

CPMI-IOSCO Principles for Financial Market Infrastructures
IRGiT self-assessment
June 2021

IRGiT has performed self-assessment against CPMI-IOSCO Principles for Financial Market Infrastructures. This document includes a short summary of alignment with the principles.

Principle 1: Legal basis

An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.

All of IRGiT business operations are conducted within the borders of Poland, where a well-founded, clear, transparent and complete legal framework for commodities and financial instruments trading, clearing and settlement is in place and provides great certainty. Basic acts covering the scope of IRGiT's business are Commodity Exchanges Act of 26 October 2000 and the Financial Instruments Trading Act of 29 July 2005.

IRGiT's rules and procedures are clear, easily understandable and well enforced. Due to different legal basis for clearing commodity instruments and financial instruments IRGiT implemented two separated regulations: The Regulations of the Exchange Clearing House (Commodity market) and The Regulations of the Clearing and Settlement House (Financial market). IRGiT provides transparent information by publicly disclosing (on its website) abovementioned regulations, as well as other procedures and rules and any other information regarding legal basis or current scope of business.

Rules and procedures cover all material aspects of IRGiT's activities and are consistent with the applicable law. Any changes to The Regulations of the Exchange Clearing House (Commodity market) require approval of Polish Financial Supervision Authority. Changes to The Regulations of the Clearing and Settlement House (Financial market) require approval of Polish Financial Supervision Authority and National Bank of Poland.

Principle 2: Governance

An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.

IRGiT has transparent and robust governance structure which provides accountability structure. On the website, IRGiT publicly discloses the governance arrangements, which include the ownership and organisational structure, composition of the Management Board and Supervisory Board, as well as Risk Committee. Governing bodies consist of highly professional and competent members with wide range of knowledge and required expertise.

IRGiT is compliant with the Principles of Corporate Governance for Supervised Institutions Rules by the Polish Financial Supervision Authority.

The main objective of IRGiT's business is to organize clearing and settlement services including risk management solution compliant with highest standards. Which could be easily transferred on provisioning of safety for cleared markets participants, which leads to create efficient environment and promote clearing.

Principle 3: Framework for the comprehensive management of risks

An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.

IRGiT has in place full set of rules, procedures, policies, methodologies and accompanying systems that all make up risk management framework. Risk management framework fully reflects the IRGiT Management Board risk appetite. IRGiT's aim is to provide safe and efficient clearing solution by maintaining risk-averse status. Identified risk categories and tools are subject to regular reviews and included in the framework.

IRGiT identifies following relevant types of risk:

Market risk

Credit risk

Liquidity risk

Operational risk

Business risk

Material risks are individually detailed in IRGiT's rules and are managed according to individual methodologies and procedures.

Major material change to existing models and new models are reviewed through Risk Committee and internally before Board approval. Significant changes in the risk management framework fundamentals laid down in the top-tier regulations require approval of Polish Financial Supervision Authority and National Bank of Poland (with regard to financial instruments).

IRGiT encourage clearing members risk to manage the risks they pose by calculating the initial margin and default fund requirements proportionally to their exposures. All clearing members have constant access to information regarding their risk exposures by clearing system.

Principle 4: Credit risk

An FMI should effectively measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes. An FMI should maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would potentially cause the largest aggregate credit exposure to the CCP in extreme but plausible market conditions. All other CCPs should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would potentially cause the largest aggregate credit exposure to the CCP in extreme but plausible market conditions.

IRGiT includes in its risk framework robust credit risk management solutions, which cover measurement, monitoring and mitigation. Fundamental mechanisms designed for credit risk management include:

membership criteria

IRGiT has specified in the rules the requirement of participation for all clearing members. The established membership criteria has to be complied by the members in any time during their membership. Membership criteria are subject to monitoring on an ongoing basis.

Additionally, each candidate for a clearing member has to be granted permission by The Polish Financial Supervision Authority for running securities registry or commodities registry. It means that all members are directly supervised by supervision authority and are obligated by to provide all data needed to verify their financial situation.

Participation requirements are transparent and has been described in the regulations which with participation application forms were published on the website.

monitoring of credit risk exposures and limits

Exposures of the clearing members are calculated intraday and provided to members. IRGiT has possibility to run collateral calls for the members which risk exposure exceeds value of their collateral. IRGiT has in place daily operational limits which defines maximum exposure of clearing members and is set in spot trading. Additionally, transactional limit is calculated on the basis of resources posted by each clearing member (full collateralization).

multi-layered clearing guarantee system

IRGiT manages on a daily-basis its credit exposures towards all clearing members through prefunded financial resources. IRGiT calculates daily initial margin (minimal confidence level 99%) and variation margin (mechanism similar to MtM) requirements. Default fund value and contributions of all clearing members are calculated on a monthly basis and reflect risk exposures in extreme market conditions towards IRGiT on each day of last month. Default fund resources address collateral needs in case of a default of single biggest or sum of second and third clearing members with the greatest exposures under extreme but plausible market conditions in last 60 days. In addition, the IRGiT rules allows to call for additional funds from clearing members under certain conditions.

testing mechanisms

IRGiT has in place set of tests, including among others stress testing methodology and backtesting program. According to the framework full stress testing is carried out on a daily basis. Additionally, backtesting is done with regard to haircuts.

investment policy

IRGiT's investment policy sets strict rules on the process of investing assets posted by clearing members as default fund and own IRGiT's resources. Rules include i.a. possible types of investment instruments, concentration limits, counterparties.

default procedures

IRGiT has in place default procedures which provide transparent and clear information for all clearing members regarding the process of default management. IRGiT published Rules of conduct in the event of insolvency of an Exchange Clearing House Member on the website.

Principle 5: Collateral

An FMI that requires collateral to manage its or its participants' credit exposure should accept collateral with low credit, liquidity, and market risks. An FMI should also set and enforce appropriately conservative haircuts and concentration limits.

IRGiT accepts only collateral which is deposited in high quality, liquid assets with low credit and market risk. IRGiT accepts as a collateral cash (PLN only), bank guarantees (PLN only, highly liquid payable within the day of withdrawal request), renewable energy sources property rights of origin (PLN only, traded on TGE), CO2 emission allowances (EUR). The list of acceptable collateral is published on the website and included in the rules. Collateral is valued on a daily basis according to the rules.

IRGiT has adopted and maintains procedures of monitoring of risks with regard to each collateral type. IRGiT has in place advanced state of the art methodology of haircut setting

which includes market risk based on hVaR methodology, combined with liquidity testing and fx risk if applicable. Haircuts are backtested on a monthly basis. All collateral types are subject to limits applicable on the level of each clearing member. Additionally, IRGiT set up concertation limits on the level of clearing member and on the level of clearing house with regard to CO2 emission allowances and renewable energy sources property rights of origin that limits the exposure. IRGiT has in place appropriate links and agreements regarding collateral liquidation.

Principle 6: Margin

A CCP should cover its credit exposures to its participants for all products through an effective margin system that is risk-based and regularly reviewed.

IRGiT margining methodology is transparent and defined in its detailed rules of clearing and settlement. Margin requirements are measured and monitored on an ongoing basis. Forward margins could be divided into initial margin and variation margin.

Initial margin intention is to cover potential future portfolio valuation changes. Initial margin is based on historical Value at Risk model applied on the level of delivery period in each product. Defined minimal confidence level has been set to 99% and could be higher for products characterized by lower liquidity. Lookback period has been set to 10 years (or maximal available period if 10 years dataset is not available) and all historical observations within the lookback period have equal weights. Due to use of 10 year lookback period IRGiT addresses procyclicality effects. Holding period has been set to standard 2-days. IRGiT rules provides possibility to undertake appropriate actions due to high concentration risk. Variation margin calculation and settlement is done on a daily basis. Margin requirements calculated in t end-of-day process are settled on t+1.

It should be recognized that more work is required to ensure that the framework is in full alignment with the principles. Works are planned to be carried out in the nearest future.

Principle 7: Liquidity risk

An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions.

IRGiT established liquidity risk management framework based on:

daily measurement of liquidity needs

collateral posted to cover liquidity needs, including concentration limits, and collateral limits

possibilities to use own sources of liquidity defined in rules in case of liquidity needs, investment policy

Main aim of liquidity risk management is to maintain appropriate amount of liquid sources in case of any market conditions. Current solutions proved to be effective in managing liquidity risk exposures to all settlement participants and settlement banks. In any time IRGiT has access to its own financial resources (including cash and in the nearest future commercial bank credit line) to cover the liquidity risk exposures.

Principle 8: Settlement finality

An FMI should provide clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time.

Finality of settlement services provided by IRGiT is assured by clear and transparent Polish law (Article 45e of the Financial Instruments Trading Act, and Article 50c of the Commodity Exchanges Act) which states, that insolvency proceedings shall have no legal effects in respect of the funds, securities nor commodities which are used to perform the clearing, settlement, or securing of transactions. Clearing and Settlement House run by IRGiT also holds securities settlement system status as defined in the settlement finality in payment and securities settlement systems act, and also benefits from European directive 98/26/EC legal framework.

IRGiT cash settlement process is based on widely used SWIFT messaging system according to the schedule published on the website. Cash settlement is performed with the use of SORBNET2 payment system – a real-time gross settlement (RTGS) system for Polish zloty operated in National Bank of Poland. In SORBNET2 payment transactions are settled one by one (without netting) on a continuous basis (real-time), in central bank money with immediate finality. Settlement “in central bank money” means that settlement takes place on accounts held at central bank. Settlement is final and irrevocable. Physical delivery is carried out by IRGiT in the form of standardized instructions submitted to the TSOs or appropriate register on daily and intraday basis, respectively to the TSO’s schedule. All physical settlements are treated as final after the instructions and messages were delivered, not reserved and confirmed by the TSO/register. Physical settlement finality is ensured accordingly to Grid Code and Transmission Network Code or appropriate register regulations.

Principle 9: Money settlements

An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimise and strictly control the credit and liquidity risk arising from the use of commercial bank money.

IRGiT cash settlement process is based on widely used SWIFT messaging system according to the schedule published on the website. Cash settlement is performed with the use of SORBNET2 payment system – a real-time gross settlement (RTGS) system for Polish zloty operated in National Bank of Poland. In SORBNET2 payment transactions are settled one by one (without netting) on a continuous basis (real-time), in central bank money with immediate finality. Settlement is final and irrevocable

IRGiT cash settlement system is currently based on agreements and operational links established with 10 commercial settlement banks (including the biggest banks in Poland). Settlements are made on a daily basis using automated systems consistently with the schedule. Settlement is based on system of accounts including accounts in core bank (margin accounts, transactional deposit accounts) and clearing accounts of clearing members in settlement banks. Communication within the system is done via SWIFT messaging.

IRGiT monitors its exposures to settlement banks including monitoring credit standing of all settlement banks. Monitoring is based on internal and external credit ratings.

Principle 10: Physical deliveries

An FMI should clearly state its obligations with respect to the delivery of physical instruments or commodities and should identify, monitor, and manage the risks associated with such physical deliveries.

Within the framework, physical delivery is carried out by IRGiT on the basis of the form of standardized instructions submitted to the TSOs or appropriate register on daily and intraday basis, respectively to the TSO's schedule.

Principle 11: Central securities depositories

A CSD should have appropriate rules and procedures to help ensure the integrity of securities issues and minimise and manage the risks associated with the safekeeping and transfer of securities. A CSD should maintain securities in an immobilised or dematerialised form for their transfer by book entry.

Principle not applicable as IRGiT is not providing CSD services.

Principle 12: Exchange-of-value settlement systems

If an FMI settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transactions), it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other.

IRGiT uses real time trade capturing clearing system. Trades are cleared in line with the most advanced multilateral netting principle, which provides high level of efficiency and safety. All trades are financially settled according to the schedule on the basis of DvP mechanism. IRGiT has in place appropriate mechanisms which ensure the delivery of cash and instruments on the settlement day.

Principle 13: Participant-default rules and procedures

An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations.

IRGiT has in place appropriate rules and procedures clearly defining default management process, including default definition, rights and obligations as well as steps it could take in the event of default.

Default has been defined and includes set of events that base on both lack of fulfilling of obligations stemming from IRGiT regulations (breaches, lack of payments) as well as events related with its legal insolvency according to law (or similar status), exclusion from balancing markets, loss of concession etc.

Immediately, IRGiT closes all positions of the defaulting clearing member. IRGiT has appropriate operational set-up with TGE to hedge the portfolio directly on the market or in the process of auction.

To fully cover possible loss IRGiT has right to use all sources posted by the defaulting clearing member to the clearing guarantee system (margins, transactional deposits, positive cash flows, contribution to the default fund). If the losses are not fully covered after utilization of funds provided by defaulting clearing member, IRGiT has right to use

default fund contributions of other clearing members. IRGiT is not contributing to the default fund, and is not obliged to cover losses stemming from positions close-out. The framework assumes conducting tests of default procedures with clearing members at least once a year. Tests are used to verify the operational readiness of IRGiT and clearing members to actively participate in the default management process. Tests are carried out with regard to insolvency of hypothetical clearing member to address all markets. To provide transparency default procedure and default waterfall has been published on IRGiT website ([link](#)).

Principle 14: Segregation and portability

A CCP should have rules and procedures that enable the segregation and portability of positions of a participant's customers and the collateral provided to the CCP with respect to those positions.

IRGiT's clearing members and their clients positions and collaterals are separated in the IRGiT system. IRGiT offers individual accounts for direct clearing members, and individual accounts for their clients only. IRGiT plans further development of this element in the future to expand its offer in terms of accounts types.

Principle 15: General business risk

An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialise. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.

General business risk is one of the risks considered by IRGiT. Key drivers of business risk are monitored and subject to the governance process. IRGiT defines business risks as volatile general business conditions which could have material impact on its financial position. Materialization of general business risk could be viewed as decline in own capital value due to significant revenues drop or costs growth. IRGiT holds appropriate liquid financial resources which are deposited in highly rated commercial banks to cover this risk.

Principle 16: Custody and investment risks

An FMI should safeguard its own and its participants' assets and minimise the risk of loss on and delay in access to these assets. An FMI's investments should be in instruments with minimal credit, market, and liquidity risks.

IRGiT addressed investment risk in its investment policy with regard to the cash held by clearing members as a contributions to default fund and own IRGiT funds. Investment decisions are made by the Investment Committee, which consist of Management Board and directors of IRGiT. The investment policy determines i.a. catalogue of investment possibilities and eligibility of investment counterparties. Investment policy assumes investing assets only in short to medium term deposits in the most stable and highly rated commercial banks. The currency of deposits is aligned with the currency of clearing member cash posted (PLN).

Principle 17: Operational risk

An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfilment of the FMI's obligations, including in the event of a wide-scale or major disruption.

Operational risk management is one of the fundamental elements IRGiT risk management framework. IRGiT has adopted dedicated Procedure of operational risk management and established Operational Risk Committee.

Operational risk management process includes six main pillars: risk identification, evaluation, measurement, monitoring, risk control and reporting.

The operational risk management in IRGiT is based on three lines of defence principle. First line of defence is active during day-to-day business decisions and aims to identify risks, report and escalate. Second line is within the operational risk coordinator which review, challenge line 1 and provide independent reporting or escalation, as well as specialist advice. Third line of defence is done within independent audit role, when the review of appropriateness, effectiveness, adequacy is assessed. During the process of operational risk management risk owner is assigned to every single risk identified. According to the framework every event (loss events, near misses, internal, external events) are recorded in the operational risk events register. All types of operational risks are catalogued and managed.

IRGiT has in place business continuity plan, which ensures uninterrupted activity in case of any situation. An emergency location with equipment and access enable to continue business processes in any case. Emergency location functioning is checked during periodic tests.

Principle 18: Access and participation requirements

An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.

IRGiT has set participation requirements that minimise the risk for IRGiT and other clearing members. Participation criteria are publicly available in the rules published on the website. Requirements used by IRGiT are based on risk-based principles, i.a. with regard to credit risk exposures as well as their financial standing. Above-mentioned criteria are subject to ongoing monitoring. IRGiT has procedures in case of any clearing member no longer meets the criteria. Including right to suspend clearing member from trading.

Admission capital requirement ensures that clearing member has enough financial resources to cover its liabilities stemming from cleared trades including default fund contributions. All requirement values with regard to obligations related to transactions (i.a. initial margin, default fund contribution, transactional deposit) are linked to the level of trading and open positions, hence they reflect risk exposures held by each clearing member.

Principle 19: Tiered participation arrangements

An FMI should identify, monitor, and manage the material risks to the FMI arising from tiered participation arrangements.

As for today IRGiT does not provide any services based on indirect clearing member arrangements, so that all clearing members are described as direct. However, IRGiT provide services for clearing members which are professional financial institutions

(brokerage houses supervised by Polish Financial Supervision Authority) having their own clients. Even if no direct contractual relationship between IRGiT and client is maintained, IRGiT set ups accounts for positions and collateral and calculates margins separately for each of client. IRGiT does not have any default exposures on clients.

Principle 20: FMI links

An FMI that establishes a link with one or more FMIs should identify, monitor, and manage link-related risks.

IRGiT has a direct link with TGE. All risks stemming from the link are identified, assessed, monitored and managed on an ongoing basis.

Principle 21: Efficiency and effectiveness

An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves.

IRGiT considers its clearing and settlement set-up efficient and effective. Periodic reviews of processes uncover room for future development. IRGiT cooperates closely with all clearing members to provide them with desired solutions.

Principle 22: Communication procedures and standards

An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording

IRGiT uses SWIFT standards for cash settlement process. With regard to clearing system, IRGiT uses widely known X-Stream Clearing Workstation with available API connection.

Principle 23: Disclosure of rules, key procedures, and market data

An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be publicly disclosed.

IRGiT publishes on its website key documents and information regarding design of its clearing system and rules.

All main IRGiT regulations:

- The Regulations of the Exchange Clearing House (Commodity market)
- Detailed Clearing and Settlement Rules of the Exchange Clearing House
- Detailed Clearing Rules for the Agricultural Commodity Market
- Regulations of the Clearing and Settlement House
- Regulations of the Guarantee Fund of the Clearing and Settlement House
- Detailed Clearing and Settlement Rules of the Clearing and Settlement House
- Rules of reporting by IRGiT to the KDPW S.A. (Trade Repository)
- Rules of conduct in the event of insolvency of a House Member
- Fees and charges tables

as well as additional resolutions of Management Board that have any impact on clearing members are published with advance period. In addition any changes to rules or any information important from the clearing member point of view are circulated via email.

IRGiT provides clearing members with simple tool that allows to calculate margins for transactions with given parameters, to provide greater transparency.

IRGiT offers professional training sessions which covers all services including clearing and settlement operations, risk management topics (like margining, collateral, default fund) as well as reporting or clearing system presentation. Offer is available for current and future clearing members on request.

Principle 24: Disclosure of market data by trade repositories

A TR should provide timely and accurate data to relevant authorities and the public in line with their respective needs.

Principle not applicable as IRGiT is not providing TR services.