

Circular nº 11/2017 of 4 September

AUTOMATIC COLLATERAL MANAGEMENT SERVICES

Please note that only the Spanish version of this Circular produces legal effect. Any translation is provided for commercial purposes only.

Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.Unipersonal (hereinafter, IBERCLEAR) has developed a procedure to provide an automatic collateral management service for the activities of participants in the ARCO Settlement System (hereinafter, Collateral Management).

The IBERCLEAR Collateral Management service shall enable participants to delegate to IBERCLEAR the processes of selection and management of those securities provided as collateral to cover the risk exposure between the two counterparties who contract this service. As a result, this service enables a reduction in costs and operating risk resulting from the manual assignment carried out by the participants themselves. This tool allows participants to maximise their financing capacity and optimises the management of available assets.

The purpose of this Circular is to establish the terms and conditions of the abovementioned service and approve the Collateral Management framework agreement.

Therefore, the Board of Directors of IBERCLEAR has approved the following:

Rule 1. Collateral Management Service

1. The Collateral Management service shall provide cover for financial transactions between ARCO System participants.
2. IBERCLEAR shall also offer its Collateral Management service for credit transactions of participants with the Bank of Spain.
3. The Collateral Management service provided by IBERCLEAR comprises the following aspects:

- The matching of the cash amounts traded in financial transactions between the counterparties of these transactions.
- The valuation and selection of securities, pursuant to the eligibility criteria previously defined by the participants.
- Adjustments due to price movements for the securities provided as collateral, or the withdrawal of these through replacements and optimisation processes.
- Supply of frequent information on the activity performed within the framework of the Collateral Management service.

The service also comprises coordination of the aforementioned actions with the book entries required for registration of the pledges and, where appropriate, settlement of corresponding cash amounts.

Rule 2. Subjective Scope. Entities that may contract the Collateral Management service

Entities that wish to use the Collateral Management services must be participants in the ARCO Settlement System.

The participants may contract the service in order to act as a collateral provider to offer cover for a particular risk exposure; as a collateral recipients to cover themselves from said risk, or if they wish adopt both profiles at the same time.

Rule 3. Objective Scope. Securities eligible to be used as collateral

All securities registered in the ARCO System and those securities from other platforms that are included in the book-entry register kept by IBERCLEAR through its open accounts in other central securities depositories, can be used as collateral, providing they meet the previously defined eligibility criteria of those entities that act as the recipients of collateral. In transactions with the Bank of Spain, links with other central securities depositories may only be used once the Eurosystem has declared them to be eligible for use in its credit transactions.

Rule 4. Collateral Management Agreement

Entities that wish to use the Collateral Management services must first sign the agreement for provision of automatic collateral management services, with IBERCLEAR, which is attached as an appendix to this Circular.

This agreement does not apply to the Bank of Spain.



REPEALING PROVISION

Circular 3/2014, of 29 January, on automatic collateral management services, amended by Circular 22/2016, of 20 October on the amendment of the automatic collateral management agreement, is repealed.

FINAL PROVISION

This Circular will enter into force on the date to be established by an Instruction.

Madrid, 4 September 2017

Jesús Benito Naveira
Consejero Delegado