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Report on the 2026 Testing

of the Procedure in the Event of Default

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1. Introduction

Testing default management procedures is an established practice among clearing houses internationally. The primary objective of such tests is to verify the effectiveness of mechanisms used to mitigate counterparty risk, which is critical to maintaining the safety of cleared markets. At the same time, past Events of Default in both international and Polish markets demonstrate that default management is one of the key components of a clearing house's risk management framework and that all market participants should understand and be familiar with the process. At Izba Rozliczeniowa Giełd Towarowych S.A. ("IRGiT" or the "Clearing House"), the default management process is governed by the document entitled "[Rules of Conduct in the Event of Default](#)".

In 2022 and 2024, IRGiT, in cooperation with its Clearing House Members, conducted tests of the Procedure in the Event of Default. The exercises were designed not only to verify the operational effectiveness of the internal procedures of TGE (Polish Power Exchange) and IRGiT, but primarily to educate market participants on the position close-out process and its impact on all market participants.

On 23 June 2025, a workshop entitled "Management of Default (Insolvency) Events at IRGiT" was held during the Forum Obrotu. The key topics discussed included:

- improvements to the testing framework;
- the significance of previous test exercises involving position close-outs through continuous trading and auctions;
- opportunities to increase market participant engagement.

The prevailing view expressed in the discussions was that a more analytical approach to testing was needed (even without conducting tests involving trading systems and position close-outs) in order to increase awareness of IRGiT's ability to use the resources of the Guarantee Fund and of the importance of an efficient position close-out process. This testing approach for 2026 was formally approved during the IRGiT Risk Committee meeting on 18 September 2025.

Preparatory work for the 2026 tests was carried out by a dedicated Working Group on 2026 Default Management Tests (hereinafter: the "Working Group"), composed of designated representatives of organizations represented in the Risk Committee, as well as IRGiT employees. The goal of the Working Group was to develop test scenarios that would:

- be based on extreme historical market events;



- increase Clearing House Members' understanding of IRGiT's operational mechanisms (in particular the functioning of the Guarantee Fund);
- demonstrate the significant impact that the liquidity and orders provided by individual Clearing House Members may have on potential losses and the use of the Guarantee Fund.

This report presents the outcome of the Working Group's efforts as well as the results of the tests conducted on the basis of the developed scenarios.

2. Regulatory basis of the process

IRGiT's operations are governed, in particular, by the Regulations of the Exchange Clearing House (Commodity Market) and the Regulations of the Clearing and Settlement House. IRGiT's default management process is set out in the publicly available [*Rules of Conduct in the Event of Default*](#).

Both the transparency of the process triggered when an Event of Default occurs and the response of Clearing House Members are critical for effective risk management and for minimizing the negative impact of such an event on all market participants. Accordingly, the above-mentioned documents contain a range of information concerning, among other things:

- the analysis and assessment of events that may constitute grounds for declaring an Event of Default;
- the catalog of actions to be taken by IRGiT S.A. to mitigate the risk once the grounds for declaring an Event of Default have arisen;
- the rules of communication with the market and supervisory authorities after an Event of Default is declared;
- the process for closing out the open positions of the Clearing House Member affected by the Event of Default;
- the order of using financial resources to cover the losses generated by the exposure of the Clearing House Member involved in the Event of Default.

The test scenarios were developed and carried out in full compliance with these regulations.

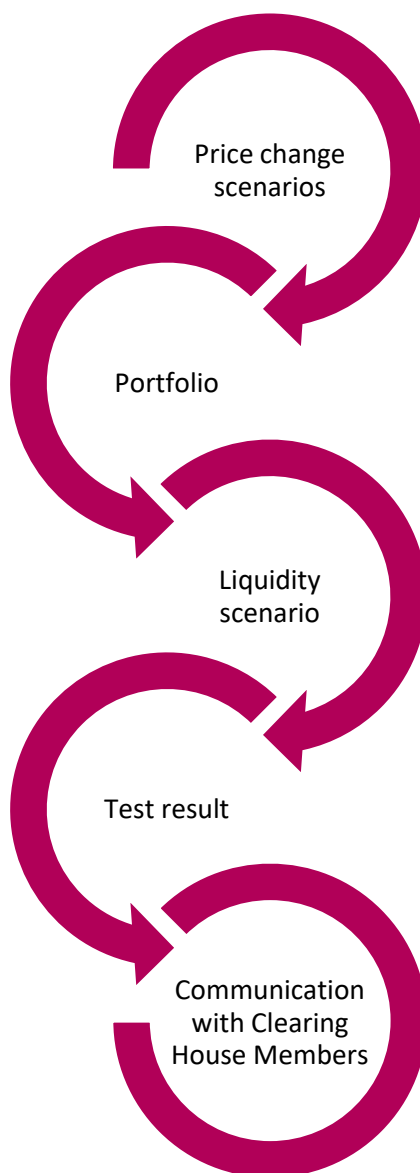
3. Assumptions adopted for the tests of the Procedure in case of an Event of Default

A key element of the default management process for a Clearing House Member is the effective and timely close-out of its open positions. The efficiency of the position close-out process is one of the key factors determining the ultimate level of losses and, consequently, the extent to which collateral provided by that entity and resources accumulated in the Guarantee Fund are utilized.

The experience of international clearing houses and guidelines from international organizations, such as CPMI-IOSCO, indicate that active participation of market participants in the position close-out process significantly increases the resilience of the entire clearing system. Adequate market liquidity, the readiness of Clearing House Members to submit orders to close out positions of a defaulting entity, and the competitiveness of submitted bids/offers can directly contribute to the reduction of the portfolio liquidation costs of the defaulting entity. At the same time, the tests of the default management procedure focuses not only on actions taken by the clearing house itself, but also on analyzing the behavior of market participants and its impact on the effectiveness of the default management process.

Due to the above, the tests conducted in 2026 took an analytical form, allowing market participants to better understand the correlation between the efficiency of the position close-out process and the level of potential losses incurred by the Guarantee Fund. A key objective of these tests was to increase Clearing House Members' awareness of the Guarantee Fund usage mechanisms and their shared responsibility for maintaining market stability. The scenarios analyzed demonstrate how limited market liquidity, insufficient participant involvement in the position close-out process, or non-competitive orders may result in higher costs of closing out the portfolio of a defaulting entity. As a result, it also increases the probability that resources from the Guarantee Fund will have to be used. **The test findings therefore highlight that active cooperation between market participants and the Clearing House whenever an Event of Default occurs not only supports overall market stability, but also reduces the risk of direct financial losses incurred by participants themselves due to the necessity to cover the costs of the insolvency event.**

In light of the above, the test development work within the Working Group covered the first 4 stages shown in Chart 1 below. At the same time, the Working Group decided that the tests should be conducted separately for the gas market and the electricity market. This was intended to simplify the test scenarios and make them clearer and easier to understand. The final stage of the testing process - Communication with Clearing House Members - is discussed in Section 5 of this report.



The tests also assumed that an Event of Default is declared at the moment the price volatility specified in the scenarios in Section 3.1 occurs. This means that the defaulting entity's ability to fulfill its obligations arising from concluded transactions is correlated with the level of price fluctuations.

3.1 Assumptions adopted for price change scenarios

For the purpose of selecting price change scenarios, a model assumption of a two-day risk exposure period (the period from the most recent margin replenishment to the close-out of positions) was applied. This assumption is reflected in the risk parameters used by IRGiT to calculate initial margins.

The test scenarios developed for the 2026 testing cycle were based on historical market events characterized by extreme price volatility. This approach makes it possible to assess the effectiveness of risk mitigation mechanisms and default management procedures under conditions reflecting some of the most demanding market stress conditions historically observed in the markets cleared by IRGiT. At the same time, the test scenarios were selected in order to illustrate the level of Guarantee Fund resources that would have to be used to cover losses resulting from the close-out of a defaulting Clearing House Member's positions. Accordingly, the **scenarios presented below reflect some of the most extreme price movements observed in recent years.**

Electricity

For the electricity market, the reference scenario was based on market conditions observed in August 2022, when the European energy crisis led to unprecedented increases in electricity prices and a significant rise in collateral requirements for market participants. The price movements observed during this period are illustrated in the table below.

<u>Instrument</u>	<u>2-Day Contract Price Change</u>
BASE_Q+1	13%
BASE_Y+1	29%
BASE_Y+2	10%
PEAK5_Y+1	26%

The two-day contract price changes presented above were calculated on the basis of changes in TGE's Daily Clearing Prices (DCP) for the respective instrument series between 24 and 26 August 2022.

Gas

For the gas market, the scenario was based on sharp price movements observed between late February and early March 2026, driven by attacks on LNG facilities in Qatar and resulting concerns



over the security of global gas supplies. The price movements observed during this period are illustrated in the table below.

<u>Instrument</u>	<u>2-Day Contract Price Change</u>
GAS_BASE_W+1	66%
GAS_BASE_W+2	66%
GAS_BASE_W+3	68%
GAS_BASE_M+1	66%

The two-day contract price changes presented above were calculated on the basis of changes in the Daily Clearing Prices (DCP) for the respective instrument series between 27 February and 3 March 2026.

Note: The historical scenarios used in the tests are not hypothetical constructs, but reflect actual market conditions observed in the past. In view of the continuing heightened level of geopolitical uncertainty, volatility in energy commodity prices and the growing exposure of energy infrastructure to disruption, the Working Group made an assessment that similar events the future remains a realistic possibility. That is why these scenarios serve as an appropriate foundation for illustrating the operational mechanics of risk management rules and default management procedures.

3.2 Assumptions regarding test portfolios

When constructing the test portfolios, the Working Group assumed that the scenarios should clearly highlight exposure to the price movements defined under the respective scenarios. At the same time, the scale of net positions within the portfolios was estimated based on typical portfolio of positions observed across the respective markets.

Electricity

For the electricity scenarios, the Working Group decided to construct a directional portfolio with significant exposure to long-term electricity delivery products. As designed, the portfolio's exposure under rapid price increases and high volatility generates escalating risk of loss from short positions. Forward contracts concluded for long periods (e.g. quarterly or annual contracts) involve large position volumes per contract and may therefore generate significant cumulative losses over a short period of time. In addition, the portfolio was assumed to include a long position of 1,500 MWh in the spot market. The final composition of the electricity market portfolio is presented in the table below.

<u>Instrument</u>	<u>Net position</u> <u>(number of contracts)</u>
BASE_Q+0	-80
BASE_Y+0	-75
BASE_Y+1	-150
BASE_Y+2	-75
PEAK5_Y+1	-20

Gas

For the gas market scenario, the Working Group decided to design a directional portfolio with significant exposure to short-term gas forward products. In addition, as with the electricity market, the portfolio was assumed to include a long position of 1,500 MWh in the spot market. This portfolio generates losses in the conditions of high volatility and rapid price increases. The final composition of the gas market portfolio is presented in the table below.

<u>Instrument</u>	<u>Net position</u> <u>(number of contracts)</u>
GAS_BASE_M+0	-150
GAS_BASE_M+1	-150

3.3 Assumptions regarding liquidity

Position close-out scenarios

As part of the liquidity scenario element, the Working Group assumed that the scenarios pertaining to the portfolio liquidation period should illustrate how the time required to close out positions affects the level of losses incurred during the default management process, and the potential utilization of collateral margins and resources accumulated in the Guarantee Fund.

The analyses were based on two scenarios:

- Scenario 1 reflects the assumptions used in IRGiT's initial margin calculation models, under which a portfolio can be closed out within the standard liquidation horizon of 2 business days.
- Scenario 2 depicts a situation of limited market liquidity or reduced engagement of market participants in acquiring the positions, as a result of which the portfolio liquidation process

is extended to 5 business days. Under this scenario, the following schedule for closing out positions was assumed:

- Business day 2: 50% of total volume,
- Business day 3: 20% of total volume,
- Business day 4: 20% of total volume,
- Business day 5: 10% of total volume.

A comparison of the results of the two scenarios makes it possible to assess the extent to which delays in position close-out increase exposure to market price risk and result in higher losses to be covered from the resources of the defaulting participant and the Guarantee Fund. Therefore, the scenarios highlight the importance of market liquidity and active participation by Clearing House Members in the default management process.

Impact of illiquidity on price movements

As part of its discussions, the Working Group also considered the impact of limited market liquidity on the scale of price movements. However, considering the low analytical value of the results obtained using simplified assumptions and the difficulties involved in modeling price levels as a function of observed market liquidity under extreme market conditions, the Working Group decided to leave this area for further analysis in possible future testing cycles.

3.4 Case study – description of the event of default

The following section presents case studies for both markets and the portfolios defined in Sections 3.1 – 3.3 above.

Electricity

The assumed portfolio may represent the position of a power producer or energy group that, as part of its ordinary activity, has sold a considerable portion of its future electricity production in the forward market. The purpose of such a hedging strategy is to secure future revenues and reduce exposure to falling electricity prices. Under normal market conditions, this is a commonly used risk management practice among power producers operating in the Polish market.

In this scenario, risk materializes when power prices rise sharply as a result of a combination of fast economic growth, growing prices of energy commodities and CO₂ emission allowances, and exceptionally strong electricity demand associated with the expansion of AI data centers.



The scale of the price increases is comparable to that observed during the 2022 energy crisis, causing the short forward positions to generate significant losses through variation margin, which performs a function similar to a mark-to-market mechanism in the markets cleared by IRGiT. This situation is adverse for the entity, even though the value of future electricity production also rises. The additional long position in the spot market reflects the need to manage temporary mismatches between the production profile and contracted delivery volumes.

In this scenario, the primary source of risk is not the operational profitability of the company, but rather the necessity to continuously fund increasing margin requirements. During periods of extreme price volatility, the scale of calls to replenish margins may exceed the participant's available liquidity or its ability to obtain external financing. As a result, the entity may become unable to meet its obligations to IRGiT when due, even if it holds valuable physical assets or expects substantial future cash flows.

Gas

The assumed portfolio may reflect the operations of an entity engaged in active speculative trading in the natural gas market. Before the event of default, the participant expected a gradual normalization of supply conditions and a decline in gas prices due to anticipated increases in LNG supply and a reduction of geopolitical tensions. As a result, it maintained a substantial short position in short-dated contracts, hoping to profit from falling prices. These assumptions were then undermined by information on additional disruptions to global gas supply chains and forecasts of exceptionally low temperatures in Asia. The market reacted with an immediate increase in risk premiums and a sharp rise in prices of contract series nearing maturity. The participant's short position generated rapidly increasing losses, while collateral requirements rose faster than the participant was able to obtain additional liquidity. Additionally, the entity assumed that a price shock similar to the historical attacks on Qatari LNG infrastructure would not recur, so it opened a larger speculative position than justified by its risk aversion.

Unlike an entity with generation assets or long-term contracts with suppliers, the participant had no assets or contractual positions whose increase in value could mitigate losses on the forward market. The full negative impact of the price increase materialized directly in the value of the portfolio and in a rapidly increasing need for cash to meet margin calls. As a result, this scenario illustrates how an event of default may be incorrect market assumptions compounded by an extreme geopolitical shock. A rapid increase in prices leads to a quick loss of liquidity and an inability to meet obligations to the Clearing House when due.

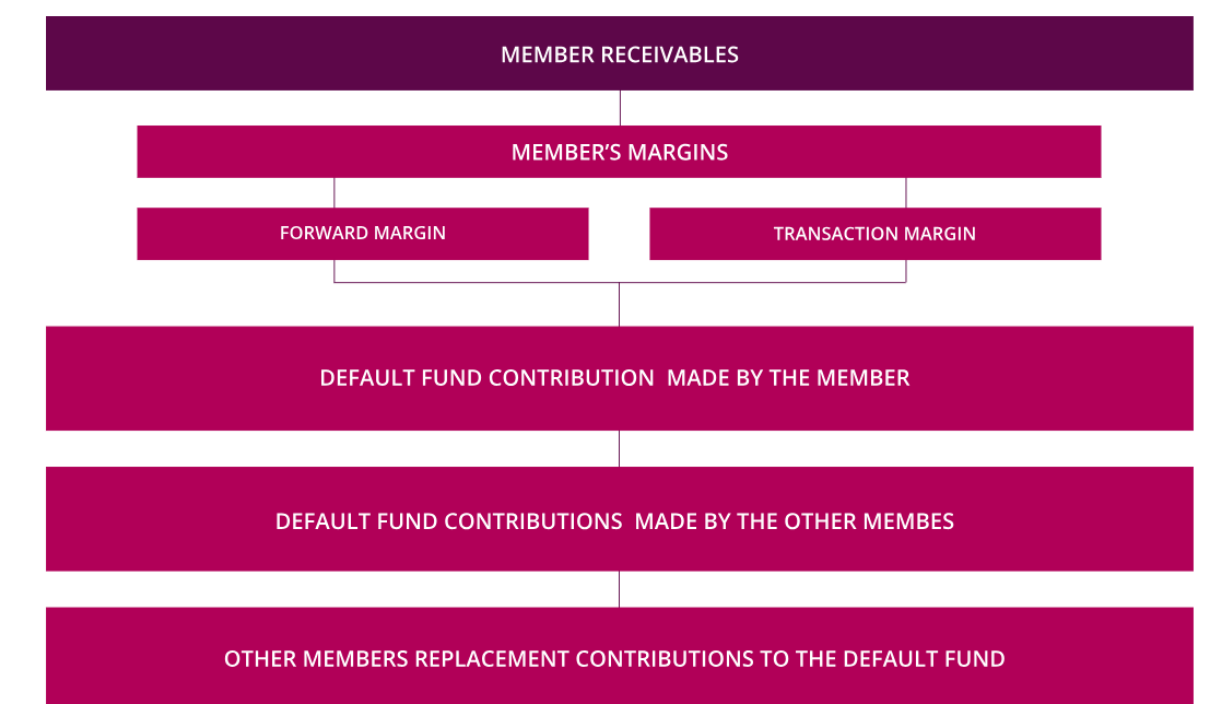
4. Summary of test results

The final loss for each market is based on the combination of price change and liquidity scenarios (described in Sections 3.1 and 3.3) that produces the highest loss.

Rules for calculating and covering portfolio losses of the defaulting Clearing House Member

The portfolio loss level that must be covered with the Guarantee Fund resources is the net cost of closing out all positions in the portfolio of the defaulting Clearing House Member, and its receivables and collateral provided by the Member. This assumption was reflected in the test calculations and shown in the result tables below. At the same time, the tests assumed that the defaulting entity had contributed transaction margins and collateral margins in the amounts required by IRGiT in accordance with the Detailed Clearing and Settlement Rules of the Exchange Clearing House. Collateral requirements were calculated using risk parameters in effect for August 2026. Additionally, since the purpose of the tests was not to analyze the liquidation process of non-cash collateral, it was assumed that all collateral was contributed by the defaulting entity in cash.

In accordance with the waterfall loss coverage model, the loss calculated above is calculated directly with contributions to the Guarantee Fund from the remaining Clearing House Members, as illustrated below.





The detailed results, including the resulting loss amounts, are presented in the following sections.

Electricity

For the portfolio with positions in the electricity forward market and under the assumed price change scenarios, Scenario 1 proved more adverse. Under this scenario, the positions are closed out within the standard liquidation horizon of 2 business days.

Initial margin linked to the portfolio	PLN 518,266,057.40
Position close-out cost (portfolio revaluation during close-out)	PLN 792,593,108.50
SPOT market liabilities	PLN 2,838,015.00
Loss on the defaulting entity's portfolio	PLN 277,165,066.00
Assumed contribution of the defaulting entity to the Guarantee Fund (5% share of total Guarantee Fund)	PLN 24,802,128.00
Guarantee Fund resources of the remaining Clearing House Members used to cover loss	PLN 252,362,938.00
Total collateral accumulated in the Guarantee Fund	PLN 496,042,558.00
Percentage utilization of the Guarantee Fund	50.88%

In this scenario, the amount of loss to be covered by the remaining Clearing House Members amounted to **PLN 252.36 million**.

Gas

For the portfolio with positions in the gas forward market and for the assumed price change scenarios, Scenario 2 proved to be more adverse. Under that scenario, the positions are closed out over an extended liquidation horizon of 5 business days.

Initial margin linked to the portfolio	PLN 6,920,660.00
Position close-out cost (portfolio revaluation during close-out)	PLN 11,384,621.00
SPOT market liabilities	PLN 224,685.00



Loss on the defaulting entity's portfolio	PLN 4,688,645.00
Assumed contribution of the defaulting entity to the Guarantee Fund (minimum contribution)	PLN 30,000.00
Guarantee Fund resources of the remaining Clearing House Members used to cover loss	PLN 4,658,645.40
Total collateral accumulated in the Guarantee Fund	PLN 496,042,558.00
Percentage utilization of the Guarantee Fund	0.94%

In the gas market scenario, the loss that the remaining Clearing House Member would have to cover was **PLN 4.69 million**.

It should be noted that IRGiT operates a single Guarantee Fund for all markets cleared within the Exchange Clearing House, which covers both gas and electricity markets. Accordingly, the above losses for the electricity market and for the gas market would be covered based on similar principles by the remaining Clearing House Members. The loss allocation of each Clearing House Member would more or less correspond to its share in the Guarantee Fund (after deducting the defaulting entity's contribution).

5. Communication with Clearing House Members – information on individual loss allocation

In accordance with the assumptions adopted for this year's testing cycle, each Clearing House Member will receive, as part of the communication concerning the tests of the Procedure in case of an Event of Default, an estimate of the hypothetical loss that would have to be covered with its Guarantee Fund contribution for each scenario. This value will be estimated on the assumption that the event of default and the market conditions described in this report occurred on the date of the analysis.

The purpose of providing this information is **to increase awareness of the Clearing House Members of the potential financial consequences of an Event of Default and to highlight the importance of their active participation in the default management process, in particular in the process of closing out a defaulting member's positions and the submission of orders at market price levels.**



In order to preserve confidentiality of data and ensure the neutrality of the process, all results presented in the appendix to this report will be fully anonymized, and each Clearing House Member will receive only its own individually calculated estimate of its potential share in covering losses from the Guarantee Fund, reflecting the current structure of its contributions to the Fund as at the date of the analysis.

The figures provided are strictly analytical and educational in nature. They do not constitute a forecast of future losses or an assessment of participants' actual financial liability in case of an Event of Default. Their purpose is solely to illustrate the potential scale of Guarantee Fund utilization under the assumed stress scenarios.

6. Summary and conclusions

This report summarizes the work carried out in preparing and conducting the 2026 Testing of the Procedure in the Event of Default. **The analyses confirm the importance of an efficient process of closing out positions for mitigating systemic risk and minimizing the potential utilization of Guarantee Fund resources. At the same time, the test results highlight the important role of Clearing House Members in ensuring market liquidity and supporting IRGiT's actions during periods of market stress.** Increasing the awareness of market participants in this area remains one of the key elements in building the safety and resilience of the clearing system.

IRGiT extends its sincere gratitude to all members of the Working Group on 2026 Default Management Tests for their active participation in developing the test scenarios, their substantive contributions, and the valuable comments provided at every stage of the project. Special thanks are also extended to all those who contributed their time and expertise to improving the safety, transparency and resilience of the market to extraordinary events.