
BUYER PROTECTION MECHANISM

POLISH MARKET PRACTICE



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Market Practice - Definitions

Buyer Protection is a process whereby a buyer who has yet to receive the underlying securities of an elective corporate action (CA), instructs the seller in order to receive the outcome of his choice.

Buyer Protection is applicable to **elective corporate** events where the buyer needs to **exercise an option different from the default option** announced by the issuer.

Automated Buyer Protection Mechanism is an institutionalised and automated service provided by market infrastructure organisations. That is, where the election instruction is routed through the CSD/CCP, and where the CSD/CCP uses the Buyer Protection Instruction (BPI) to process the corporate action.

Manual Buyer Protection Mechanism is a bilateral agreement between the respective trading parties by means of a manual process, meaning there is no intervention from the market infrastructure regarding the exchange of Buyer Protection Instructions (BPI).

All transactions still pending on **Buyer Protection Deadline** in securities which are subject to a corporate action can be subject to a Buyer Protection mechanism. Buyer Protection is only applicable to matched underlying settlement instructions.

Market Practice - Key Elements

To create a Buyer Protection Instruction the following elements are required:

- ❖ **Default option** set by the issuer of the underlying security on how the corporate action will be processed should no other option be chosen (*Issuer originated*),
- ❖ **Corporate action unique reference number (COAF)** assigned by the first intermediary, i.e. KDPW (*CSD originated*),
- ❖ **Guaranteed Participation Date** is the last date to buy the underlying security with the right attached to participate in an elective corporate action (*CSD originated*). In order for the settlement transaction to be eligible for Buyer Protection, the trade should be concluded before the end of the Guaranteed Participation Date.
- ❖ **Buyer Protection Deadline, Election to Counterparty Deadline** is the last day and time by which a Buyer Protection Instruction can be given (*CSD originated*). Buyer Protection Deadline should be at least one Business Day before the Market Deadline.

The Polish market has decided not to introduce an Automated Buyer Protection mechanism. Instead the Buyer Protection will be handled bilaterally between counterparties to a trade.

As a result, only the market participants need to comply with market practice on **Manual Buyer Protection**.

Since the exchange of Buyer Protection Instructions takes place bilaterally between the counterparties, KDPW does not plan to implement any system changes in relation to Buyer Protection Mechanism.

Market Practice – BPI Creation

1. For a given transaction and prior to the Buyer Protection deadline the **buyer will issue the Buyer Protection instruction to the seller**. If a Buyer Protection is not invoked by the buyer then default rules for election should be applied.
 2. A Buyer Protection Instruction (BPI) should be **created by the buyer** if the requested option is not the default option, referencing the corporate action, the chosen option(s), the quantity of securities and the underlying transaction in line with the template attached to this market practice.
 3. The Buyer Protection Instruction (BPI) should be **communicated from the buyer to the seller electronically** using the template attached hereto or an ISO message once available.
 4. Polish market practice **strongly recommends the usage of the attached template** and **including one failing transaction per each Buyer Protection Instruction (BPI)**.
 5. It is recommended that the **seller acknowledges to the buyer the receipt of the Buyer Protection Instruction**. No matching is required for Buyer Protection Instruction. It is understood that the receiver will perform a coherence check reconciling the terms of the event.
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Market Practice – BPI Processing

1. The Buyer Protection Deadline should follow the Guaranteed Participation Date by a Settlement Cycle. The creation of a Buyer Protection Instruction (BPI) is **possible until close of settlement of the date of the Buyer Protection Deadline**. Buyer Protection Instructions allocated by a CCP against a seller are allowed until close of settlement of the date of the Buyer Protection Deadline plus one hour.
 2. The Buyer Protection Deadline should be at least one Business Day before the Market Deadline.
 3. Any Buyer Protection Instruction by the buyer prior to the Buyer Protection Deadline and related to a transaction for which the trade date is on or before the Guaranteed Participation Date, with intended settlement date no later than the Buyer Protection Deadline, should be accepted.
 4. Above standard should apply also in case of Buyer Protection Instructions against CCPs.
 5. Buyer Protection Deadlines for the same event **should be identical across (I)CSDs in Europe**.
 6. In regard of any Buyer Protection Instruction by the buyer prior to the Buyer Protection Deadline, settlement of the underlying transaction should be allowed until the Buyer Protection Deadline.
 7. A Buyer Protection Instruction issued on a pending transaction that finally settles on or before the Buyer Protection Deadline (end of settlement process) should be void.
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Market Practice – BPI Processing

8. Transactions attached with a valid Buyer Protection that are still pending on the Buyer Protection Deadline **should be cancelled by both the buyer and the seller and reinstructed according to the choice of the buyer** to prevent settlement after the Buyer Protection Deadline or their transformation into the default option.
 9. The transformation of the underlying transaction should be carried out, in accordance with the Buyer Protection Instruction, on the Market Deadline / Record Date of the concerned elective corporate action.
 10. For Mandatory Reorganisations with Options, non-elected transactions **should transform into the default option** set by the Issuer (I)CSD.
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