

Circular nº 1/2019 of 29th January

ARCO SETTLEMENT SYSTEM USERS' COMMITTEE

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

Title V of the Regulation of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (hereinafter, IBERCLEAR) regulates the common stipulations of the ARCO Settlement System (hereinafter, the ARCO system) that are applicable to the settlement of securities and cash in said system.

On the basis of these common stipulations, section five of Article 27 of said Regulation contemplates the creation of a Users' Committee, to be made up of representatives of issuers and participants in the settlement system, in accordance with Article 28 of the Regulation of Central Securities Depositories.

The purpose of this Circular is to set up the ARCO System Users' Committee and implement the provisions of said section five of Article 27 of the IBERCLEAR Regulation, establishing rules concerning the composition and representation of the Users' Committee, the functions and responsibilities of its Chairman, the length of the terms of its members, and rules for convening its meetings, the frequency of meetings, deliberations and voting on any issues submitted thereto.

In exercise of its management and administration functions as the manager of the ARCO System and pursuant to Articles 2 and 27 of IBERCLEAR Regulations, the IBERCLEAR Board of Directors has approved the following Circular:

Rule 1.- Functions of the Users' Committee

1. The ARCO System Users' Committee shall be ruled by the provisions of the regulation of Central Securities Depositories, Delegated Regulation (EU) 2017/392, the IBERCLEAR Regulation and this Circular.

2. The Users' Committee is a collegiate body which carries out the following functions:

- a) It advises the IBERCLEAR Board of Directors on fundamental provisions affecting the various categories of users accessing the ARCO System, including criteria for access to IBERCLEAR by issuers, participants and infrastructures and service level.
- b) When the Users' Committee considers this necessary, it issues motivated opinions on the structure of prices established by IBERCLEAR that are applicable to its users.
- c) It reviews and examines, prior to approval, the rules of operation of the information and data transmission and storage system referred to in Title VI of IBERCLEAR Regulation, and any amendments thereto.

3. Any opinions issued by the Users' Committee in the exercise of these functions shall not be binding on the Board of Directors. IBERCLEAR shall notify the CNMV and the Users' Committee of any decisions in respect of which its Board of Directors has not meet the criteria of the Users' Committee. Notwithstanding the foregoing, the Users' Committee may inform the CNMV whenever it considers that its advice has not been followed.

4. IBERCLEAR shall report to the Users' Committee on the functioning of the ARCO System on a regular basis. It shall also report to it on the conclusions of the internal audit report with regard to criteria for the acceptance of issuers or users in the ARCO System, when these may affect service levels or the guarantee of business continuity, and in any other cases referring to the Users' Committee's mandate.

Rule 2.- Composition

1. The Users' Committee shall be composed of a minimum of eight (8) and a maximum of sixteen (16) representatives of the various categories of ARCO System users. When they have presented their applications, they shall be appointed as established in this Circular.

2. The various categories of ARCO System users may be represented as per the following composition:

- a) Five (5) representatives of the various categories of issuers that have designated IBERCLEAR as the entity responsible for book-entry registration, distributed as follows:
 - i. One (1) representative proposed by the Association of Spanish Issuers;
 - ii. Two (2) representatives of issuers of equity securities, one of which must at the time of appointment have been listed on the IBEX35 for at least 3 years;

- iii. One (1) representative of an issuer of private fixed-income securities; and
- iv. One (1) representative proposed by the Spanish Treasury.

For the purposes of appointment of representatives of issuers, issuers of securities that are also participants in the ARCO System shall be excluded from this category.

b) Eleven (11) representatives of participants in the ARCO System, distributed as follows:

- i. One (1) representative proposed by the Spanish Banking Association;
- ii. One (1) representative proposed by the Spanish Confederation of Savings Banks;
- iii. Six (6) representatives of participants, other than central counterparties and central securities depositories, whose settlement volume indicators, calculated in numbers of securities for equity trades and in nominal amounts for fixed-income trades, balances of registered securities, calculated in cash value for equity securities and in nominal amounts for fixed-income securities, and interconnection with other entities rank them among the twelve major participants at the time of the appointment;
- iv. One (1) representative of a participant not included in the above categories; and
- v. The two (2) representatives of central counterparties with the largest volumes of settlement instructions transmitted to the ARCO System at the time of the appointment.

Entities belonging to the same corporate group shall, for the purposes of this Circular, be considered a single entity. Participants interested in these proceedings may consult IBERCLEAR if they are one of the entities referred to in section iii. above.

Rule 3.- Applications and appointment of users' representatives

1. IBERCLEAR shall notify, in an Informative Memo distributed through the usual channels of communication with participants, issuers and other users, the commencement of the period for submission of applications, which may not be less than one month from the date of publication. The Informative Memo shall also be published on the IBERCLEAR website, from the commencement of the period for submission of applications until the Users' Committee has been set up.

2. The various categories of users may submit the applications of their representatives. All applications must state information to identify the users' representatives, the interests they represent, and a brief summary of the referred persons to in order to document their suitability in terms of knowledge, experience and professional capacity in the post-trading area.



3. When the period stipulated in section 1 above has expired, IBERCLEAR shall formulate the list of representatives, on the criteria established in Rule 2 above. In the event of a tie in levels of compliance with the requisites established, appointments shall be decided on the basis of the need for the composition of the Committee to reflect the diversity of interests of IBERCLEAR users or, as the case may be, by drawing lots among the applicants in the tie. The list of applicants shall be sent to the IBERCLEAR Board of Directors for the appointment to be made.
4. If no applications are submitted to represent one of the user categories as per the classification stipulated in Rule 2, the posts shall remain vacant until the next renewal of the Users' Committee, provided that the minimum number of members has been attained.
5. The appointment shall be published in an Informative Memo.
6. Members shall serve a term of 3 years, and may be re-elected with no restrictions.
7. The functions of the Committee members shall not be remunerated.

Rule 4.- Dismissal

Members of the Users' Committee shall be dismissed for the following reasons:

- a) On expiry of their term.
- b) Voluntary resignation.
- c) Termination of the employment or business relationship with the user represented.
- d) Separation agreed by the IBERCLEAR Board of Directors, following a report by the Users' Committee, due to serious or repeated failure to comply with obligations.

The issuer or entity represented by the member of the Users' Committee that has left his position may send IBERCLEAR the data of a new representative and a brief summary to demonstrate this person's suitability in terms of knowledge, experience and professional capacity in the post-trading area. The application shall be sent to the IBERCLEAR Board of Directors for the appointment to be made. The new representative shall carry out functions over the remainder of the term of the member that has departed.

Rule 5.- Duties of members and management of potential conflicts of interest

1. Members of the Users' Committee must attend its meetings.
2. Members of the Users' Committee must keep secret any issues they may have access due to their membership of the Committee when these are confidential or when this confidentiality is explicitly established by the Chairman of the Committee. In any case, information supplied by IBERCLEAR concerning the pricing structure for the issuance of opinions referred to in section 2 of Rule 1 shall be considered confidential.
3. Members may not vote when they are affected by a concrete and specific, real or potential conflict of interest concerning an issue. Although the following is not exhaustive, a conflict of interest shall exist when:
 - a) the Users' Committee discusses and adopts a resolution specifically related to the entity at which the concerned member carries out any function, or may be directly or indirectly related thereto;
 - b) the resolution benefits or is detrimental to, concretely and specifically, an entity that is part of the same group of companies as the entity represented by the concerned member .
4. In any case, if the Chairman, on his own initiative or at the behest of a member of the Users' Committee, determines that a member has a concrete and specific, real or potential conflict of interest concerning any issue, he shall not authorise the member to vote on this issue. If the conflict of interest concerns the Chairman, the other members of the Users' Committee may manifest this so that the Chairman's vote on such issue is not authorised. This decision shall in any case be fully argued and recorded in the Minutes.

Rule 6.- Appointment and functions of the Chairman of the Users' Committee

1. The Chairman of the Users' Committee shall be nominated from among its members by the IBERCLEAR Board of Directors, and to this end, the nominated Chairman must have the knowledge, experience, global view of the post-trading area, and the ability to secure consensus. The proposal must be accepted by a majority of members of the Users' Committee.
2. The Chairman of the Users' Committee is tasked with convening meetings and drawing up the list of issues to comprise the Agenda for the meetings.
3. The Chairman of the Users' Committee shall facilitate the performance of the Committee's functions and the adoption of resolutions, and shall determine the order of speakers at meetings.

4. The Chairman of the Users' Committee shall represent the Committee on the execution of any procedures or actions that may be necessary in connection with the functions of the Committee.

5. The Chairman of the Users' Committee shall report to the IBERCLEAR Board of Directors on the activities and resolutions of the Committee. He shall also provide the IBERCLEAR Board of Directors with an annual report on the Committee's functioning and activities.

Rule 7.- Calling of meetings of the Users' Committee and their frequency

1. The Users' Committee shall meet every 6 months or more frequently if it is convened by its Chairman, should this be considered advisable for the purposes of the functions of the Users' Committee, or at the behest of five of its members.

2. In any case, it shall be convened by its Chairman, who shall set the Agenda, which must include any items requested by IBERCLEAR's Board of Directors for the purposes of the intended functions of the Committee.

3. Meetings shall be convened with prior notice of at least 15 days prior to the date set. The notice convening the meeting shall be accompanied by the necessary documentation for analysis and discussion of the items on the Agenda.

4. Meetings of the Users' Committee shall be held at IBERCLEAR's registered office. IBERCLEAR shall provide the Users' Committee with the necessary technical means to hold the meetings, and the necessary instruments to enable the Committee to carry out its functions.

5. The Users' Committee Secretariat shall be run by IBERCLEAR employees, who shall provide the necessary assistance to enable the adequate development of the meetings. These tasks shall include assisting the Chairman with the notification of convened meetings, drawing up the Agenda and drafting the Minutes of meetings. The Minutes must be sent to members of the Users' Committee with sufficient notice to enable them to be reviewed and approved at the next meeting of the Users' Committee, and at least within the period stipulated in section 3 of this Rule.

Rule 8.- Quorum, deliberations and voting

1. The Committee shall be quorate when the meeting has been convened in accordance with the provisions of Rule 7 above, and is attended by no less than half of its members.

2. Each member of the Users' Committee shall have one vote.



3. Resolutions shall be adopted by a simple majority of members present at the meeting. In the event of a tie, the Chairman shall have the casting vote.

FINAL PROVISION

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

Madrid, 29th January 2019

Ana Ibáñez Díaz-Bustamante
Deputy Manager