

**Circular nº 17/2017, of 4 September**

**SETTLEMENT PROCEDURE OF BILATERAL TRANSACTIONS**

***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) sets out general provisions for the Securities Registration and Settlement System (hereinafter, the ARCO system) applicable to the settlement of securities and cash in the system.

Based on these general provisions, article 32.1 of the said Regulation provides for various forms of communication, acceptance and execution of transfer orders, depending on whether they come from transactions communicated directly by participants, executed in trading venues or involving a central counterparty.

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 (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.

This Circular implements the provisions of article 32.4 of the IBERCLEAR Regulation, as part of the second phase of Reform framework, establishing the procedure for communication, acceptance and execution of transfer orders deriving from transactions arranged directly and bilaterally between the parties, outside an official secondary markets or multilateral trading facilities and without the intervention of a central counterparty.

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

## **Rule 1. Scope of application**

This Circular applies to the procedure for the communication, acceptance and execution of cash and securities transfer orders deriving from transactions arranged directly and bilaterally between the parties, outside an official secondary markets or multilateral trading facilities and without the intervention of a central counterparty.

## **Rule 2. Communication of settlement Instructions.**

1. Participants will communicate settlement instructions for the transactions in which they are involved. This communication shall be made at all times in accordance with the provisions of the ARCO System Procedures Manual and through the communications means of the participants, depending on their choice of connection.
2. In such communications, participants must state whether they wish to make use of IBERCLEAR means at their disposal so that together with the registration of the transfer of securities, the corresponding cash settlement takes place.
3. In the case of transactions involving two participants, in addition to express communication by the two participants involved in the transaction, the instructions sent by the two entities must also be matched.
4. For the matching of the instructions sent by the two participants, the orders must contain the same information in the mandatory match fields of the matching process, except for the sign of the transaction.
5. Notwithstanding the provisions of the preceding paragraph, the matching of the information of the cash amount, if applicable, communicated by the participants involve in the transaction can be subject to tolerance margins depending on the amount of the instruction.

When the difference between the cash amount informed is less than the established tolerance margin, the transaction will be settled based on the cash communicated by the entity delivering the securities.

6. Pursuant to Article 31 of IBERCLEAR Regulation, the settlement instructions sent by participants, as envisaged in the section above, constitute transfer orders and shall be considered to be received and accepted by the ARCO System as of the moment that T2S states that they meet its validation requirements. The transfer orders may only be revoked before the moment in



which these orders are matched in T2S with those other orders that constitute their respective counterparties.

7. Notwithstanding the settlement finality rules, orders that have not been matched in the ARCO System upon expiration of the period established in the ARCO System Procedures Manual will be cancel.

8. In the ARCO System Procedures Manual, IBERCLEAR shall establish the instruction functions and maintenance options to be offered to participants, that shall include the possibility of using the hold and release mechanisms for instructions in the communication and subsequent modification of instructions in which they are involved.

### **Rule 3. Settlement.**

1. The securities transfer orders resulting from the settlement instructions sent by participants are settled through the credit and correlating debit of securities in the Central Register accounts, either in real time or in the T2S overnight settlement period. Participants must simultaneously make the corresponding entry in their Second-tier Register.

2. The settlement date for the transactions will be that determined in accordance to the procedures established by IBERCLEAR.

3. In the settlement of transfer orders, the processes of provision, optimisation and recycling of trades, as defined at any moment in T2S, shall be applied. These processes may provide for partial settlement of the orders. IBERCLEAR shall include a description of these processes in the ARCO System Procedures Manual for participants' awareness.

4. Cash transfer orders deriving from settlement instructions sent by participants are settled through the corresponding credits and debits in the accounts designated by the participants for cash settlements.

5. Participants shall receive from either T2S or IBERCLEAR, depending on the type of connection each of them has, communication of the result of the settlement, indicating, where appropriate, any incidents that may have occurred.

### **Rule 4. Incidents, fail managements**

1. As a general rule, IBERCLEAR will allow partial settlement of any type of instruction, whether free of payment or delivery versus payment, unless the participants expressly state otherwise.



2. As a general rule, any transactions that cannot be settled on their intended settlement date will be recycled. Settlement attempts will continue on subsequent business days, until the transaction is settled or cancelled bilaterally by the counterparties, without prejudice to settlement finality rules.

#### **REPEALING PROVISION**

Circular 15/2016, of 29 January, on settlement procedures for bilateral transactions, is repealed.

#### **FINAL PROVISION**

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

Madrid, 4 September 2017

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Consejero Delegado