

# Implementation of changes to IRGiT regulations

## Summary

The Commodity Clearing House presents information about the changes introduced to the Regulations of the Exchange Clearing House (Commodity Market), Detailed Clearing Rules for markets operated by the Polish Power Exchange and pertinent IRGiT Management Board resolutions with regard to:

- a) the activity of utilities on the clients' account,
- b) auctions for the needs of handling insolvencies in the forward market regarding electricity and gas,
- c) utilization of the receivables of an insolvent Member of the House.

The details of the changes are described later on in this document.

The Regulations of the Exchange Clearing House (Commodity Market) and the Detailed Clearing Rules for markets operated by the Polish Power Exchange in the wording reflecting the above changes are available at the Commodity Clearing House's website and will enter into effect as of 10 May 2019.

Should you have any questions do not hesitate to contact us.

IRGiT Office	22 341 99 01
Clearing and Settlement Department	22 341 99 80
Risk Management Department	22 341 98 20

## **Activity of utilities on the clients' account**

The Commodity Clearing House has introduced provisions regulating the rules for conduct of activity, by utilities, on the account of entities from the same capital group within the meaning of the Accounting Act ("clients").

The changed regulations include in particular:

- a) Detailed Clearing Rules for the markets operated by the Polish Power Exchange,
- b) resolution concerning non-cash collateral,
- c) resolution concerning the setting of the algorithm for the determination of the value and the mode of providing the historic margin and the list of the instrument types for which historic margin applies,
- d) resolutions to change the rules for the organization of the Guarantee Fund.

Expansion of the scope of activity conducted by utilities to include activity on the clients' account requires that the Member of the House:

- file with the Commodity Clearing House an application for changing the membership agreement enabling the company to conduct activity on the client's account;
- submit an application for additional access to the clearing system for the employees of the Member of the House, because a separate House Member code will be assigned in the system to activity conducted on the client's account;
- open a separate clearing account for the purpose of financial settlement and update of the provided collateral as part of the activity on the client's behalf – due to lack of the possibility of balancing the payments for transactions concluded by a Member of the House on its own account and on the client's account;
- deposit collateral on transaction margin and collateral margin subaccounts, separate for the given activity type (additional access to CHPB's electronic banking for the employees of the House Member, depending on the entitlements granted to them for the given type of activity);
- submit an application to the Commodity Clearing House for establishing separate trading and clearing accounts for each client (possibility of choosing scheduling units for each trading account).

As regards the adopted model:

- the transaction limit, historic margin and delivery margin will be set separately for the given type of activity;
- initial and supplementary margins will be set separately for each client from the capital group (surplus on account of the collateral margin calculated for the client will not be able to cover the required collateral margin calculated for another client operating within one capital group);
- invoices will be issued separately for transactions concluded by the Member of the House as part of the activity on its own account and activity on the client's account;

- A Member of the House acting on the clients' account, submitting non-cash collateral will be obligated to indicate the client for whom the collateral is submitted.

## **Auctions for the needs of handling insolvencies in the electricity and gas market**

To be covered by the automatic position closing mechanism (auction) of the entire Forward Commodity Market operated by the Polish Power Exchange ("PPE"), the Commodity Clearing House adapted the provisions of Chapter VIIa of the Regulations of the Exchange Clearing House ("ECH Regulations"). The purpose of the auction is to minimize the costs of closing the positions of insolvent House Members with the lowest possible impact on market prices.

The assumptions pertaining to the auction model for forward contracts for electricity and gas and the provisions of the ECH Regulations have been approved by the Risk Committee operating at IRGiT.

Auctions for electricity and gas markets will be operated using the PPE transaction system according to the rules set for the auctions in the Polish Power Exchange Exchange Commodity Market trading Rules and Regulations.

In addition, considering the comments submitted by market participants, § 54a Section 1 and § 54b subparagraph 2 of the ECH Regulations was amended so that participation in auctions is not mandatory. As a consequence, § 54c subparagraph 3 of the ECH Regulations was modified by deleting the rules pertaining to the use of the funds' monies depending on the involvement of the entities in the organized auctions.

The above changes were also taken into account in the Detailed Clearing Rules for the markets operated by the Polish Power Exchange through adding pertinent provisions specifying in detail the auction organization procedure.

## **Utilization of the receivables of an insolvent House Member**

To ensure that the Commodity Clearing House has access to appropriate liquidity risk management mechanisms, in the ECH Regulations and in the Detailed Clearing Rules for the markets operated by the Polish Power Exchange provisions were introduced making it possible to use the receivables of the House Member in the event of their insolvency, to cover the liabilities due and payable in accordance with the ECH Regulations.

The changes to the aforementioned regulations provide for the possibility of covering unsettled liabilities of a House Member through transferring their receivables to an appropriate account in CHPB assigned to such House Member. Introduction of such a solution may facilitate the insolvency handling process and reduce the costs of closing the positions of insolvent House Members, thus reducing the probability of using the monies contributed to the guarantee fund.

The draft changes to the regulations obtained a positive recommendation of the Risk Committee operating at IRGiT.