Members in accordance with ECH Regulations and the Clearing and Settlement House Guarantee Fund Regulations.

In order to cover the losses, IRGiT S.A. does not use collateral margins and transaction margins provided by the remaining Clearing House Members.

In the cases specified in §45o of the ECH Regulations, IRGiT S.A. may decide to use funds from the available credit lines or make a temporary transfer of a specified amount the House's own funds to support the process of closing the positions of the Clearing House Member involved in an Default. The maximum amount of the House's own funds that may be allocated for this purpose is PLN 10,000,000. It is assumed that future positive cash flows on account of clearing the positions of a Clearing House Member in respect of whom an Default has been found or the cash from liquidation of a non-cash collateral submitted by such House Member will supplement the resources used, if any. Otherwise, the difference between the transferred amount and the amount obtained from the above titles

is covered from the resources of the relevant Guarantee Funds, in accordance with the ECH Regulations.

6 Use of IRGiT S.A.'s own funds and the dedicated resource of the Guarantee Fund for the purposes of ensuring security of settlement liquidity

IRGiT S.A. is entitled to use its own funds and the Guarantee Fund liquidity pool to ensure the security of settlement liquidity in the following situations:

1. described in point 3 point 1) of these Rules,
2. inability to efficiently liquidate non-cash collateral provided by the House Member (e.g. due to unfavourable market conditions),
3. unfavourable distribution over time of losses on the portfolio of the House Member in relation to which the House started closing the Position.

The funds used are successively returned through:

1. payment of the amount due by the Clearing House Member,
2. deduction from the funds obtained as a result of the settlement of the Clearing House Member's closed positions,
3. deduction from funds obtained from liquidation of non-cash collateral held by the Clearing House Member,
4. deduction from profits realized on the portfolio of the Clearing House Member in respect of which the IRGiT closed positions.

IRGiT S.A. immediately informs the Clearing House Members about each use and return of funds from the Guarantee Fund liquidity pool.

7 Procedure tests

To verify the operational readiness of IRGiT S.A. and Clearing House Members as regards control of an event of Default, IRGiT S.A. organizes and carries out tests simulating the hypothetical event of Default of one of the House Members.

IRGiT S.A. informs Clearing House Members about the days on which the tests are planned with at least one month’s notice.