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It gives me great pleasure to present you with this, the first edition of the "KDPW Newsletter". This publication is our response to the growing international interest in the Polish capital market and the need to present the global financial community with regular information about our operations that this interest has created.

One of the most important events of 1999 in Poland was undoubtedly the start of the pension reform program and the first wave of investments by the pension funds. Our market became significantly more active towards the end of 1999 with the PKN (Polski Koncern Naftowy, a Polish Petroleum Company) public offer. An increase in the chief stock market indices on the Warsaw Stock Exchange (by an average of 40%) will no doubt be reflected in investments fund results and should encourage many more people to put their savings in capital investments. There is a growing interest in Poland in the field of risk management and derivatives traded on the Warsaw Stock Exchange.

Polish institutions are opening up to world markets, striving to adapt their administrative and legal standards and operating systems to standards already existing in developed markets. Last year, many of our institutions carried out intensive work to make the Polish capital market more modern and universal: short selling has just been introduced, while a new Bonds Act should invigorate the debt securities market. The WSE will shortly be putting WARSET, its new trading system, into operation.

The forthcoming year will bring with it many important events, including our change of residence, with a move to the National Depository's new building on Książęca Street in Warsaw, to which we hope to invite you this coming summer.

Elżbieta Pustoła
President and CEO

From the Editors:

The 'KDPW Newsletter', which we are also sending to our Polish participants is a summary of basic information about our institution. It will be published on an occasional basis, several times a year. The following edition will feature:

- > *Information on the CEECSDA General Meeting in Warsaw*
- > *Our company's financial statistics for 1999 (after the general meeting of our shareholders).*

We will shortly be sending you our company binder, in which you will be able to keep forthcoming editions of the 'KDPW Newsletter'. Please send any comments you may have relating to the settlement of transactions in the Polish capital market to the KDPW Public Information and Promotions Department.

Edited by >

Public Information and Promotion Department

tel. (+48) (22) 656 25 30, 656 24 43

fax (+48) (22) 656 25 09, 656 01 03

Paweł Orkisz – Director, pawel.orkisz@kdpw.com.pl

Robert Kwiatkowski, robert.kwiatkowski@kdpw.com.pl

Address >

The National Depository for Securities (KDPW S.A.)

ul. Chmielna 132/134, 00-805 Warsaw, Poland

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The Year 2000 annual KDPW 'Galleon Awards' were presented to:

- > The Pekao S.A Central Brokerage House — for creative co-operation in the field of settlement services
- > Bank Śląski Brokers — for settlement that is consistently carried out on time, that is correct and error-free.

Warsaw, March 17, 2000.

The CEECSDA General Meeting Warsaw, 1-2 June 2000



**Central and Eastern European Central Securities
Depositories and Clearing Houses Association**

CEECSDA was founded in 1998. Its membership consists of representatives of Depository-Settlement Institutions of 11 countries: Bulgaria, Croatia, the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Rumania, Slovakia, Slovenia and Poland. The chief aims of the organisation are the sharing of expertise and the closer co-operation of depository-settlement institutions of Central and Eastern Europe.

The organisation was formed as a counterpart to ECSDA, the European Central Securities Depositories and Clearing Houses Association, whose members include similar institutions in the European Union. Central Depositories in our region of Europe already intend to operate according to Western standards and want to prepare themselves for integration with the European Union; for formal reasons, these institutions were not able to join ECSDA.

The Head Office of the organisation is in Budapest, while the key decisions relating to the organisation's rules of procedure are made at the annual general meeting of its members. The first general meeting took place in Bucharest on 10-11 May 1999. During this meeting, the General Rules and the Rules of Procedure of the organisation were adopted and working groups were set up which will be responsible for the detailed issues relating to the depository-settlement systems of member countries. The specific attention of participants of the first general meeting was drawn to the technological evolution of computers now facilitating the process of transaction settlement.

From January 2000, the Chairman of CEECSDA is the President and CEO of the National Depository for Securities — Elżbieta Pustoła. This year, at the end of May and beginning of June, the National Depository for Securities will be hosting the Annual General Meeting of CEECSDA.

Address of the Office organising the Conference:

Ul Chmielna 132/134, 00-805 Warsaw

Tel: 00 12 656 25 30, Fax: 00 12 627 01 03, e-mail: info@kdpw.com.pl

Head Office:

Secretary General of CEECSDA: Gergely Horvath

Administration: Erika Gabányi, gabanyi.erika@keler.hu

H-1075 Budapest, 9-11 Asbóth Str.

Tel: 00 36-1 269-6550 Fax: 00 36-1 342-3539

Please see the panel opposite for the framework program of this year's CEECSDA meeting in Warsaw. Further information on this meeting can also be found at our web-site: www.kdpw.com.pl. <>

General Meeting of CEECSDA

Warsaw, Sheraton Hotel, 1-3 June 2000 r.

Wednesday, 31 May 2000

19:00

Opening dinner in Łazienki Park, Belvedere Restaurant

Thursday, 1 June 2000

08:00 – 15:00 General Meeting of CEECSDA (closed)

15:30 – 17:30 Presentations of the Members of CEECSDA
Bulgaria, Central Securities Depository AD
Croatia, Central Depository Agency Inc.
Czech Republic, Joint presentation by the Stredisko Cenných Papírů (Securities Centre) and UNIVYC Ltd.

19:00

Dinner in Jablonna Palace
(aprox. 20 kilometers to Warsaw)

Friday, 2 June 2000

09:00 – 09:15 Welcome speech by Ms. Pustoła, President & CEO KDPW

09:15 – 10:45 **Estonia**, Estonian Central Depository for Securities Ltd.

Hungary, KELER Ltd.

Latvia, Latvian Central Depository

11:00 – 13:00 **Lithuania**, Central Securities Depository of Lithuania

Poland, National Depository for Securities

Romania, National Company for Clearing, Settlement and Depository for Securities and the Bucharest Stock Exchange

Slovak Republic, Centre for Securities of the Slovak Republic

14:00 – 14:30 **Slovenia**, Central Securities Clearing Corporation

14:30 – 15:00 Closing of Conference

16:30 – 17:30 Visit to KDPW

19:00 Concert in Chopin's Museum in Żelazowa Wola

Comparison and post-transaction settlement

Post-transaction settlement takes place when a securities sale or purchase transaction is concluded on the regulated market by a brokerage house on behalf of clients, whose investments accounts are managed by custodians. The transfer of cash and securities between the broker and the custodian takes place as part of what is known as a post-transaction transfer.

HOW MUCH DID I PAY FOR SHARES?

Currently, there is a fixed charge for the settlement of each post-transaction transfer. KDPW requires a post-transaction transfer to be issued from each transaction that executes a client's order. Since a broker's order may be realised as a result of the conclusion of one or more numbers of transactions, at the time the order is placed, the cost of the realisation of the client's (known as the custodian's client's) disposition is not known.

As a result of the current practice of managing custodians clients' orders arriving at the continuous trading market, there arises another problem. The client receives a confirmation of the execution of his order from the brokers in the form of information about the realised volume and the average price of its execution (the average price is the result of the realisation of an order in more than one transaction). There then arises a certain inconstancy, since later, the client receives confirmation in the form of the realisation of a transaction with various prices.

I DID NOT ORDER IT, BUT I GOT IT.

The next issue is the inconsistency arising from the principle that charging an account with securities and at the same time acknowledging the account of the other party is carried out by the registration of the transfer order presented by one party to the transaction, the owner of the account being charged. (This does not include transactions from regulated markets, for which other rules apply!). However, for specific operations, this principle is not always effective. Let us take as an example a so-called "portfolio transfer" operation.

Currently the transfer of the portfolio is carried out solely by that party to the transfer order which has received the order from its client. The aforementioned principle does not oblige the order-maker to inform or confirm the transaction with the counterparty. In instances where the receiving party has not received the "receive securities" instruction or when the transfer contains an error then that participant is forced to register the securities onto the "to be verified" account and initiate explanatory proceedings.

This method of placing transfer orders is not an effective solution in instances of settlement of State Treasury bonds concluded according to Article 6 of the Law on the Public Trading in Securities. The purchase participant is exposed to the risk of receiving securities he did not expect. What is more, in instances of settlement in DVP (Delivery Versus Payment) he is also exposed to the risk that his account in the Central Bank will be automatically charged as a result of the settlement of securities that he did not expect. Of course, in reality this is not the problem

it may seem, since each KDPW participant receives a future payment forecast as well as a statement of exchange of title and therefore has the time to prevent the particular settlement. Nevertheless, the problem still remains.

NEW REGULATIONS

Challenging the expectations of its participants, KDPW took the decision to:

1. Change the method of carrying out post-transaction settlement so as to allow for a post-transaction transfer to be placed for a particular set of transactions;
2. Allow for specific operations to use procedures based on carrying out settlement only when there are correct dispositions of **both** parties to settlement sent to KDPW. The confirmation of the dispositions is referred to from now on as comparison.

The detailed list of operations which will use the comparison procedure will be defined by the KDPW Management Board; nevertheless, it is very probable that post-transaction transfers will be added to the list of operations to be compared at the time of implementation; these will be settled on the basis of correct settlement dispositions sent to KDPW by the brokerage house and custodian.

The sending of settlement dispositions will take the form of the delivery of a confirmation document marked with a specific type of code, which at the same time will define whether a given disposition originates from the party transferring or receiving the securities. In the KDPW depository settlement system comparison will take place and a statement will be drawn up of those dispositions, according to pre-defined requirements. Once these requirements are met, the comparison documents will form the basis of the automatic creation of a registration document which is then sent for settlement. A document that has not been compared before the day prescribed in the document as the registration date on which settlement should take place, will automatically be excluded from the comparison process.

Information about documents awaiting comparison, that have been compared or whose deadline for comparison has passed will be sent to KDPW participants in the form of electronic reports which KDPW will send at pre-defined times. Two groups of requirements are planned. Each of these groups will have prescribed those operations which must meet the requirements of that group so that comparison of the operation may take place, as well as the creation and settlement of the registration document.

The following principles of compliance of dispositions that define whether a given operation is to be compared are included in the list of requirements of both groups:

Group I:

1. Code and type of participant transferring the securities;
2. Code and type of participant receiving the securities;
3. Code of operation type;
4. ISIN number of the security;

<http://www.kdpw.com.pl>

The KDPW “Galleon Awards”



On Friday, March 17th, 2000, The National Depository for Securities organised its annual meeting with its participants. Particular attention was paid to issues relating to the settlement and registration of short sales, as well as the planned changes in post-transaction settlement (see page 4).

During the conference, KDPW presented its awards for the Year 2000: the annual “Galleons”. These were awarded to:

- > **The Pekao S.A. Central Brokerage House** — for many years of creative co-operation in the field of presentation of new solutions in settlement services
- > **Bank Śląski Brokers** — for settlement that is consistently carried out on time, that is correct and error-free

It is not often that we reward all the effort that is put into proposing new initiatives—said Tomasz Adamski, the President of the Pekao S.A Central Brokerage House. Presenting the award, Elżbieta Pustola, the President and CEO of KDPW said: KDPW guarantees the security of settlements and the efficiency of the settlement system; we will therefore present these awards each year to those participants with whom we work best.

During the conference, the direction of the integration and the future of settlement systems in Europe and Poland were also discussed. The principal method for keeping the hub of settlement of Polish securities transactions in Poland is investment in modern settlement technology and lowering costs.

The name “Galleon” is a reminder of medieval voyages of discovery, whose chief aim was the creation of wealth and the exploration of new worlds. The award, shaped like a prism and made of perspex, with a piece of 30 gram gold inlay in the centre (see photo) was designed for KDPW by Grzegorz Olech.

