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**COMMITTEE ON PAYMENT AND SETTLEMENT SYSTEMS
INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS**

DISCLOSURE FRAMEWORK FOR



SCLV PLATFORM

OCTOBER 2004

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Introduction

The Committee on Payment and Settlement Systems of the central banks of the Group of Ten (G-10) countries (CPSS) and the International Organisation of Securities Commissions (IOSCO) have demonstrated a shared concern with regard to clearance and settlement practices throughout the world. Both the CPSS and IOSCO believe that common interests in the efficiency and risk management of securities settlement systems can be advanced through collective initiatives. Consequently, in 1996 the CPSS and IOSCO formed a joint working group to develop a disclosure framework for securities settlement systems. The working group consisted of securities settlement system operators, including both official and private sector representatives, securities regulators and central bankers. Both developed and emerging markets were represented in the working group.

The goal of developing a disclosure framework for securities settlement systems (SSSs) builds on important prior work undertaken by the CPSS and IOSCO to identify risks associated with securities settlement. The 1992 CPSS report *Delivery versus Payment in Securities Settlement Systems* (DVP Report) defines and analyses the types and sources of risk associated with settlements between direct participants in a single settlement system. This report also clarifies the meaning of delivery-versus-payment (DVP) mechanisms and describes three common approaches to achieving DVP, each of which entails different risks to market participants.

The *Cross-Border Securities Settlements* report (Cross-Border Report), prepared by the CPSS in 1995, expands on the DVP Report by analysing the channels that market participants use to complete cross-border securities transactions. This report outlines the different risks that may be present in these arrangements, even in those cases where DVP is achieved, including replacement cost risk, liquidity risk, cash deposit risk, custody risk and systemic risk. In particular, the report highlights the fact that custody risk will be present whenever market participants hold their securities through an intermediary, a standard practice for non-residents attempting to settle cross-border transactions.

The Cross-Border Report stresses the importance of understanding the nature of the custody risks, as well as the procedures used to effect back-to-back settlements and cross-system settlements in the cross-border context. The report concludes that the complexity of relationships between the multiple intermediaries associated with cross-border settlements poses challenges to the oversight of domestic markets and settlement systems. It notes that the most basic challenge stems from a lack of transparency in cross-border securities settlement arrangements.

In 1990, IOSCO published a report in which it endorsed and supported the prompt implementation of nine recommendations by the Group of Thirty, such as shortening the time between trade date and settlement and assuring the simultaneous exchange of payment and securities. Successive reports on their implementation have also been prepared (1993, 1994, 1995 and 1996). In 1992, IOSCO published a document entitled *Clearing and Settlement in Emerging Markets — A Blueprint*, to facilitate the development of centralised, automated SSSs.

More recently, IOSCO's 1996 *Report on Cooperation Between Market Authorities and Default Procedures* (IOSCO Report) determines that transparency of market default procedures is important in that it provides certainty and predictability to market participants, facilitates orderly handling in case of an actual default and enables market participants to make an informed assessment about markets.

These reports, as well as other work undertaken by the CPSS and IOSCO, have consistently emphasised the importance of transparency of market mechanisms. At the same time, however, growth in worldwide settlement volumes and greater use of financing transactions have required settlement system operators to develop processes for more rapid exchange of securities and

funds and more efficient linkages between systems. Moreover, as prior reports have shown, apparent similarities in the technologies employed and services offered can mask significant differences in securities settlement arrangements, as well as in the approaches taken to the management of the associated risks.

Therefore, it is critical that participants in the securities markets carefully examine the rules and operating procedures and practices of each system, as well as the governing law, underlying custody arrangements and linkages across systems. While much relevant information of this type is publicly available, it is often contained only in extensive, detailed handbooks of rules and procedures. A number of SSSs do publish informative pamphlets for their participants, but these can take a variety of forms, making it difficult for participants to assess similarities or differences in the risk management approaches used by the different systems.

To assist market participants in identifying important risks associated with their participation in SSSs, the CPSS and IOSCO therefore determined that it would be beneficial to develop jointly a disclosure framework that system operators and participants could use to gain a clearer understanding of the rights, obligations and exposures associated with SSSs. The CPSS and IOSCO welcomed the participation of a number of private sector SSS operators in the development of the disclosure framework.

The framework is intended to be completed by SSS operators for the information and benefit of their direct participants, both current and potential, as well as for indirect participants. It is not intended as an attempt to set prescriptive standards for SSSs, as a replacement for the rules and procedures of the SSS or as a legal representation or binding contract. Moreover, the framework does not necessarily identify all information that the SSS should disclose in the light of its individual facts and circumstances and therefore it may be necessary for participants to discuss issues directly with the SSS to obtain a full understanding of the system. The framework should, however, help market participants and regulators to organise and understand the information that they need in order to appraise the risks, including any systemic risks, potentially associated with SSSs.

While the framework focuses on the risks of direct participation in SSSs, it is clear that many of the same issues arise in connection with the relationships between market participants and local or global custodians. Therefore, while this framework is not intended to cover the specific aspects of these relationships, it may be helpful as a point of reference for those using the services of custodians as well.

The sections below are intended to elicit important information from SSSs in the areas of organisational structure and market context, ownership arrangements, rules and procedures, relationships with participants, links to other SSSs and intermediaries, procedures for funds and securities transfers, default procedures, settlement of back-to-back transactions, risk control measures and operational risks. The disclosure framework is structured in the form of a questionnaire which SSSs would complete. The CPSS and IOSCO encourage SSSs to complete the questionnaire and make their responses available to market participants, regulators and other interested parties. To ensure that the information in their responses to the questionnaire remains accurate, SSSs would also need to review their responses periodically, at least annually, and make appropriate changes if necessary. The questionnaires completed by SSSs would therefore serve to increase the transparency of their operations to the market-place.

I. Basic information

A. What is the name of the SSS?

Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A., commercially known as IBERCLEAR, manages two settlement platforms: CADE for Public Debt and AIAF Fixed Income Market and SCLV for Stock Exchanges and Latibex.

The answers to this disclosure framework are referred to SCLV platform.

B. Where and in which time zone is the SSS located?

Madrid (Spain), European Central Time.

C. What functions does the SSS perform?

1. Does the SSS serve as a securities depository and/or provide securities settlement services?

It serves as securities depository and provides securities settlement services.

(a) What types of instrument are eligible for deposit at the SSS (e.g. debt, equities, warrants, etc.)?

IBERCLEAR manages in SCLV platform the register, clearing and settlement of the following securities:

Bonds, Equities, Warrants, traded on the Official Stock Exchanges, and

Equities and Bonds traded on the Latin-American market in euros (LATIBEX).

(b) What types of instrument are eligible for transfer within the SSS?

The above mentioned.

(c) Please describe whether eligible securities are dematerialised, immobilised or transferred physically.

All listed securities are dematerialised. Although securities traded in LATIBEX can be backed in titles, the applicable procedures for registering the securities and clearing the transactions are the same as for national securities with independence of whether the foreign securities remain backed by physical certificates or not, according to the legislation of their country of origin.

(d) Does the SSS provide safekeeping for physical certificates?

No

2. Does the SSS provide cash accounts and/or provide funds transfers in conjunction with securities transfers? If so, in what currencies?

SCLV platform does not provide cash accounts, but it does provide funds transfers. All funds transfers are effected in Euros, through the cash accounts that participants maintain at Banco de España.

3. Does the SSS provide a trade matching service? Do others provide such services for securities settled at the SSS?

Currently SCLV platform does not provide a trade matching service: Market trades need no further matching since they are locked-in trades; other transactions settled through SCLV platform need the instructions from both parties, one party instructs and the other confirms. Apart from that, IBERCLEAR is working in a project, which aim is to provide a matching service for the SCLV platform bilateral operations (transfers free of payment and against payment, bilateral lendings, etc...).

4. Does the SSS provide a trade netting service (as distinct from undertaking the settlement of securities transfers on a net basis)? Do others provide such services for securities settled at the SSS? In either case, what types of netting (bilateral or multilateral), if any, are performed?

SCLV platform does not provide a trade netting service and, at the moment, no other party provides such a service. Netting as a previous step for settlement is performed on a multilateral basis.

5. Does the SSS offer a securities lending or borrowing programme?

Yes.

6. Does the SSS provide custodial and/or related services such as the collection of interest, dividends, principal or withholding tax reclamations? Which types of service are provided?

SCLV platform provides some services, such as to inform its participants about the number of securities held and, consequently, the amount to be paid by the Issuer or the Issuer's paying Agent. Upon request of the Issuer and the Issuer's paying entity the corporate actions can be paid through the SCLV platform.

7. Does the SSS act as a central counterparty or principal to transactions with its participants?

No.

8. Other? Please specify.

D. What type of organisation is the SSS?

1. Please indicate whether the SSS is a public sector or private sector entity.

Private sector Company.

2. Please indicate whether the SSS is organised on a for-profit or a non-profit basis.

It is organised on a non for profit basis.

3. What is the legal basis for the establishment of the SSS and for securities transfers made through it?

Article 44 bis of the Spanish Securities Market Act, 24/1988, as amended by Law 44/2002, and the Royal Decree 116/1992, as amended by RD 2590/1998, RD 2813/1988, RD 867/2001. RD 705/2002.

E. Please describe and provide a diagram outlining the organisational and ownership structure of the SSS.

A diagram outlining the organisational structure of IBERCLEAR is available in our web page.

1. Who are the owners of the SSS?

IBERCLEAR is owned by a Holding company “Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A.”.

2. What entity or entities operate the SSS? Which functions of the SSS, if any, are outsourced to third parties?

IBERCLEAR operates SCLV platform and does not outsource any function to third parties.

3. Does the SSS have a Board of Directors?

Yes, IBERCLEAR has a Board of Directors.

(a) What is its composition?

IBERCLEAR Board of Directors is composed of 15 members representing the Stock Exchanges, the National Central Bank and its participating members.

(b) What are its responsibilities?

Define the general policy of the company, set up the annual budget, and supervise the day-to-day running of the company.

F. Please describe the financial resources of the SSS.

1. Amount of paid-in capital and retained earnings?

Paid-in capita (as of December 2002) 13,784 million euros.

2. Guarantees, insurance coverage or other similar arrangements?

Provisions for risks and expenses (as of December 2003) 223,000 euros.

3. Credit lines or letters of credit?

IBERCLEAR maintains credit lines with several Spanish banks in order to allow the Bank of Spain to debit to their cash accounts items that could not be debited to the accounts of other settlement participants. As of 31st December 2002 those credit lines had a limit of 33,055,660 euros.

4. Powers to assess participants or equity holders?

According to its legal status, IBERCLEAR has powers to access to what extend Participants comply with the rules laid down through Reglamento de Organización y Funcionamiento, Releases and Instructions (Circulares and Instrucciones) regarding the way book-entry securities are kept and clearing and settlement are performed.

G. *Please describe whether the SSS or its operator is subject to authorisation, supervision or oversight by an external authority.*

SCLV platform is under the supervision of the National Commission of Securities Market (CNMV).

II. Rules and procedures of the SSS

A. *Does the SSS maintain a complete list of the rules and procedures governing the rights and obligations of participants and the duties of the SSS?*

Yes.

1. How can participants obtain a copy of the rules and procedures?

The rules governing the rights and obligations of participants and the duties of IBERCLEAR are included in the following regulations:

- Act 24/1988, of July the 28th (Securities Market Law) as amended by Law 44/2002, and the Royal Decree, 116/1992, of February the 14th, as amended by RD 2590/1998.
- Reglamento de Organización y Funcionamiento de IBERCLEAR (IBERCLEAR functioning and organisation regulations).
- Internal rules: Releases and Instructions. The Releases include rules on the general procedures for clearing and settlement. The Instructions are related to detailed technical aspects.

The Releases are published, when passed, in the Stock Exchange Bulletins. The Releases and the Instructions are sent to the participant entities by e-mail

Adicionally, all these rules are available to participants through the private domain of IBERCLEAR web page.

A complete set of these rules is given to the new participants.

2. Does other documentation provided to participants (e.g. user guides) have the same status as the rules and procedures?

There are no more rules than those referred to in paragraph 1 with the same status.

3. Describe the process for changing rules and procedures, including any need for regulatory approval.

(a) What authority is required, and how does this differ depending on the type of change involved?

The change of the Releases or the approval of a new one requires a resolution passed by the Board of Directors of IBERCLEAR. These changes or new rules may be made ineffective by the National Commission of Securities Markets (CNMV) if it considers that the regulation included therein is against other rules or against the principles of the market.

The changes of the Instructions or the approval of a new one, as they simply refer to technical aspects, only require a resolution passed by IBERCLEAR Chief Executive Officer.

(b) How are participants notified of changes in rules and procedures?

Once the new Release is passed, it is published in the Stock Exchange Bulletins, and is sent to all the participants by e-mail. The Instructions are not published, but they are all sent to participants by e-mail as soon as they are passed. In addition to that, new rules and procedures are immediately available through the website

(c) Is there a procedure for participants or others to comment on proposed rule changes?

The changes of Releases and Instructions, are previously consulted with the participants in the meeting of the “Technical Advisory Committee”, in which they are represented.

B. Are the rules and procedures binding on the SSS as well as its participants? Under what conditions and on whose authority can written rules and procedures be waived or suspended by the SSS?

All the rules and procedures are binding for IBERCLEAR as well as for the participants.

In principle, it is not foreseen that the rules can be waived or suspended once they have come into effect. Nevertheless, the National Commission of Securities Market (CNMV) could, as it has already been pointed out, suspend the effect of one of IBERCLEAR’s rules when it considers that this rule goes against superior rules or the market principles.

III. Relationships with participants

A. *Please describe the types of membership offered by the SSS.*

1. How do the types differ?

1. Brokers who are members of at least one of the Stock Exchanges.
2. Credit Institutions including CECA and Caja General de Depósitos and Brokers who are not members of any of the Stock Exchanges.
3. Foreign or national entities who engage similar activities to those of IBERCLEAR.
4. The Bank of Spain may also be a member.

2. Within each membership category, are all participants subject to the same rules and procedures? Please describe important exceptions, including both differences in rules across participants and the rationale for these differences.

Yes, All participants are subjected to the same rules and procedures.

B. *Can participants establish accounts for their customers' assets that are segregated from their own asset accounts at the SSS?*

1. If so, is this accomplished through a single omnibus customer account or through a multiplicity of accounts and/or sub-accounts?

Customer's accounts of participants are accomplished in SCLV platform through a single omnibus account.

2. Is the segregation optional or compulsory?

The Spanish Securities Market Act of 28th July 1988, as amended by Law 44/2002, of 22nd November, and the Royal Decree of 16th February 1992, as amended by RD 2590/1998, make it compulsory that securities of participants and their clients are segregated.

3. Does the fact that a sub-account at the SSS bears the name of a third party give any rights to that third party as a participant under the rules of the system?

No.

C. *Please describe participant requirements for each type of membership.*

- Brokers and Credit Institutions must employ qualified systems and technical resources tested by IBERCLEAR and need the formal approval of the Spanish Supervisory Authority (CNMV). They must appoint a cash account in the central bank to settle the cash leg of transactions and deposit sufficient collateral to ensure settlement
- Foreign or national entities who engage similar activities to those of IBERCLEAR must have the qualified systems and technical resources and sign an agreement that has to be approved by the board of Directors and CNMV.

- Bank of Spain must communicate to IBERCLEAR and CNMV its intention of becoming a participant entity. It will have such status when Ministerio de Economía y Hacienda approves a specific agreement.

1. Are participants required to be domiciled or resident in a particular jurisdiction?

The Spanish Securities Market Act has established the conditions under which investment firms and banks can render investment services on the basis of home country authorization and supervision.

This enables investment firms and banks to acquire remote membership in Spanish secondary Markets, and thus become IBERCLEAR participants, without having to be established in Spain, when the requirements of Spanish Markets do not include physical presence in Spain for the conclusion of transactions in such markets.”

2. Are participants required to be subject to a supervisory regime? If so, please describe.

As in any other institution operating in the securities markets, IBERCLEAR’s participants are under the supervision of the CNMV, but they also have to comply with the technical and prudential obligations laid down by IBERCLEAR regarding their activities in the keeping of its book-entry registers and carrying out the clearing and settlement of the securities traded in the market. IBERCLEAR supervises that the participants maintain their book-entry registers in accordance with the legal rules of segregation and the technical standards laid down by itself.

3. Are participants required to hold an equity stake in the SSS?

No.

4. Are there financial, economic, personal or other requirements (e.g. minimum capital requirements, "fit and proper" tests)? If so, please describe.

As indicated before the only requirements are “fit and proper” tests.

D. Does the SSS engage in oversight of its participants to ensure that their actions are in accordance with its rules and procedures? If so, please describe.

IBERCLEAR supervises that the participants maintain their book-entry registers in accordance with the legal rules of segregation and the technical standards laid down by itself. It also supervises that the participants manage properly the clearing and settlement activities.

E. Under what conditions can participants terminate their membership in the SSS? Does this mark the end of all liabilities of the participant? If not, please describe what liabilities could remain.

A participant may terminate its membership in IBERCLEAR by:

- Renouncing;
- Losing its positions as a member of a Stock Exchange or its authorisation to operate as a Bank, Savings Bank, Official Credit Institute or Investment Agency;

In principle that means the end of all liabilities of the participant. From this moment, the participant cannot carry out registering and clearing and settlement functions, notwithstanding

the participant must finish pending settlement transactions and the registry activities deriving from a reduction in its account balances.

F. Under what conditions can the SSS terminate a participant's membership in the SSS?

IBERCLEAR can terminate a participant's membership:

- If the participant fails to effect all or part of the collateral guaranty assigned in relation with the pending settlements in the SCLV platform.
- Being unable to conform to the new technical standards required by IBERCLEAR;
- When it does not pay any obligation due to SCLV platform activities.
- When it does not reach the minimum settlement volume determined by the Ministry of Economy, or
- When the participant repeatedly fails to comply its duties in the settlement process, including delays.

Nevertheless, in both cases, IBERCLEAR must send the proposal of termination to the CNMV that, finally will or will not approve it. From this moment, the participant cannot carry out registering and clearing and settlement functions, notwithstanding the participant can finish pending settlement transactions and the registry activities deriving from a reduction in its account balances.

G. Please describe the scope of the SSS's liability to participants, including the standard of liability (negligence, gross negligence, wilful misconduct, strict liability or other), the force majeure standard, and any limitation to the scope of liability of the SSS (e.g. indirect or consequential damages). Where are these liabilities and their limitations set out (e.g. in statute or contract)?

The nature of the relationship between IBERCLEAR and its participants is both statutory and contractual.

According to article 27 of Royal Decree 116/1992 IBERCLEAR will be liable vis-à-vis its participants for any inaccuracy or prejudice due to its lack of diligence or default in compliance with applicable rules, unless it may give evidence that the prejudice is due exclusively to the negligence of the prejudiced party.

IV. Relationships with other SSSs and commercial intermediaries

A. *Does the SSS maintain linkages (including sub-custodian or cash correspondent relationships) or other relationships with other SSSs?*

1. Please identify each of the other SSSs used and the type of securities transferred via the linkages.

(a) What is the name of the other SSS? Where is it located?

Currently, IBERCLEAR has direct link from SCLV platform with the following SSSs: Monte Titoli (Italy), Euroclear France (France), Euroclear Netherlands (The Netherlands), Caja de Valores (Argentina) and CBLC (Brazil). All of the links are bilateral except for CLBC that is unilateral for Brazilian securities.

(b) What securities are eligible for transfer via the linkage to the other SSS?

All securities registered in SCLV platform are eligible for transfer. Conversely, foreign securities are eligible to be registered in SCLV platform through the mentioned linkages.

(c) Are transfers of securities made via the linkage to the other SSS limited to only those that are free of payment or are transfers against payment also made via the linkage to the other SSS? If against payment, please describe the timing of the transfers and the corresponding payments.

Transfers of securities made via linkages to other SSS are always free of payment and based on ECSDA (European Central Securities Depository Association) model.

(d) Does the other SSS provide custody services to the SSS and, if so, who bears any credit or custody risks?

No.

B. *Does the SSS use securities custodians (other than the other SSSs addressed in the previous question) and/or commercial cash correspondents? Please identify the custodians or cash correspondents used and the duties that each performs.*

For some foreign securities listed on the Spanish Stock Exchanges or on LATIBEX, the link with other CSDs is not used. In this case, the use of the so-called “Linked Entity” is needed.

The applicable procedures for registering the securities and clearing the transactions are the same as for national securities with independence of whether the foreign securities remain backed by physical certificates or not, according to the legislation of their country of origin.

The total balance of these foreign securities registered in SCLV platform must coincide with what the foreign custodian, authorised to this effect, holds either on deposit or registered for the Spanish Market in the foreign country. In order to deal with the transfer of securities between different markets, one of IBERCLEAR participants (the “Linked Entity”) is responsible for coordinating the inclusion or exclusion of securities from our system with the foreign custodian.

C. *Please describe the standards used in approving or reviewing relationships with other SSSs, custodians or cash correspondents, including any financial or operational requirements or the presence of insurance or public supervision.*

As mentioned before, IBERCLEAR has set up links from SCLV platform to other SSSs according to ECSDA standards. That includes the coverage of technical and legal aspects that assures the soundness of the link. The establishment of links for SCLV platform is approved by Releases 4/1999, of March 24th, and 5/1999, of April 28th.

When SCLV platform uses the services of a Linked Entity the requirements are approved by the Release n° 6/1999, of 15th September.

D. Does the SSS advance funds or securities to or on behalf of other intermediaries such as issuing or paying agents? If so, please identify the circumstances in which such exposure could arise.

No.

E. Please describe measures in place to protect the SSS and its members against the failure of other SSSs or commercial intermediaries to meet obligations to the SSS, including risk controls, collateral or alternative sources of funds and securities.

There are no risks arising from the failure of other SSSs in delivering securities, since the delivery is effected once the availability of securities is assured.

V. Securities transfers, funds transfers and linkages between transfers

A. Please discuss whether and how settlement instructions are matched between participants prior to processing by the SSS.

1. Is matching required for all transactions without exception?

Note that stock exchange and latibex trades are locked-in trades. Once transaction has been made on the market, the market member has to identify the participant that has to settle it, which can differ from the market member who has been its broker. The participant appointed for settlement matches the settlement instructions and accepts or rejects the transaction. Other transactions settled through SCLV platform need the instructions from both parties.

2. What procedure is used when instructions do not match?

Not applicable for stock exchange and latibex trades. For bilateral transactions if the instructions do not match the transactions are not settle (transfers of securities, bilateral lending, etc.....).

3. Are matched settlement instructions binding on participants?

Yes, Once a transaction is allocated to a participant for settling it, the settlement is binding on this participant.

(a) If so, please describe the consequences of failure by participants to meet obligations (e.g. forced settlement, penalties, short positions).

In stock market trades, participants selling securities must deliver them to SCLV platform no later than 15:00 hours of T+3. Should this delivery not be made, SCLV platform uses the procedure for the automatic lending of securities with the aim of delivering these to the purchasing parties on the date of settlement, in cases where the delivery is not made by the seller, the failed sales have an extra term of one working day for justification and settlement. Should that day elapse without justification, IBERCLEAR proceeds to buy in, on the market and on behalf of the participant involved in the sale, the securities it should have delivered.

If a purchasing participant does not deliver the cash to BANCO DE ESPAÑA on the settlement date, IBERCLEAR has a line of credit available for the purpose of covering the overdraft on a temporary basis until this is resolved by selling the securities bought and not paid by the participant.

Additionally, IBERCLEAR has a collateral system that permits to hedge the market risk due to price shifts of failed trades.

For other transactions, if a participant fails to meet its obligation the transaction is not settled.

(b) Please describe whether this is a feature of the SSS's rules and procedures or of national law or regulations.

The procedures described above are regulated on the Securities Market Act (Law 24/1988) and later developed in the Royal Decree 116/92, February 14th.

(c) Please provide a time line indicating the points at which matched instructions become binding, as well as any pre-matching process that takes place.

Transactions made between market members are matched by the computer trading system (trades are locked-in).

Once transactions have been contracted on the market, the market members inform IBERCLEAR, on the same trade day, of the volume in number of securities and cash at their various prices which has been traded at the aggregate level by each of the market members. At this point in time transactions are considered firm and irrevocable.. Volume information is also allowed on the day following trade date, exclusively for special operations effected after market hours.

The trading that has been reported on the first instance at aggregate level, must be broken down into itemised transactions specifying ownership and the participant that has to settle it, which can differ from the broker that negotiated the trade. For this purpose, market members have a set period between T and the afternoon of T+1 (T being the day on which the trade was negotiated) to communicate this detailed information to the Stock Exchange where the trade took place.

The Stock Exchanges communicate the breakdowns to IBERCLEAR at the same time that it receives them from the brokers. This information is in turn placed at the disposal of the participants appointed for settlement, so that the settling participants may accept or reject the operation until the close of the next communications period, so that the breakdowns received in IBERCLEAR in the morning of T must be accepted or rejected until T in the afternoon, the ones received in T in the afternoon until T+1 in the morning, etc. Thus, the period set for confirmation of the breakdowns runs from T to T+2 in the morning.

The process of confirming the breakdowns is effected by the participant, either expressly, accepting or rejecting the settlement of the operations, or tacitly, taking as confirmed those operations not expressly rejected by the participant at the end of the aforesaid period.

Transactions that are confirmed by the participant are allocated for the settlement to this participant, becoming binding. On the other hand, rejected operations will be reported on the same day to market members for them to rectify their breakdown if there is still time to do so.

Once the set period for making and confirming the breakdown is over, on the morning of T+2, transactions that have been rejected by participants will be allocated for settlement to the market member who had been their broker. This allocation procedure is also done with the trading volumes still pending breakdowns at the end of T+1.

B. Are securities transferred within the SSS registered?

1. Who is the registrar?

IBERCLEAR has the functions of keeping the book-entry register of dematerialised securities listed on the Stock Exchanges and on Latibex, the Latin American Market in Euros and of handling the clearing and settlement of trades transacted on these markets.

The book-entry register is structured as a central component in the IBERCLEAR's charge, in which the aggregate balance of securities for each of the participants is kept,

and an itemised individual register in each participant's charge, in which securities are listed under each holder's name.

- 2. Is it normal practice to register the securities in the name of the SSS (or its nominee) or in the name of the beneficial owner? Are there instances in which securities housed within the SSS are registered to neither the SSS (or its nominee) nor the beneficial owner?**

The securities must always be registered under each holder's name (the beneficial owner).

- 3. If the SSS offers custodial services, will it hold securities registered in the name of the beneficial owner?**

SCLV platform only keeps the aggregate balance of securities for each of the participants, segregated into own account and third parties account. The participants are in charge of an itemised individual register in which securities are listed under each holder's name.

- 4. Under what circumstances does the SSS initiate registration of securities in the buyer's name?**

Registration of the transfer of securities arising from a purchase follows the principle of delivery versus payment, and is therefore on condition of the payment of cash by the participant. For this reason, the transfer of securities resulting from settlements of purchases are inscribed on the same settlement day after cash settlement is final.

- 5. How long does the registration process typically take? Are participants notified when registration is complete?**

The registration process is made on the settlement day at the end of each multilateral cycle.

- 6. Can securities be transferred within the SSS before registration in the buyer's name is complete? If so, do the rules and procedures of the SSS provide for an unwind or reversal of such transfers in case of bankruptcy or other events which result in the buyer's name not being entered on the register?**

The securities cannot be transferred before registration in the buyer's name.

C. Please describe how securities transfers are processed within the SSS.

- 1. Please indicate whether the transfers are processed as debits and credits to members' accounts or via some other method.**

SCLV platform inscribes the transfer of securities resulting from settlements of purchases or sales as debits and credits into participant's accounts.

- 2. On a continuous (real-time) basis, or in one or more batches?**

Currently, the registration process is made in T+3 on two multilateral batch processes taking place at 9:30 and 15:30 hours, respectively.

- 3. If continuous, during what hours does the processing occur? If in batches, at what time or times is the processing initiated and completed?**

Each of the batch processes lasts around 30 minutes from the moment SCLV platform communicates net positions of cash to BANCO DE ESPAÑA for its settlement and BANCO DE ESPAÑA confirms cash settlement. Once the confirmation has been received IBERCLEAR debits or credits the securities accounts.

- 4. Do securities settlements occur daily? Please identify securities for which settlement occurs only on specific days of the week or month.**

The settlement process for all types of securities is made daily (rolling settlement).

D. Please describe whether final funds transfers in conjunction with the SSS are made as debits and credits to balances held at the SSS, at one or more commercial banks, at the central bank, or via some other method.

- 1. Does the SSS maintain cash accounts for its participants? Are these accounts equivalent to deposit accounts at a commercial or central bank or do they serve only as "cash memorandum" accounts?**

The SCLV platform does not maintain cash accounts for its participants.

Cash settlement is always made through the direct accounts that the participants hold in BANCO DE ESPAÑA. Those participants that do not hold a direct account with it must arrange their settlement through some other participant, always provided IBERCLEAR and BANCO DE ESPAÑA are informed of this situation.

The net cash amounts that are to be debited or credited into the accounts the participants held in BANCO DE ESPAÑA are communicated to the latter at 9:30 and 15:30 hours of the same day in which settlement takes place (T+3).

- 2. On what entity (SSS or other) does the participant bear cash deposit risk?**

On BANCO DE ESPAÑA.

- 3. Under what circumstances does the SSS provide credit extensions or advances of funds to its participants and thereby expose itself to credit risk?**

IBERCLEAR does not provide credit extensions to its participants.

- 4. How long can such credit extensions last? How long do they typically last?**

Not applicable.

E. Is the SSS a DVP system? If so, please describe the DVP model used according to the models outlined in the DVP Report (see the Introduction). Please also provide a diagram indicating the timing of events in the processing of securities and funds transfers in the SSS. Where the SSS provides more than one alternative for settlement processing, please provide a response for each alternative and indicate the relative importance of each alternative.

SCLV platform is a DVP system following model 2 of the BIS. SCLV platform settles securities on a gross basis and fund transfers on a net basis. Final transfers of both securities and funds occur at the end of each processing cycle.

- 1. Are funds transfers and securities transfers processed within the same system or in different systems? If different, how are they linked?**

- (a) **Please describe whether each securities transfer is linked to a specific funds transfer on a trade-by-trade basis or on a net basis or via some other method.**

SCLV platform settles securities on a gross basis and fund transfers on a net basis.

SCLV platform calculates the net amounts that have to be debited or credited to the accounts the participants hold in BANCO DE ESPAÑA and communicates them to the latter at 9:30 and 15:30 hours, respectively, on the same day in which settlement takes place (T+3).

Once the cash settlement is accomplished, BANCO DE ESPAÑA confirms it to SCLV platform, which inscribes the transfer of securities resulting from settlements of each purchase and sale as it debits and credits to the participants' accounts.

- (b) **Does the SSS "split" large transactions into multiple transactions or require participants to do so?**

No.

2. **When do securities transfers and funds transfers become final?**

- (a) **At what time do securities transfers become final? After what event or events?**

Securities transfers become final on the moment the Stock Exchange trade volume is communicated to SCLV platform. From this moment and according to Law 41/1999 the transactions cannot be unwound.

- (b) **At what time do funds transfers become final? After what event or events? Does this timing allow for same-day retransfer of funds received in exchange for securities?**

Once the net cash settlement is calculated and informed to participants and Banco de España, participants have to have enough cash to settle their positions in their cash accounts at Banco de España. A 30-minute period is given for that after each multilateral cycle.

- (c) **If final delivery of securities precedes the final transfer of funds, can participants dispose freely of such securities prior to funds finality? If so, what actions will be taken if funds are not received?**

Not applicable.

- (d) **If final delivery of funds precedes the final transfer of securities, can participants dispose freely of such funds prior to securities finality? If so, what actions will be taken if securities are not received?**

Participants selling securities must deliver them to SCLV platform before the cash settlement takes place (justification). Should this delivery not be made on time, the sales are considered to have failed and the participant does not receive the payment on settlement day.

If the participant delivers the securities, it can dispose freely of the funds once cash settlement is accomplished.

- (e) **Does the timing of finality differ depending on the type of security transferred or the currency in which payment is to be made? Please describe.**

Currently, the timing of finality is the same for all kinds of securities. The payment is always made in Euros.

3. **Please discuss whether participants are notified of securities or funds transfers while they are still provisional, only when they are final, or both.**

In order to facilitate the participants' compliance with settlement, SCLV platform holds transitory securities and cash accounts for each of them with regards to each ISIN code (in the case of securities) or each future settlement date (in the case of funds).

The balances and entries in these accounts are transmitted daily to the participants holding them, who can check the provisional position of their accounts daily up to the very day of settlement.

F. Does the SSS itself "guarantee" funds or securities transfers?

1. **Under what circumstances and at what point are transfers guaranteed by the SSS?**

IBERCLEAR guarantees the settlement to the buyer or the seller who delivers the securities or funds on the settlement date, even if the other party involved in the transaction has not met its obligations.

2. **What actions does the guarantee obligate the SSS to take?**

Participants selling securities must deliver them to SCLV platform no later than 15:00 hours of T+3. Should this delivery not be made, SCLV platform uses the procedure for the automatic lending of securities with the aim of delivering these to the purchasing parties on the date of settlement. In cases where the delivery is not made by the seller, the failed sales have an extra term of one working day for justification and settlement. Should that day elapse without justification, IBERCLEAR proceeds to buy in, on the market and on behalf of the participant involved in the sale, the securities it should have delivered.

If a purchasing participant does not deliver the cash to BANCO DE ESPAÑA on the settlement date, IBERCLEAR has a line of credit available for the purpose of covering the overdraft on a temporary basis until this is resolved by selling the securities bought and not paid by the participant.

Additionally, IBERCLEAR has a collateral system that permits to hedge the market risk due to price shifts of failed trades.

3. **Please indicate whether the guarantee is a feature of the SSS's rules and procedures or of national law or regulations.**

All these matters are regulated in the Law 24/1988 of Securities Markets as amended by Law 44/2002 and in the Royal Decree 116/1992 modified by Royal Decree 2590/1998, Royal Decree 2813/1988, Royal Decree 867/2001 and Royal Decree 705/2002.

VI. Default procedures

A. *Please discuss the events or circumstances that would constitute default of a participant under the rules and procedures of the SSS or that would lead the SSS to make use of exceptional settlement arrangements or unwind procedures.*

1. **Failure by a participant to meet a test of its solvency under the applicable laws of its jurisdiction?**
2. **Failure to make payments or deliveries of securities within the time specified?**
3. **To the extent that the rules and procedures grant discretion in the determination of the use of default or other exceptional procedures, please discuss where the authority to exercise such discretion resides and the circumstances in which this authority would be used.**

A default is only constituted when there is a failure to make payments or deliveries of securities, in the moment that the participant should meet these obligations, that is to say, on settlement day. The reason behind this failure is not relevant for IBERCLEAR. The exceptional settlement rules are automatically put into effect. Transactions never become unwound.

B. *What procedures are followed by the SSS once it has determined that a default event has occurred or that exceptional settlement arrangements are to be employed?*

1. **How and at what point are participants notified that this has occurred?**

The other participants are not necessarily informed on the failure of one participant. IBERCLEAR has the mechanisms to substitute this failure.

In case of bankruptcy of a participant entity, IBERCLEAR will notify the bankruptcy to all the participants.

2. **Would the SSS be expected to continue to meet all its obligations to participants under these circumstances? Please discuss the resources in place to ensure that this would occur (e.g. collateral, participants' fund, insurance, loss-sharing arrangements, etc.).**

Yes. IBERCLEAR maintains lines of credit so that it can, on real time basis, cover the payments not met by a participant. Then, IBERCLEAR sells the unpaid securities to replace the quantity paid by the line of credit.

If a participant breaches its obligation to deliver securities, IBERCLEAR covers the delivery by taking securities as a loan, or by buying them on the market.

A permanent guarantee held by the participant in IBERCLEAR's favour covers any price difference against IBERCLEAR.

All the participants are obliged to hold this permanent guarantee in IBERCLEAR's favour. If the guarantee held by one participant is not enough to cover the loss arising from its un fulfilment, then IBERCLEAR can also execute, the guarantee held by the rest of the participants.

3. **Please describe and provide a time line indicating the order in which these resources would be used as well as the timing of participant notifications and important deadlines (e.g. when the SSS's obligations to participants would be met, when participants would need to cover their loss-sharing obligations).**

IBERCLEAR guarantees that the payment will take place on settlement day. To recover the cash, it sells the securities and receives the money from these sales three days later, that is, on settlement day for these operations.

If, because of the difference in price, it is necessary to execute the guarantee permanently held by the participant, the participant must replace the guarantee in one day. If it does not, IBERCLEAR will suspend it as participant.

4. **Please describe all conditions under which provisional transfers of securities or funds could be unwound by the SSS.**

- (a) **How and on what authority would a decision to unwind securities or funds transfers be made by the SSS?**
- (b) **When and how would participants be notified of a decision to unwind provisional securities or funds transfers?**
- (c) **How long would participants have to cover any debit positions in their own securities or funds accounts resulting from an unwind?**
- (d) **In the event of an unwind, would all transfers be unwound or would only a subset of transfers (e.g. only securities purchases or only those of a subset of participants) be unwound?**
- (f) **If only a subset of transfers, what procedure would be followed to determine which transfers and in what order?**

There is no possibility to unwind an operation as the settlement system is recognized by Law 41/1999 and it has defined finality from the very first moment the transaction is introduced in SCLV platform. (See question V.E.2.(a))

5. **Can bankruptcy or insolvency be declared retrospectively in the SSS's jurisdiction (e.g. under a "zero-hour" rule), and could this cause provisional securities or funds transfers to be unwound?**

Bankruptcy or insolvency can be declared retrospectively in Spain, but according to Law 41/1999, of November 12th, it does not affect securities instructions introduced in SCLV platform.

6. **Please describe any circumstances in which transfers of securities or funds that were defined as final in response to question V.E.2 above would ever be unwound.**

The final transfers of securities or funds, cannot be unwound.

- C. ***Has a participant in the SSS ever been declared in default or become insolvent?***

Yes.

2. **Have loss-sharing procedures been invoked?**

No. It was enough to execute the guarantee held by the failed participant.

3. Please describe whether any of these defaults or insolvencies resulted in losses for the SSS or its participants and how they were absorbed.

The default consisted in not fulfilling the participant's obligations, both in cash and securities delivery.

The unpaid securities were sold and taken a loss. The permanent guarantee furnished by the participant was executed to absorb the total loss.

Securities were bought in the market to cover the unfulfilled delivery. In these operations there were no losses for IBERCLEAR.

So in that case there was no loss for IBERCLEAR, nor for the participants.

VII. Securities overdrafts, securities lending and back-to-back transactions

A. *Is it possible for debit positions (overdrafts) in securities accounts at the SSS to arise?*

1. Under what conditions could such debit positions occur?

(a) Do these conditions always result in debit positions in securities accounts rather than failed transactions? If not, please explain the basis for differential treatment by the SSS.

(b) Are these situations covered explicitly by the rules and procedures of the SSS?

– According to Spanish Stock Market rules, debit positions in participants' securities accounts are not allowed in Spanish Stock Markets.

2. How long can such debit positions last? How long do they typically last?

Not applicable

3. How are debit positions in securities accounts prevented, rectified or managed? and

4. What procedures would be followed by the SSS in case the debit cannot be rectified? (e.g. failure by a participant with a debit balance in a securities account or unavailability of the securities in the market)

(a) Application of loss-sharing provisions allocating the loss to participants?

(b) Absorption of the loss by the SSS?

(c) Other? Please specify.

Not applicable

B. *Under what circumstances does the SSS provide for the lending of securities to ensure settlements?*

IBERCLEAR has a built-in procedure for the automatic lending of securities with the aim of delivering these to the purchasing parties, on settlement day (T+3), in cases where the delivery is not made by the seller.

1. Is the process for lending securities automatic? If not, please describe the procedures used by the SSS to determine whether a securities loan will be made.

Yes, the securities lending scheme is automatic. Lending participants place securities at IBERCLEAR's disposal, which borrows them or retrieves them up to the amount needed to cover the total of sales pending settlement that have exceeded their normal term for settlement.

In the case in which the supply of lendable securities is higher than the demand, the criteria for choosing the securities are the following: it will be chosen those securities that have remained without being lent the longest period and if there are participants' securities with the same characteristics, then it will be chosen those that have been included in the lending scheme for the longest period.

IBERCLEAR remunerates the lender on a daily basis at the rate that IBERCLEAR publishes every month. The remuneration is reckoned on the cash equivalent of the securities lent according to their weighted average quotation in the last session.

Faced with any difficulty in buying in, due to a lack of liquidity in the market, or should it have been made impossible to repurchase due to the securities' extinction by an obligatory conversion to some other security, IBERCLEAR gives the lender back the cash equivalent of the lent securities at their market quotation. In this case, IBERCLEAR compensates the lender with a percentage of the cash equivalent of the securities at their latest market quotation.

2. At what point are participants notified that securities are being lent to them in order to complete their settlements?

When a failure in the delivery of the sold securities before the settlement day arises, IBERCLEAR puts in place a centralised stock lending scheme to delivery the securities to the buyer.

Nevertheless, participants have also a bilateral stock lending procedure available in order to make loans among themselves with a suitable bottom for each case. In this bilateral procedure, loans are notified to the borrower as soon as the instructions are received and confirmed.

3. Which securities on deposit at the SSS are eligible for lending? Do participants have the option to make securities available for lending or is it mandatory?

Nowadays all shares included in SCLV platform and quoted on the market are eligible for lending. All participants in IBERCLEAR who sign the corresponding lending contract may act as lenders. When the securities on loan belong to a client of a participant, the owner's consent must given, for which purpose the client should have signed the relevant contract with the participant.

4. Are lent securities identified by the SSS with specific participants as lenders or only with a common pool of securities available for lending? Does the participant whose securities are lent become a principal to the transaction?

Lendable securities can belong to a participant's own account or to third parties, always when the participant is bound by the relevant contract. IBERCLEAR makes a pool of lendable securities in which these are chosen according to the criteria described in point VII.B.1.

When the securities are lent, it is communicated to the lender participant. The return of securities to lending participants is carried out restoring the same securities the participant had supplied for loan, thus maintaining the original ownership of the securities at the end of the loan.

IBERCLEAR recognises the lender's economic rights that fall due during the period the loan is in force, subtracting the said rights from the balance of the selling participant that is defaulting on settlement.

C. How does the SSS settle back-to-back transactions?

- 1. Under what conditions are delivery instructions by participants receiving and redelivering securities on the same day under back-to-back transactions settled for same-day value?**
 - (a) Only if the participant has securities on deposit with the SSS that have been received pursuant to a final securities transfer?**
 - (b) If the participant has securities on deposit with the SSS that have been received pursuant to a provisional securities transfer?**
 - (c) Before securities have been received either provisionally or finally, but when a matched receipt instruction exists for the same or greater value? Is such a practice limited to markets where matching is binding?**
 - (d) Before securities have been received either provisionally or finally, but when a third party has promised to deliver to the SSS securities of the same or greater value? Must the provider of the guarantee have itself received the securities through a final transfer? Please describe how the SSS evaluates such promises, and whether they are addressed by the written rules and procedures of the SSS.**
 - (d) Other? Please specify.**
- 2. Please describe limits or controls in place with respect to any of the above arrangements for the settlement of back-to-back transactions, including limits on amounts involved or related to the liquidity of the underlying securities.**
- 3. Under what conditions are payment instructions by participants in the SSS under back-to-back transactions settled for same-day value? Can participants use the proceeds of an on-delivery of securities without the need for an extension of credit?**

Currently, SCLV platform does not have a specific procedure to settle back-to-back transactions.

VIII. Risk control measures

A. *Please describe the roles and responsibilities of those areas of the SSS responsible for risk management and control.*

1. **Please describe the process for the internal review of risk management policies and procedures.**

There is a Supervision & Control Department and an Internal Auditor in charge of operational and financial audits.

Apart from that there is a Risk Department which every day calculates the risk of each participant entity based on the operations pending of settlement.

2. **Is there a risk management policy that addresses the review and approval of new products and services offered by the SSS? At what level of the organisation is risk management approval given for a new product or service?**

All new products, services and procedures implement by IBERCLEAR are analysed in relation to the risk that these products cause to the system..

The policies for risk defined for these procedures are finally approved by the Board of Directors.

3. **Does the SSS have a risk management function with clear independence from and authority over operational or marketing functions?**

As it was described in the answer to question 1, there are Departments dedicated to risk management.

4. **Does the Board of Directors review risk management policies and procedures? Does the Board have a risk management or audit committee?**

There is an Internal Auditor which report directly to the Board of Directors.

B. *Please describe any internal or external audits or supervisory/regulatory examinations that are performed with respect to the SSS. For each such audit or examination, please address the following questions.*

1. **Who performs the audit or examination?**

Internal Audits / Examinations: Supervision & Control Department, Internal Auditor and Risk Department.

External Audits / Examinations: The supervisory body (CNMV) and different accounting firms.

2. **What is the scope of the audit or examination?**

Internal Audits / Examinations:

Supervision & Control Department and Internal Auditor: They revise the fulfilment of the rules and perform financial and operational audits.

Risk Department: It calculates and manages the risk of each participant entity

External Audits / Examinations:

The supervisory body (CNMV): It is empowered to administer or enforce laws related to securities matters. It is also performs operational audits.

Accounting Firms: They perform operational and financial audits

(a) Please indicate whether and how it addresses the sufficiency of and compliance with internal controls.

Yes, it addresses the sufficiency of and compliance with internal controls. It is one of the aim of the differents audits / examinations when it is applicable.

(b) Please indicate whether and how it addresses the SSS's compliance with its own rules and procedures.

Yes, it addresses the SSS's compliance with its own rules and procedures. It is one of the aim of the differents audits / examinations when it is applicable.

3. What is the frequency of the audit or examination?

Internal Audits / Examinations:

Supervision & Control Departament and Internal Auditor: They revise the fulfilment of the rules on a daily basis and perform financial (two or more times a year) and operational audits (two or more times a year).

Risk Department: It calculates and manages the risk of each participant entity daily.

External Audits / Examinations:

The supervisory body (CNMV): It is empowered to administer or enforce laws related to securities matters. Everyday IBERCLEAR informs CNMV about the registration and settlement activities. It is also performs operational audits two or more times a year

Accounting Firms: They perform operational (every two years) and financial audits (annually).

4. Are audit or examination reports available for review by participants?

The risk positions reports by the risk department are transmitted to the corresponding participant at the end of each day.

The results of the financial audit performs by an external audit are publicly available.

C. Please discuss whether the SSS has the capacity to value (i.e. mark to market) the securities that it holds.

SCLV platform daily receives the market prices through the on-line communication system from the Spanish Stock Exchanges and Latibex.

1. Please describe how these valuations are used by risk control systems at the SSS.

Market prices are used in the calculation of the risk position of the participant for its operations pending settlement.

2. How frequently are securities revalued?

Daily.

3. What are the sources for security valuations?

The official prices of securities on the Spanish Stock Exchanges and Latibex.

(a) What outside price or data sources are used?

The market prices that are informed daily by the Stock Exchange and Latibex.

(b) If pricing models are used, please describe how the models are chosen and how the model inputs are obtained.

The model for the calculation of risk positions is previously defined by the rules of IBERCLEAR.

The calculation is made by a computer process based on the operation pending settlement, the market prices of securities, and the guarantees constituted by the participants.

The inputs are obtained from the databases of operations traded and the market prices, both communicated by the Spanish Stock Exchanges daily.

D. Please discuss whether the SSS has a lien on the securities held in or transferred through it.

Yes. If the buyer participant doesn't pay the cash, IBERCLEAR can retain the unpaid securities and sell them out.

1. Does the lien apply only to the securities owned by the participants themselves or does it extend to the securities beneficially owned by customers of participants?

This procedure extends to all securities owned by the participants as well as the customers of participants.

2. Under what circumstances and in what manner would such a lien allow the SSS to use the securities?

Only if the participant fails to pay.

E. Please discuss the circumstances in which the SSS requires collateral to limit or mitigate risks.

IBERCLEAR requires collateral to all participant entities

1. Does the SSS manage its own collateral system?

Yes, IBERCLEAR is in charge of management the collateral materialised by its participant entities.

2. Does the SSS share a collateral system with another SSS or payment system?

No

3. Can collateral at the SSS be posted and returned on the same day?

The collateral can be posted and returned daily, but it will be returned only if there is not any pending risk

4. What types of transaction at the SSS involve the use of collateral?

All types of transactions of the SCLV platform (Stock Exchanges and Latibex)

5. What are the policies with regard to the type of collateral used or haircuts required?

The Spanish Law (R.D. 116/1992, February 14) states that collateral can be constituted with:

- Cash deposit.
- Pledge of Public Debt.
- Security bond granted by a credit company separate from the guaranteed party.
- Insurance policy or any other financial formula that is considered adequate by IBERCLEAR.

The guarantees constituted by pledge of Public Debts are evaluated at 90% of their market value.

6. How are collateral valuation methodologies developed and reviewed?

IBERCLEAR fixes a minimum level of guarantee for the participants every month based on the settlement activity of the previous three months.

These guarantees are revised daily based on the risk derived from the operations pending settlement. If the risk position of a participant is superior to the guarantee constituted, this participant must deliver a complementary guarantee in a period of one day.

7. To what extent are collateral policies described in the written rules and procedures of the SSS?

The policies are described in the internal rules by means of Releases of obligatory fulfilment for all participants in the settlement process.

F. Please describe the SSS's use of limits on exposures to monitor or control risks.

IBERCLEAR does not use limits on exposures to monitor or control risk. The participant entities of the SCLV platform must deposit guarantees in order to maintain its participant status. If an entity does not deliver guarantees IBERCLEAR has the right to suspend it.

1. Please explain the types of limit used and the exposures to which they apply.

No applicable

2. Do the limits apply to all participants and/or to other SSSs with which the SSS is linked? What are the exceptions to the limits?

No applicable.

3. Do limits apply to participants individually or in the aggregate or both?

No applicable.

4. Do limits apply to implicit as well as explicit extensions of credit or securities (e.g. when on-deliveries of securities are permitted pursuant to provisional but not final delivery of securities)?

No applicable

5. Does the SSS automatically reject transactions that exceed limits or is compliance determined ex post?

No applicable

6. How are limit policies developed and reviewed?

No applicable

7. To what extent are limit policies described in the written rules and procedures of the SSS? Where does additional authority to set or amend limit policies reside?

No applicable

G. Please describe other controls to mitigate or reduce risks at the SSS.

1. Does the SSS or its participants have the capacity to monitor participants' accounts continuously during processing?

Yes. The risk position is communicated to each participant daily during the settlement process (from TD to SD).

2. Is there a special risk control regime that the SSS would apply to a participant known to be experiencing financial difficulties?

Yes, particular cases of participants are followed-up more directly, including the follow-up of the operations in their office.

3. Does the SSS maintain or administer loss-sharing arrangements other than those applicable to events of default and addressed in Section VI above? Are these loss-sharing pools pre-funded by participants?

Not for IBERCLEAR, but the banks and savings banks have a guarantee fund to cover the losses of their customers up to a certain limit.

IX. Operational risks

A. *Please provide assessments of the operational reliability of the computer and other systems used by the SSS, including any criteria that the SSS uses internally for this purpose.*

1. What is the percentage uptime of the systems used by the SSS?

(a) Whole system overall?

The percentage uptime last year was 99.9%

(b) Broken down by major components? (e.g. communications network, central processing facility)

During the last year there were not any failures in those components.

(c) During critical processing periods?

The percentage uptime last year was 100%

2. Has the SSS experienced major operational problems during the past two years?

(a) Have settlements been delayed, been disrupted or otherwise failed because of operational problems during this period?

The settlements haven't had any problem of this type in this period.

(b) Please describe the nature of any such problems.

None.

B. *Please describe contingency or disaster recovery planning at the SSS.*

1. Does the SSS have a formal plan for business continuity in place?

Yes.

2. Is this plan available for review by participants?

No, but the participants have received information about their responsibilities of the continuity plan.

3. How often is this plan tested? Does this involve participants in the SSS?

It is checked every six months more or less. Our participants were involved in some tests of the continuity plan, but they do not systematically test it.

4. What are the major elements of the business continuity plan?

The plan is based on a duplicate air conditioning system, peripheral elements and fault tolerant UPS and CPU.

In case of non-recoverable failure, we have an external backup installation identical to ours in software, hardware and communications lines.

5. **How long would it take the SSS to resume operations if primary systems become unusable?**

We will be able to resume operations in 120 minutes.

- C. ***What are the key features of the internal controls covering operations and security at the SSS (e.g. change controls or those covering remote access)?***

1. **Please describe controls or security procedures in place to ensure that the SSS acts only on authentic settlement instructions from valid participants.**

All our participants' accesses were made through IBERPAC-X25 public network, with standardized file-transmission and on-line messaging products, password protected with identified access users..

2. **Are internal operational and security controls included in the internal and/or external audits of the SSS?**

There are included in the internal audit.

3. **Are internal operational and security controls covered by regulatory requirements applicable to the SSS?**

There is not any regulatory requirements.

- D. ***Does the SSS impose minimum operational or performance standards on third parties (e.g. communications providers)?***

1. **How does the SSS ensure that such standards are met on a continuing basis and what sanctions are available to the SSS if they are not?**

The agreement fulfilments are usually controlled.

The providers are responsible for their own failures according to the agreements.

2. **How would the SSS allocate losses incurred due to operational problems caused by third parties?**

According to the agreement rules.

GLOSSARY

The following glossary of terms is not intended to provide legally precise definitions for all relevant jurisdictions. Rather, by clarifying the usual meaning of various terms, it is intended as a tool to help in answering the questions in the disclosure framework and in understanding the responses to those questions.

Back-to-back trades: a pair of transactions that requires a counterparty to receive and redeliver the same securities on the same day. The transactions involved may be outright purchases and sales or collateral transactions (repurchase agreements or securities loans). For example, a securities dealer might buy and sell the same securities for the same settlement date in the course of making markets for customers or it might buy securities for inventory and finance the position through a repurchase agreement.

Beneficial ownership/interest: entitlement to receive some or all of the benefits of ownership of a security or financial instrument (e.g. income, voting rights, power to transfer). Beneficial ownership is usually distinguished from "legal ownership" of a security or financial instrument.

Bilateral netting: netting between two parties.

Book-entry system: an accounting system that permits the electronic transfer of securities without the movement of certificates.

Bridge: the "bridge" is the name commonly used for the link between Euroclear and Cedel that permits cross-system settlement of a trade between a participant in one ICSD and a participant in the other ICSD.

Cash correspondents: banks (or similar institutions) used by the SSS to make or receive payments.

Cash deposit risk: the credit risk associated with the holding of funds with an intermediary for the purpose of settling securities transactions.

Cash memorandum accounts: records kept by the SSS of the funds due to be paid to or received by participants in conjunction with their securities settlements; the records are for information purposes only and do not represent legal claims or liabilities between the SSS and its participants.

Central securities depository (CSD): an institution for holding securities which enables securities transactions to be processed by means of book entries. Physical securities may be immobilised by the depository or securities may be dematerialised (so that they exist only as electronic records).

Certificate: the document which evidences the undertakings of an issuer of a security or financial instrument.

Chaining: a method used in certain settlement systems for processing transfers. It involves the manipulation of the order in which transfers are processed to increase the number or value of transfers that may be settled with available securities and funds balances (or available credit lines).

Clearance: the term "clearance" has two meanings in the securities markets. It may mean the process of calculating the mutual obligations of market participants, usually on a net basis, for the exchange of securities and money. It may also signify the process of transferring securities on the settlement date, and in this sense the term "clearing system" is sometimes used to refer to securities settlement systems. In this disclosure framework, the term is used only in the first sense.

Collateral: an asset or third-party commitment that is accepted by the collateral taker to secure an obligation of the collateral provider vis-à-vis the collateral taker.

Confirmation: the process by which a market participant notifies its customers of the details of a trade and allows the customer to positively affirm or question the trade.

Counterparty: one party to a trade.

Credit risk: the risk that a counterparty will not settle an obligation for full value, either when due or at any time thereafter. Credit risk includes replacement cost risk, principal risk and cash deposit risk.

Cross-border settlement: a settlement that takes place in a country other than the country in which one trade counterparty or both are located.

Custodian: an entity, often a bank, that safekeeps and administers securities for its customers and that may provide various other services, including clearance and settlement, cash management, foreign exchange and securities lending.

Custody-only link: a link between two SSSs which enables transactions in securities held in SSS1 to be settled using SSS2 (rather than SSS1) when the buyer and seller are both participants in SSS2. Custody-only links do not provide for the transfer of funds between SSS1 and SSS2 and cannot be used to settle transactions between a participant in SSS1 and a participant in SSS2.

Custody risk: the risk of loss of securities held in custody occasioned by the insolvency, negligence or fraudulent action of the custodian or of a sub-custodian.

Customer: a buyer, seller or holder of securities and financial instruments that does not participate directly in a system. A participant's holdings in a system often include securities and financial instruments of which the participant's customers are the beneficial owners.

Daylight credit (or daylight overdraft, daylight exposure, intraday credit): credit extended for a period of less than one business day; in a credit transfer system with end-of-day final settlement, daylight credit is tacitly extended by a receiving participant which accepts and acts on a payment order, even though it will not receive final funds until the end of the business day.

Debit balance: see net debit position.

Default: failure to complete a funds or securities transfer according to its terms for reasons that are not technical or temporary, usually as a result of bankruptcy. Default is usually distinguished from a "failed transaction".

Delivery: final transfer of a security or financial instrument.

Delivery versus payment: a link between a securities transfer system and a funds transfer system that ensures that delivery occurs if, and only if, payment occurs.

Dematerialisation: the elimination of physical certificates or documents of title which represent ownership of securities so that securities exist only as accounting records.

Depository receipt: an instrument issued in one country that establishes an entitlement to a security held in custody in another country.

Domestic settlement: a settlement that takes place in the country in which both counterparties to the trade are located.

Domestic trade: a trade between counterparties located in the same country.

Failed transaction: a securities transaction that does not settle on the contractual settlement date, usually because of technical or temporary difficulties.

Finality risk: the risk that a provisional transfer of funds or securities will be rescinded.

Final transfer: an irrevocable and unconditional transfer which effects a discharge of the obligation to make the transfer. The terms "delivery" and "payment" are each defined as a final transfer. See provisional transfer.

Forced settlement: securities or funds settlement that is either mandated or enforced by the actions of a third party.

Global custodian: a custodian that provides its customers with custody services in respect of securities traded and settled not only in the country in which the custodian is located but also in numerous other countries throughout the world.

Gridlock: a situation that can arise in a funds or securities transfer system in which the failure of some transfer instructions to be executed (because the necessary funds or securities balances are unavailable) prevents other instructions from being executed, with the cumulative result that a substantial number of transfers fail to be executed on the scheduled date.

Gross settlement system: a transfer system in which the settlement of funds or securities transfer instructions occurs individually (on an instruction-by-instruction basis).

Haircut: the difference between the market value of a security and its collateral value. The haircut is intended to protect a lender of funds or securities from losses owing to declines in collateral values.

Immobilisation: placement of certificated securities and financial instruments in a central securities depository to facilitate book-entry transfers.

Internal settlement: a settlement that is effected through transfers of securities and funds on the books of a single intermediary. An internal settlement requires both counterparties to maintain their securities and funds accounts with the same intermediary.

International central securities depository (ICSD): a central securities depository that settles trades in international securities and in various domestic securities, usually through direct or indirect (through local agents) links to local CSDs.

Irrevocable transfer: a transfer which cannot be revoked by the transferor.

Issuer: the entity that is obligated on a security or financial instrument.

Issuing agent: an institution that acts on behalf of the issuer of securities in distributing the securities and in realising the proceeds thereof for the benefit of the issuer.

Legal ownership: recognition in law as the owner of a security or financial instrument.

Legal risk: the risk of loss because of the unexpected application of a law or regulation or because a contract or other right cannot be enforced.

Liquidity risk: the risk that a counterparty will not settle an obligation for full value when due, but on some unspecified date thereafter.

Local agent: a custodian that provides custody services for securities traded and settled in the country in which it is located to trade counterparties and settlement intermediaries located in other countries (non-residents).

Local custodian: a custodian that provides custody services for securities traded and settled in the country in which the custodian is located. See global custodian.

Loss-sharing agreement: an agreement among participants in a clearing or settlement system regarding the allocation of any losses arising from the default of a participant in the system or of the system itself.

Loss-sharing pools: cash, securities or possibly other assets that are provided by the participants in advance and are held by the system to ensure that commitments arising from loss-sharing agreements can be met.

Marking to market: the practice of revaluing securities and financial instruments using current market prices. In some cases unsettled contracts to purchase and sell securities are marked to market and the counterparty with an as yet unrealised loss on the contract is required to transfer funds or securities equal to the value of the loss to the other counterparty. See variation margin.

Matching (or comparison, checking): the process for comparing the trade or settlement details provided by counterparties to ensure that they agree with respect to the terms of the transaction. Settlement instructions that have been successfully matched between counterparties are referred to as matched settlement instructions. In some securities settlement systems, penalties may apply to participants that unilaterally revoke matched settlement instructions. In other systems, unilateral revocation of matched settlement instructions may not be possible.

Member: in this disclosure framework, the term is used synonymously with participant. See participant.

Multilateral netting: netting among more than two parties.

Net credit or net debit position: a participant's net credit or net debit position in funds or in a particular security is the sum of all the transfers it has received up to a particular time less the transfers it has sent; if this sum is positive, the participant is in a net credit position, if the sum is negative, it is in a net debit position. The net credit or net debit position at settlement time is called the net settlement position. These positions may be calculated on a bilateral or multilateral basis.

Net settlement: a settlement in which a number of transactions between or among counterparties are settled on a net basis.

Netting: an agreed offsetting of mutual positions or obligations by trading partners or participants in a system. The netting reduces a large number of individual positions or obligations to a smaller number of positions. Netting may take several forms which have varying degrees of legal enforceability in the event of default of one of the parties.

Nominee: a person or entity named by another to act on his behalf. A nominee is commonly used in a securities transaction to obtain registration and legal ownership of a security.

Obligation: a duty imposed by contract or law. It is also used to describe a security or financial instrument, such as a bond or promissory note, which contains the issuer's undertaking to pay the owner.

Omnibus customer account: an account in which the securities held by a participant on behalf of all (or at least several) of its customers are kept. See also proprietary account, segregation.

Participant: a party which participates in a system. This generic term refers to an institution which is identified by the system and is allowed to send transfer instructions directly to the system or which is directly bound by the rules governing that system.

Paying agent: an institution that, acting on behalf of an issuer, makes payments to holders of securities (e.g. payments of interest or principal).

Payment: the satisfaction and discharge of a monetary obligation by the debtor's final transfer of a claim on a party agreed to by the creditor. Typically, the party is a central bank or a commercial bank.

Position netting: the netting of instructions in respect of obligations between two or more parties which neither satisfies nor discharges those original obligations. (Also referred to as payment netting in the case of payment instructions.)

Pre-matching process: process for comparison of trade or settlement information between counterparties that occurs before other matching or comparison procedures. Generally, pre-matching does not bind counterparties as matching can do.

Principal risk: the risk that the seller of a security delivers a security but does not receive payment or that the buyer of a security makes payment but does not receive delivery. In this event, the full principal value of the securities or funds transferred is at risk.

Proprietary account: an account in which a participant holds only those securities it is holding on its own behalf (as opposed to those securities it is holding on behalf of its customers). See also omnibus customer account, segregation.

Provisional transfer: a conditional transfer in which one or more parties retain the right by law or agreement to rescind the transfer.

Real time: the processing of instructions on an individual basis at the time they are received rather than at some later time.

Registration: the listing of ownership of securities in the records of the issuer. This task is often performed by an official registrar/transfer agent.

Replacement cost risk: the risk that a counterparty to an outstanding transaction for completion at a future date will fail to perform on the settlement date. This failure may leave the solvent party with an unhedged or open market position or deny the solvent party unrealised gains on the position. The resulting exposure is the cost of replacing, at current market prices, the original transaction.

Repurchase agreement (repo): a contract to sell and subsequently repurchase securities at a specified date and price. Also known as an RP or buyback agreement.

Rolling settlement: a situation in which settlement of securities transactions takes place each day, the settlement of an individual transaction taking place a given number of days after the deal has been struck. This is in contrast to a situation in which settlement takes place only on certain days - for example, once a week or once a month - and the settlement of an individual transaction takes place on the next settlement day (or sometimes the next but one settlement day) following the day the deal is struck.

Same-day funds: money balances that the recipient has a right to transfer or withdraw from an account on the day of receipt.

Securities borrowing and lending programme: a facility whereby a loan of securities is made to facilitate timely fulfilment of settlement obligations.

Securities depository: see central securities depository (CSD).

Securities settlement system (SSS): a system in which the settlement of securities takes place. Often the SSS is a CSD.

Segregation: optional or compulsory separation of the securities held by a participant on its own behalf from those held on behalf of its customers. See also omnibus customer account, proprietary account.

Self-collateralising: an arrangement whereby securities being transferred can be used as collateral to secure risks involved in the transfer process.

Settlement: the completion of a transaction, wherein the seller transfers securities or financial instruments to the buyer and the buyer transfers money to the seller.

Settlement date: the date on which the parties to a securities transaction agree that settlement is to take place. The intended date is sometimes referred to as the contractual settlement date.

Settlement interval: the amount of time that elapses between the trade date (T) and the settlement date (S). Typically measured relative to the trade date, e.g. if three days elapse, the settlement interval is T+3.

Settlement risk: general term used to designate the risk that settlement in a transfer system will not take place as expected. This risk may comprise both credit and liquidity risk.

Sub-custodian: where one custodian (e.g. a global custodian) holds its securities through another custodian (e.g. a local custodian), the latter is known as a sub-custodian.

Substitution: the process of amending a contract between two parties so that a third party is interposed as an intermediary creditor/debtor between the two parties and the original contract between the two parties is satisfied and discharged.

Systemic risk: the risk that the inability of one institution to meet its obligations when due will cause other institutions to be unable to meet their obligations when due.

Trade date: the date on which a trade/bargain is executed.

Trade-for-trade (gross) settlement: a settlement in which a number of transactions between counterparties are settled individually.

Trade matching: see matching.

Trade netting: a legally enforceable consolidation and offsetting of individual trades into net amounts of securities and money due between trading partners or among members of a clearing system. A netting of trades which is not legally enforceable is a position netting.

Transfer: an act which transmits or creates an interest in a security, a financial instrument or money.

Unwind: a procedure followed in certain clearing and settlement systems in which transfers of securities and funds are settled on a net basis, at the end of the processing cycle, with all transfers provisional until all participants have discharged their settlement obligations. If a participant fails to settle, some or all of the provisional transfers involving that participant are deleted from the system and the settlement obligations from the remaining transfers are then recalculated. Such a procedure has the effect of allocating liquidity pressures and losses from the failure to settle to the counterparties of the participant that fails to settle. Unwinds can be distinguished from debits to securities accounts that

do not imply the original transfer is rescinded (e.g. in cases where securities are discovered to be forged or stolen).

Variation margin: the amount which is paid by a counterparty to reduce replacement cost exposures resulting from changes in market prices, following the revaluation of securities or financial instruments that are the subject of unsettled trades.

Zero-hour rule: a provision in the insolvency law of some countries whereby a bankruptcy or similar procedure declared by a court during the day is considered to have been declared at 0.00 a.m. of the same day. This generally has the effect of retroactively rendering ineffective all transactions of the closed institution that have taken place after 0.00 a.m. on that date.