

Circular nº 07/2017, of 4 September

**CONNECTION OF IBERCLEAR TO T2S AND MIGRATION FROM THE CADE SYSTEM
TO THE ARCO SYSTEM**

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.U.(hereinafter IBERCLEAR) is the company responsible for managing the securities operations settlement system in the Book-entry Register managed by it that are admitted for trading on official secondary markets, multilateral trading systems or others.

In the first phase of the Reform of the Securities Clearing, Settlement and Registration System, this system, known as the ARCO Securities Settlement System (hereinafter, ARCO System) incorporated those securities admitted for trading on Securities Markets, the Alternative Equity Market and the Latin American Securities Market.

As a result of the second phase of the Reform of the Securities Clearing, Settlement and Registration System, settlement has now been included in the ARCO System of those securities which until now were part of the Clearing and Settlement System for transactions carried out in the Book-Entry Public Debt Market and the AIAF Fixed Income Market (hereinafter, CADE system), and the connection of IBERCLEAR to the Target2-Securities technical support (hereinafter, T2S), managed by the European Central Bank and the group of euro area Central Banks, will now proceed.

The purpose of this Circular is to establish the date on which the connection of IBERCLEAR to T2S will take place and the migration from the CADE system to the ARCO system, and to define the processes that will be carried out to do so.

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



Rule 1. Connection of IBERCLEAR to T2S and migration from the CADE System to the ARCO System.

1. IBERCLEAR has signed an agreement with the Banco de España, acting in the name of and on behalf of the European Central Bank and the group of Central Banks that form the European System of Central Banks, for the provision of technical services for the settlement of securities which facilitates central bank cash settlements, through T2S by the aforementioned Central Banks. The connection of IBERCLEAR to T2S shall be implemented between 15 and 17 September 2017.

2. Simultaneously with the connection to T2S, all those securities included in the CADE System will be incorporated into the ARCO System. The migration from the CADE System to the ARCO system shall take place between 15 and 17 September 2017. Once completed, the CADE System will no longer be operative.

3. The first day of settlement using the ARCO system, once it is connected to T2S, shall be 18 September 2017.

Rule 2. Transfer of securities balances to the ARCO System once connected to T2S.

1. After the connection of IBERCLEAR to T2S, those entities that are not going to be IBERCLEAR participants in the ARCO System must transfer the balances they hold in their securities accounts to the accounts of other entities that have declared their intention to be participants. The entities involved must prepare their securities transfers before 16 and 17 September (hereinafter, migration weekend). To ensure this, participants must follow the current procedures set out in the System Procedures Manuals of CADE and/or ARCO regarding balance transfers. Likewise, these entities must present a formal request to IBERCLEAR to resign their status as a participant, in the CADE and/or ARCO System, effective as of the date of the transfer.

2. Exceptionally, the transfer of securities shall take place during the weekend of the migration for those entities that are not going to be participants. To do this, they must inform IBERCLEAR that they wish to do so, clearly indicating the destination securities account and the BIC of the destination participant for each source account, so that IBERCLEAR can transfer the balance in line with the migration processes.

3. The transfer of securities balances that the entities hold in the accounts opened in the ARCO System and CADE System, to the new environment of the ARCO System once connected to T2S, will take place over the migration weekend.



4. IBERCLEAR will put in place the procedures needed to obtain agreement from the participants in relation to their securities balances before, during and after the process of transferring positions.

5. Participants must verify that the identification data of the holders of the target accounts in the ARCO System, whether in the Central Register or in the Second-Tier Registers, are consistent with the data of the registered holders of the transferring accounts from which they are received.

Rule 3. Treatment of pending settlement instructions in the CADE System during the migration weekend to the ARCO system.

1. The last day on which participants may notify and settle operations in the CADE System shall be Friday 15 October 2017.

2. These settlement instructions which remain pending in the CADE System at the end of the settlement process on Friday, 15 September shall be deregistered by IBERCLEAR. Participants may resend the referred instructions, in accordance with the requirements of the ARCO System Procedures Manual, in the communication window that will be open for such a purpose during the migration weekend.

Rule 4. Treatment of pending settlement instructions in the ARCO System during the migration weekend to T2S.

1. IBERCLEAR will establish the mechanisms necessary to migrate to the new environment of the ARCO System connected to T2S, those settlement instructions which are matched and still pending, totally or partially, in the ARCO System at the close of Friday 15 September, so long as they meet the criteria established for this. Those settlement instructions which do not meet these criteria shall be deregistered at the close of Friday, 15 September.

2. Participants may resend the above mentioned settlement instructions, pursuant to the requirements of the preceding paragraph, in the communication window that will be open for such a purpose during the migration weekend. The resending of these instructions shall be carried out in accordance with the requirements of the ARCO System Procedures Manual, which will be applicable after the connection to T2S.

Rule 5. Certificates of legitimacy, limited proprietary rights and other encumbrances.

1. When limited rights in rem or encumbrances are registered with regard to the securities to be transferred, or when an entitlement certificate, entailing a blocking of the securities, has been issued with regard thereto, participants shall take the necessary actions to bring about the continuity of the limited right in rem, encumbrance or blocking of the affected balances, and where applicable, replace the corresponding certificates. Likewise, ARCO System participants shall be responsible for guaranteeing the continued blocking of the affected securities in the corresponding accounts after the migration process.

2. It will not be necessary to replace the entitlement or accreditation certificates of limited rights in rem or any other kind of encumbrance issued by IBERCLEAR in regard to securities in proprietary or individual accounts, provided that the affected securities are transferred to proprietary or individual accounts, owned or managed by the same participant, which retains its participant status in the ARCO System after the migration. The number of securities that remain blocked shall appear on the certificate, although this information will still be available even if it has not been included on the blocking certificates or notifications.

3. In the case of those participants that, in accordance with the criteria set out in Regulation 2, have manifested their intention not to participate in the ARCO System after migration:

- After the migration, when the registration of the blocked securities changes from being in a proprietary account to an individual account, it will not be necessary to replace the entitlement or accreditation certificates of limited rights in rem or any other kind of encumbrance issued by IBERCLEAR.
- When the registration of the blocked securities, after the migration, changes from being in a proprietary account to a third-party account, the entity must first unblock them prior to this taking place. If it does not unblock them, IBERCLEAR shall take the necessary measures to ensure the migration processes are carried out. After the migration, any participant that maintains a general third-party account to which it transfers securities, must immediately register the limited rights in rem or encumbrance that may exist over the securities in their Second-Tier Register, block the securities and replace the certificates with others issued by the participant itself, indicating the origin of the encumbrance and its age.
- Participants will replace any certificates issued by them for their clients' securities if the original certificate does not reflect the reality of the new accounts' structure.



4.The blocking certificates and notifications issued by IBERCLEAR for securities in the Public Debt Market and AIAF Fixed-Income Market, respectively, entered in the third-party accounts of CADE System participants, shall not maintain their validity without prejudice to the corresponding participant being responsible for guaranteeing the continued blocking of the affected securities after the migration process, with the exception of those which may be established by the general provisions.

5.Prior to the start of the migration process, participants must declare in writing to IBERCLEAR's Participants Department (Departamento de Entidades) that they have carried out the necessary actions to achieve the continuity of the limited right in rem, encumbrance or blocking of the affected balances and replacement of the certificates, which shall be completed once the affected securities balances are registered in the destination accounts in the ARCO System.

ADDITIONAL PROVISION

Authorisation is issued for an Instruction to be established concerning any operational, procedural and documentary aspects necessary for the effective implementation of these provisions.

FINAL PROVISION

This Circular shall enter into force on the day following its publication.

Madrid, 4 September 2017

Jesús Benito Naveira
Consejero Delegado