



OTP Bank Group

Market: Croatia

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Category: Market Announcements

SKDD-CCP presentation on the start of operational business

Summary: SKDD-CCP held a presentation on the start of operational business

Hereby we bring the most important conclusions of the presentation of the SKDD-CCP company held on 8 September 2021.

Licensing status:

Following the Conclusion of the Croatian Financial Services Supervisory Agency (hereinafter: HANFA) on the completeness of the SKDD-CCP Request for the issuance of approval for the provision of services of the CCP as of 30 April 2021, the implemented external system with market members during May and June 2021, the establishment of the Board of Regulators and the planned meeting of the Board during September 2021, the SKDD-CCP estimates that HANFA could issue a Decision on approval during October 2021.

The precondition for obtaining the licence to provide the services of the central counterparty on Croatian market is that the SKDD-CCP receives the authorization under the EMIR. The migration of settlement activities from the CDCC to the SKDD-CCP is expected during November and December (within 2 months from the enforcement of the HANFA Decision).

The planned activities during November 2021 are as follows:

- Swift activation of SKDD-CCP production
- Inclusion of the SKDD-CCP in CLVPS system
- The SKDD-CCP will publish a list of appropriate collateral instruments
- Admission of the future settlement participants
- The SKDD-CCP will provide the information on collateral requests to all participants
- Collection of collateral payments from participants (cash payments and/or financial instruments)

During December 2021 when CDCC-CCP go-live is expected, the CDCC will cease to provide contractual settlement services and will reimburse the CDCC guarantee fund (upon settlement of transactions classified in contractual settlement). The CDCC will then obtain a license according to the CSDR regulations.



Business changes upon the establishment of the CDCC-CCP

- CDCC will cease to provide contractual settlement services;
- Guarantee Fund amounts will be reimbursed to participants;
- Upon obtaining the licence, the SKDD-CCP will become a special member of the CDCC;
- SKDD-CCP will receive real-time transactions from the Zagreb Stock Exchange (hereinafter: ZSE) in the morning on T+2;
- SKDD-CCP will enter delivery/receipt instructions into the CDCC system based on the calculated (netted) liabilities;
- SKDD-CCP and the participant will settle the obligations in the CDCC system (the participant is obliged to provide financial instruments and the SKDD-CCP to release the cash funds to the CDCC's account or vice versa);
- The CDCC will implement the settlement system solely and exclusively according to the BIS 1 model - upon fulfilment of the obligations of both contracting parties (DVP);

Lines of protection as one of the main advantages of CCP are in providing a system with sufficient resources for absorbing losses due to non-fulfilment of obligations of the participants. CCP resources are participant and client's collateral, and CCP assets ("skin in the game"). Lines of protection are participation requirements for members (appropriate license, capital adequacy, creditworthiness, access to liquidity, etc.).

The order of covering the outstanding obligations of the participants, the so-called "Default waterfall":

- Default participant margin
- Share in the default participant's guarantee fund
- Earmarked funds of the SKDD-CCP
- Share in other participants' guarantee funds
- Additional payments to the other participants' guarantee funds up to a max of 200%

Financial instruments eligible for Settlement in a CCP are those that meet, inter alia, the following conditions:

- the financial instrument belongs to one of the following types of financial instruments:
 - Share - belongs to the liquidity basket EQ1 or EQ2 as determined by MIR.
 - Bond - domestic issues of the Ministry of Finance of the Republic of Croatia.

Account segregation

- Segregation of participants' accounts from their clients' accounts (Art. 39 of EMIR)
- SKDD-CCP account structures:



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- participant's house account (participant's positions and collateral)
- omnibus account (collective for clients - OSA)
- Individual account - ISA (positions and collateral separate from the house account of the participant and all other clients)

Settlement liabilities and collateral requirements are calculated separately for each account (no netting). The differences in segregation are margin requirements, probability of porting, client's position and collateral with the default member, and payment of the amount after the liquidation of the portfolio ("leapfrog payment") if the porting fails.

Eligible collaterals:

- Money and financial instruments (bonds and treasury bills RHMF)

- minimum amounts: margin HRK 25.000,00 guarantee fund HRK 30.000,00
- recognized value - the ratio of cash and financial instruments 20:80

The purpose of collecting margins from participants is to protect the CCP from market movements of the FI prices, which CCP settles during the liquidation period, within normal market conditions.

The purpose of the contribution to the guarantee fund is to cover the risk of market movements of the FI prices during the liquidation period, and in stressful conditions.

For additional information, please contact your local broker.

Impacts: Adjustments to the new operational work environment and processes of the CDCC-CCP by the end of the year 2021

Required actions: Adjustments to the new business processes of CDCC-CCP

Application date: November/December 2021

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