

Excerpt from the minutes of the meeting of the Risk Committee of IRGiT on 27 and 29 May 2020

Attendees:

Risk Committee Members:

1. Tomasz Wieczorek – Committee Chairman, Representative of IRGiT
2. Leszek Prachniak – Committee Member, Representative of Towarowa Giełda Energii S.A. (Polish Power Exchange)
3. Olga Dzilińska-Pietrzak – Committee Member, Representative of Izba Energetyki Przemysłowej i Odbiorców Energii (Polish Chamber of Industrial Energetics and Energy Customers)
4. Robert Sikorski – Committee Member, Representative of Towarzystwo Gospodarcze Polskie Elektrownie (Polish Power Plants Association)
5. Iwona Ustach – Committee Member, Representative of Izba Domów Maklerskich
6. Arkadiusz Wronka – Committee Member, Representative of Towarzystwo Obrotu Energią (The Association of Energy Trading)
7. Maciej Maciejko¹ – Committee Member, Representative of Związek Pracodawców Prywatnych Energetyki Konfederacji Lewiatan (Union of Private Energy Sector Employers)
8. Katarzyna Piłat² – Committee Member, Representative of Izba Gospodarcza Gazownictwa (The Chamber of the Natural Gas Industry)
9. Paweł Lont – Representative of the European Federation of Energy Traders

Invited guests:

10. Janusz Kurzak – Representative of the European Federation of Energy Traders
11. Jakub Zaleski – Representative of the Polish Financial Supervision Authority
12. Łukasz Goliszewski – Vice-President of the IRGiT Management Board
13. Łukasz Grządka, Deputy Director of the IRGiT Risk Management Department
14. Katarzyna Pachowska – Director of the IRGiT Legal Department
15. Adrianna Rudzińska-Żurek – Director of the IRGiT Internal Audit Department
16. Filip Lato – IRGiT Compliance Officer

The meeting was presided over by the Chairman of the Risk Committee together with Mr. Łukasz Grządka and Mr. Filip Lato. Recommendations and opinions of the Risk Committee (hereinafter “Committee”) on the issues discussed are presented below in these minutes.

Course of the meeting:

1. The Committee was familiarized with the status of implementation of the Committee’s recommendations from previous meetings. In particular, Committee Members were familiarized with the status of implementation of the initial margin cross-product netting model

¹ Attendance at the Committee meeting on 27 May 2020.

**Excerpt from the minutes of the meeting of the Risk Committee
of IRGiT on 27 and 29 May 2020**

and implementation of the recommendations pertaining to: changes regarding credit risk assessment in banks, introduction of the possibility of contributing bank guarantees as contributions to the Guarantee Fund, introduction of the possibility of acceptance of bank guarantees issued by foreign banks, and improvement of the transparency of the documentation regarding update of IRGiT regulations.

2. The Committee was familiarized with a report of the IRGiT Risk Management Department presenting selected statistics regarding the area of collaterals and risk management in IRGiT as at 26 May 2020, including: total value of the required collaterals, structure of the collaterals lodged and statistics regarding the volatility level for yearly contracts.
3. The Committee was familiarized with a detailed description of the event of default of an Exchange Clearing House Member which occurred on 18 March 2020 and the specific actions taken by IRGiT.
4. The Committee was familiarized with the findings from the default management process conducted in March 2020, which identified optimization areas that should contribute to minimizing the costs in the case of default of a Clearing House Member in the future. In this item the Committee recommended:
 - a. work on the update of the IRGiT regulations to define a catalogue of situations in which IRGiT has the right to take specific actions and take into account the possibility of repayment of part of the liabilities by an insolvent Clearing House Member,
 - b. continuation of work on the optimization of the process of informing Clearing House Members and other entities about the occurrence of an event of default,
 - c. further work regarding IRGiT's other findings associated with the default management process and discussing them at the Committee meetings before implementation.

At the same time, the Committee rejected the concept of establishing the so-called Default Management Group at IRGiT, arguing that it is necessary to minimize the position closing time and ensure a short decision-making chain on the part of IRGiT.

5. Committee Members were informed about moving the default management process tests till after implementation of the changes in the processes and regulations worked out as a result of the lessons learnt from the event of default in March 2020.
6. Committee Members were informed about the key assumptions of the implemented model for contributing bank guarantees as contributions to the Guarantee Fund.
7. Committee Members were familiarized with the target model for contributing collaterals to IRGiT offering the advantage of automation and improvement of the efficiency of the use of bank guarantees as contributions to the Guarantee Fund and recommended launching the work on its implementation. In the target model, the value of contributed bank guarantees is credited, in the first place, towards the Guarantee Fund and then towards collateral and transaction margins. The proposed model will not require Clearing House Members to contribute dedicated bank guarantees on account of contributions to the Guarantee Fund.
8. Committee Members were familiarized with the proposed changes to the collateral model proposed by Tauron Polska Energia S.A. The submitted proposals (including, among others: the possibility of contributing bank guarantees issued by banks without a registered office or branch in Poland, and inclusion of the credit rating in the calculation of collateral margins) were discussed in other items of the agenda.
9. Committee Members were familiarized with the amendments of the IRGiT regulations caused directly by the entry into force of the Act amending certain acts with respect to protective measures in connection with the spread of SARS-CoV-2 virus ("Act"). Additionally, IRGiT's position was presented in the context of risk and the potential consequences for market participants, such as, for example, increased systemic risk, potential losses incurred by all

**Excerpt from the minutes of the meeting of the Risk Committee
of IRGiT on 27 and 29 May 2020**

exchange market participants in Poland in the event of default of one of the entities using the solutions presented in the act, rapid increase of the liquidity risk and lack of the possibility of effective market risk management by IRGiT.

10. Committee Members were familiarized with the findings of the “Final Report on CCPs’ Membership Criteria and Due Diligence” devoted to the rules for obtaining CCP membership and supervision over market participants, published by ESMA on 7 January 2020.
11. The Committee was familiarized with the possible solutions regarding close-out netting. The Committee recommended that IRGiT regulations should take into account the process of conduct in the event of default of IRGiT in which, to carry out the close-out netting, the Clearing House will use the current clearing prices, and then, within specified timeframes, the Clearing House will proceed to liquidate non-cash collaterals aiming to raise as much cash as possible. The next stage would involve the distribution of the monies obtained from the liquidation, pro rata to the values that should be returned to Members on the basis of a final clearing.

The date of the next Committee meeting was set for 19 August 2020.

For more information on the Risk Committee see: <https://www.irgit.pl/en/risk-committee>