

KELER CCP Ltd.

Management of Extraordinary Situations Regulation

File name:	3-10 Rendkívüli helyzetek kezelésére vonatkozó szabályzat_v2.4.docx
Responsible organizational unit:	Risk Management Department
No. of the regulation document:	3-10
Adopted by the Board of Directors:	Resolution No. 6/2018/3. on 21 November 2018
Effective from:	21 November 2018
Date of review:	30 January 2022

1. General

1.1. Introductory provisions

Reason/motive for the modification of the regulation: regular review and the implementation of the proposals of MNB PFMI.

1.2. Review date

Annually or upon changes to the items listed in Point 1.4.

1.3. Scope of the regulation

Material scope: Covers the activities of KELER CCP related to clearing and guarantee undertaking services.

Personal scope: Covers the entire organization of KELER CCP.

1.4. References

Related regulations

- KELER CCP Ltd. General Business Rules

References to legislation

- MNB Decree No. 11/2009. (II. 27.) on the requirements for the General Terms and Conditions and operating rules of organizations providing central counterparty activities under the Act on Capital Markets;
- Regulation (EU) 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (EMIR).

1.5. Repealed regulation

None.

1.6. Version control

Version number of this regulation: v 2.4

Version number of previous regulation: 2.3

Effective date of previous regulation: 8 November 2017

1.7. Definitions used in the regulation

GBR	General Business Rules of KELER CCP Central Counterparty Ltd.
BSE	Budapest Stock Exchange Private Company Limited by Shares
CEEGEX	Central Eastern European Gas Exchange Private Company Limited by Shares
ECC	European Commodity Clearing Aktiengesellschaft
EuroMTS	EuroMTS Limited
FGSZ	FGSZ Natural Gas Transmission Private Company Limited by Shares
FGSZ KP	FGSZ Trading Platform Private Company Limited by Shares
HUDEX	HUDEX Hungarian Derivative Energy Exchange Private Company Limited by Shares
KELER CCP	KELER CCP Central Counterparty Private Company Limited by Shares
KELER	KELER Central Depository Private Company Limited by Shares
KELER Group	KELER and KELER CCP

2. Introduction

MNB decree No. 11/2009. (II. 27.) and EMIR require KELER CCP to document the processes of extraordinary situation management that affect clients in a regulation.

This regulation contains exclusively the order of operation of KELER CCP related to the management of extraordinary situations that affect its clients, namely it includes requirements for KELER CCP related to the use of the services it offers to clients that are clearing members, gas market clearing members, energy market non-clearing members (hereinafter: Clients).

This regulation does not include the internal regulations related to the business continuity of KELER CCP, namely the general rules of incident, partial shutdown and crisis management. The respective internal regulations of KELER Group contain the latter.

The public regulation of the KELER Group on the Management of Extraordinary Situations covers the following fields linked to crisis management:

- Disaster management;
- Critical general threats;
- Critical business processes;
- Critical resources (other resources, human resources and service providers);
- Critical IT and security resources.

3. Types and criteria of extraordinary situations

In line with the provisions of the GBR KELER CCP provides clearing and guarantee undertaking services to its clients. The basic operational objective of the organization in charge of central counterparty activity is to ensure that the services are provided in line with the contracts at any point in time, namely to maintain continuously the service level that is also the long term objective of its clients.

KELER CCP forms its operation, internal organization, material and personal conditions and internal regulations and contractual relations to ensure the continuous maintenance of its service level, namely to be able to meet all financial obligations arising from the central counterparty function.

For the purposes of this document extraordinary situation is the existence of circumstances when the terms of clearing and guarantee undertaking related to the central counterparty function deviate significantly from the planned normal daily operation. Accordingly extraordinary situations can be categorized as follows:

- critical increase in the level of operational risks;
- extraordinary market situations;
- critical concentration of client positions;
- significant risk defaults;
- capital elements shortfall;
- measures by authorities / the state with a material influence on services.

The extraordinary situation is declared by the Chief Executive Officer, taking into consideration the information which is provided to him/her by the Chief Risk Officer and the Head of the Clearing Department.

The Chief Risk Officer notifies the Chief Executive Officer and the Head of the Clearing Department in writing if

- he/she identifies significant problems in the operative functioning regarding his/her area;
- such market movements of a material extent occur due to which it may take place that the collateral system cannot provide coverage at a system level;
- he/she identifies an irregular, unprecedented concentration of the client positions;
- a shortfall of the capital elements occurs during the monthly calculation of capital;
- he/she considers justified the possible declaration of the extraordinary situation due to any other risk management reason, however, he/she is obliged to explain this in detail.

The Head of the Clearing Department notifies the Chief Executive Officer and the Chief Risk Officer in writing if

- he/she identifies significant problems in the operative functioning regarding his/her area;
- default occurs;
- the insufficiency of liquid assets occurs during the daily liquidity management;
- he/she considers justified the possible declaration of the extraordinary situation from any other viewpoint of operational functioning, however, he/she is obliged to explain this in detail.

If the Chief Executive Officer declares that an extraordinary situation has occurred, he/she notifies the Board of Directors, the Risk Committee and the Chief Risk Officer thereof.

If the Chief Executive Officer declares that no extraordinary situation has occurred, he/she notifies the Chief Risk Officer and the Head of the Clearing Department thereof. In this case the Chief Risk Officer considers if he/she agrees with the decision of the Chief Executive Officer. In the case of disagreement the Chief Risk Officer informs the Board of Directors and the Risk Committee of the fact of disagreement. If the Chief Executive Officer fails to reply within 24 hours from the notification of the Chief Risk Officer and/or the Head of the Clearing Department regarding his/her decision to the Chief Risk Officer, then the Chief Risk Officer informs the Board of Directors, requesting the decision of the Board regarding the declaration of the extraordinary situation.

3.1. Critical increase in the level of operational risks

In the case of KELER CCP for the purposes of this regulation operational risks refer to events impacting the profits and the shareholders' equity of KELER CCP, occurring due to inappropriate internal processes and systems, external events or inappropriate actions by persons, violation of legislation, violation of or failure to perform in line with the processes determined in contract or internal regulation. The operational risk includes legal risk but does not include reputation and strategy risk.

Operational risk events can be categorized in terms of several aspects. By event type all events must be put into one of the following categories:

- internal fraud,
- external fraud,
- practice followed by the employer and work safety,
- client, business practice, marketing and product policy,
- damage to tangible assets,
- business disruption or system error,
- execution, payment, process management.

Event types are of causal nature, that is to say the categorization is based on the trigger and not the result.

The operational risk event with a detrimental change in the services of KELER CCP that is also perceivable by clients is considered critical. Events resulting in the decrease of the daily availability of the service level of KELER CCP that may give rise to financial damage or extra costs compared to business as usual on the client side or the case when due to operational risk event the dedicated own resources and the other financial resources of KELER CCP fall below the level specified in Point 3.5. of this document are in this category.

3.2. Extraordinary market situations

Extraordinary market situations are the relevant market processes, price changes, liquidity situation influencing the markets guaranteed by KELER CCP or the occurrence of other circumstances with

detrimental influence on the operation of the market that materially increase the normal market price and payment risks. Material extent is when due to the price changes actually occurred or due to the short term price changes that can be reasonably expected in the short term the margin system published by KELER CCP would not provide sufficient coverage. In general extraordinary market situations apply to an entire market (e.g. grain market) or to a distinct market segment (e.g. sunflower seed), but have a comprehensive nature and affect all clients (taking into account their positions) active in the market concerned.

3.3. Critical concentration of client positions

KELER CCP monitors and evaluates daily the market position concentration of clearing members. Concentration is monitored on the capital markets in line with the internal methodology of KELER CCP, concentration indices are calculated daily based on the initial margin requirement and the net open positions on clearing member level.

If the so calculated concentration indices confirm the high concentration for more than 5 clearing days then after considering the own equity of the clearing member and the application of additional financial collateral the chief risk officer evaluates the situation, takes into account whether the quantity of concentrated positions - beyond the extent of the concentration - exceeds the usual extent, and the Chief Executive Officer decides if the critical concentration of the client positions is considered extraordinary or not.

3.4. Significant risk defaults

Significant risk defaults are the cases when in addition to the use of the margins of the defaulting client the permanent or final use of the collective guarantee fund of the market concerned over and above the collective guarantee fund contribution of the defaulting client becomes necessary or after the use of the collective guarantee funds certain capital elements are used permanently.

3.5. Capital elements shortfall

Capital elements shortfall is when the capital position of KELER CCP deteriorates so that the actual level of the legally required notification threshold and the dedicated own resources of KELER CCP fall below the minimum stated in law. Extraordinary situations are the cases when extraordinary measures need to be taken pursuant to the decision of the Chief Executive Officer of KELER CCP to restore the capital position.

3.6. Measures by authorities / the state with a material influence on services

Measures by authorities / the state with a material influence on services include measures by supervisions (including the competent foreign supervisions also), other authorities or state organs that prevent or have a material and detrimental influence on the ability of KELER CCP to fulfill the clearing and guarantee undertaking service in line with the provision of the GBR or the respective

measures result in direct or indirect loss to the collective guarantee funds or following their use to the dedicated own resources and other financial resources.

The respective measures can be directed at the:

- restriction of the right of disposal over client accounts,
- withdrawal or restriction of the license of operation of other institutions related to client fulfillment,
- restriction on the trading of stock exchange contracts, deal types or markets or their underlyings related to which KELER CCP provides services.

The measures listed have an influence on the services of KELER CCP only if as a result of the measures KELER CCP cannot or can only partially provide clearing or guarantee undertaking services or the use of a collective guarantee fund is needed that impacts clients that are innocent and met their obligations. Any other damage claims that may arise are not part of the 'Measures by authorities / the state with a material influence on services' category herein defined.

4. Rules of declaring and announcing extraordinary situations

By taking into account the criteria defined in Point 3. of this regulation KELER CCP continuously checks whether the situation concerned meets any of the extraordinary situation types stated in this regulation or whether there is any significant possibility of this situation occurring in the near future. If the criteria of any type of extraordinary situation are met, the Chief Executive Officer of KELER CCP declares the extraordinary situation.

The Chief Executive Officer of KELER CCP, after he/she requested the opinion of the Chief Risk Officer regarding the situation in a documented way and consulted the Risk Committee in a documented way, informs the Board of Directors of KELER CCP without delay of the extraordinary situation and the actions already taken. If the extraordinary situation requires decisions that are subject to the authorities of the Board of Directors or the Chief Executive Officer of KELER CCP suggests measures deviating from the standard rules of procedure, it is to be submitted to the Board also.

As soon as possible, but not later than on the settlement day after the decision is made clients are to be informed in KID and at the web site of KELER CCP on the extraordinary situation and the decisions made to manage the situation. The information is required to include the type of extraordinary situation and any actions that may have been taken. In addition KELER CCP's media publication and crisis communication regulation (4-12) shall be applied if the Parties deem it necessary.

5. Procedures to manage individual extraordinary situations

In the case of extraordinary situation management the Chief Executive Officer of KELER CCP makes the decisions related to the extraordinary situations, however, if the extraordinary situation requires actions deviating from the standard rules of procedure, the Board of Directors of KELER CCP makes the decision. Deviation from the standard rules of procedure is subject to appropriate justification.

5.1. Actions taken in the case of critical increase in the level of operational risks

5.1.1. Management of extraordinary situations arising due to operational risk events and information to clients

If the operational risk event gives rise to an extraordinary situation with a detrimental influence on clients also, in addition to taking measures without delay to manage the extraordinary situation and measures to mitigate any damage, KELER CCP informs clients as soon as possible on the client impacts of the event and the management of the situation.

In addition KELER CCP's media publication and crisis communication regulation (4-12) shall be applied.

5.1.2. Individually determined action plans

KELER CCP prepares action plans to terminate the causes of operational risks / damage (if necessary / feasible). The responsible persons will be designated with respect to the action plan; they are in charge of completing the measures stated in the action plan and finding solution to decrease the risk of the points with operational risk detected.

5.2. Actions taken in the case of extraordinary market situation

5.2.1. Collateral increase

KELER CCP is entitled to increase (with immediate effect also) any element of the collateral system. The client is required to provide the collateral stated by KELER CCP within the applicable deadline.

5.2.2. Haircut increase

KELER CCP is entitled to increase (with immediate effect also) the haircut of instruments accepted as collateral.

5.2.3. Modification of the terms of collateral acceptance

KELER CCP is entitled to modify (with immediate effect also) the range of instruments accepted as collateral.

5.2.4. Naming clients

KELER CCP is entitled to require the naming of clients that have not been named. KELER CCP can require all the clearing members to name their clients in the range of transactions, section concerned or any clearing member can be required to name its clients.

Pursuant to its General Business Conditions the clearing member is required to obtain consent by the client to transfer client data to KELER CCP. If the client does not consent to naming, the

clearing member is required to inform KELER CCP accordingly. Rejection to name the client is not considered violation of the clearing members' obligations, it does not result in automatic sanctions, however, in the case of increased risk levels, e.g. extraordinary concentration of client positions or occurrence of other extreme circumstances, KELER CCP is entitled to impose additional financial collateral for the client of the clearing member. The amount of any additional financial collateral that may be required is proportional to the prevailing risks.

If the clearing member fails to meet the obligation to name the client, KELER CCP imposes additional financial collateral. If the failure exceeds sixty settlement days KELER CCP is entitled to suspend the clearing right of the clearing member.

5.3. Actions taken in the case of critical client position concentration

5.3.1. Termination of clearing right

If the calculated concentration index based on the initial margin requirement and net open positions calculated by KELER CCP indicates high concentration and if the concentration is considered as a significant risk factor after application of additional financial collateral then the clearing right of the clearing member could be terminated (only closing of the positions is permitted) based on the decision of the CEO.

5.4. Actions taken in the case of significant risk defaults

5.4.1. Deliberation of compulsory measures

The Board of Directors of KELER CCP is entitled to make individual decisions with respect to the compulsory measures stated in the GBR and available to the Board. Furthermore, it is entitled to determine individually the timing of compulsory provisions in order to mitigate the damage caused, in certain cases consider the application of certain compulsory measures or decide not to take compulsory measures. KELER CCP is entitled to consider if the compulsory measure (e.g. compulsory sale, compulsory buy-in, compulsory liquidation of derivative positions) could trigger damaging or risky market processes, that is to say due to the compulsory measures or the inappropriate timing of the measure innocent parties or the central counterparty would be exposed to disadvantages that can be avoided otherwise. The client is required to comply with the provisions of the compulsory measure and acknowledge it.

5.4.2. Actions to mitigate damage

The Board of Directors of KELER CCP is entitled to take all the measures defined in law (market operation, contract execution) to mitigate damage in order to ensure that the expected damage due to default decreases. It includes the contracts executed between defaulting and innocent members and KELER CCP. The client is required to acknowledge the actions taken to mitigate damage.

5.5. Actions taken in the case of capital elements shortfall

5.5.1. Obligation to inform

If the level of capital elements available to KELER CCP, including the capital requirements stated in law and the dedicated own resources and the other financial resources, falls below the level stated in law KELER CCP is required to inform the competent authority without delay in line with EMIR 153/2016 RTC 36. Article (1) section and EMIR 152/2013 RTS 1. Article (4) Section.

5.5.2. Supplementing capital elements

KELER CCP is required to restore its capital position at least to the minimum level stated in law, otherwise measures are to be taken to wind up or restructure the activities of the central counterparty in accordance with EMIR provisions.

Subject to the requirements stated in legislation KELER CCP is entitled to change the structure of dedicated own resources and other financial resources and the proportion of elements. KELER CCP is required to inform clients on all structural changes to the amount of the dedicated own resources and other financial resources (e.g. KELER CCP shareholders' equity, joint and several liability, etc.) and the change in the amount of the joint and several liability available for guarantee undertaking provided by external organization. The client of KELER CCP is required to acknowledge the measure taken.

5.6. Actions in the case of measures by authorities / the state with a material influence on services

5.6.1. Information to market participants

If KELER CCP becomes aware of measures by authorities / the stated that prevent or have a material and negative impact on the clearing activity or the guarantee undertaking or the quality of such activities specified in the GBR, KELER CCP informs clients on these facts and any consequences related to the services it offers. The client of KELER CCP is required to acknowledge the information. If the measure affects the market / market segment / product or deal type or the central counterparty, KELER CCP informs all the clearing members concerned on the measure and related consequences. If the measure affects any member of the clearing member risk pool and from the point of guarantee undertaking this may have detrimental effects on other members, all the members of the risk pool need to be informed. The information should cover in detail the extent and aspect of restriction of clearing or guarantee undertaking and whether the restriction is of a legal nature or is linked to the decrease of the dedicated own resources and other financial resources stated in Point 3.5.

5.6.2. Active consultation with the parties concerned

KELER CCP starts immediate active consultation with the client concerned, the supervisory body, the authority on the influence the measure taken has on the services of KELER CCP and the result it

will have on market players. After involving the parties concerned and learning their opinion KELER CCP at its own discretion forms its view and takes the measures required. KELER CCP is required to inform the clients and authorities.

5.6.3. Other actions

If the measure taken by the authority / the state renders the services of KELER CCP defined in the GBR unviable or restricts them materially, KELER CCP is entitled to modify the terms of the services offered and will advise clients without delay. The terms of the services can be modified to the extent necessary due to the measure requiring the modification; KELER CCP will provide detailed justification.

6. Deviation from the established rules of procedure

The Board of Directors of KELER CCP is entitled to deviate from the rules of procedure herein determined to manage extraordinary situations, in this case KELER CCP is required to inform clients and provide appropriate justification.

7. Method of keeping contact with clients

Upon the occurrence of the extraordinary situation determined in this document KELER CCP keeps contact with clients electronically: via KID and at the web site of KELER CCP.

In addition KELER CCP's media publication and crisis communication regulation (4-12) shall be applied.

The contact persons on behalf of KELER CCP are the Chief Executive Officer and the persons designated by the Chief Executive Officer, the contact persons on behalf of the client are the persons with KID access rights. The list and contact details of the contact persons designated by KELER CCP can be found at the web site of KELER CCP (www.kelerkszf.hu); KELER CCP continuously maintains and updates contact details.

Contact details of KELER CCP:

Address: H-1074 Budapest, Rákóczi út 70-72.

Mailing address: H-1426 Budapest, POB. 57

Email: kelerccp@kelerkszf.hu

Phone: +36 1 483 6100

Fax: +36 1 342 3539

Central Client Service:

Monday-Friday: 9:00 hrs. - 15:00 hrs.

Phone: +36 1 483 6240

Service Desk:

Business hours: 7:00 hrs. - 18:00 hrs.

Phone: +36 1 483 6228 or +36 1 483 6120

8. Cooperation with other organizations

The terms of co-operation and communication with KELER, the BSE, the EuroMTS, the FGSZ, the FGSZ KP, the CEEGEX, the HUDEX and the ECC and the contact persons are detailed in the co-operation agreements concluded with these organizations.