

CONSOLIDATED TEXT CIRCULAR 18/2017

PARTIALLY MODIFIED BY CIRCULARS 2/2019 AND 2/2020

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

Rule 1^a: Scope of application

1. The special and optional procedure for the communication, acceptance and execution of orders involving Financial Intermediaries may be used by participants when this is agreed between IBERCLEAR and the market or trading system or the central counterparty in the Agreement signed for access to its settlement services, pursuant to Circular regarding Agreements with markets, multilateral trading facilities, central counterparties and other entities. This Agreement will coordinate the actions of IBERCLEAR and the market or trading system or the central counterparty in their respective areas, including, in any case, the requirement for special accounts and their mutual obligations of information and the provision of information to supervisors.

2. The use of this procedure in the context of the Agreement referred to in the preceding subsection shall always be optional for the participant, the Financial Intermediary and the professional client on whose behalf the Financial Intermediary is acting.

3. For the purposes of determining the possibility of using this optional special procedure, participants shall only consider as Financial Intermediaries those investment firms and credit institutions covered by the legislation of a European Union Member State and entities from third-party States, authorized to provide investment services and, at least, to transmit orders and participate in the resulting settlement of trades.

4. Participants that offer this procedure shall verify that Financial Intermediaries make use of it according to the conditions and requirements set out in Article 33 of the IBERCLEAR Regulation and in this Circular.

5. Participants shall require the Financial Intermediary that provides proof of being authorized, in accordance with the applicable legislation and which immediately informs of



the circumstances that could affect the requirements necessary to make use of the special procedure referred to in this Circular.

6. IBERCLEAR will make available to the public and to its participants, and will maintain detailed information on the characteristics, requirements, mode of development and specific risks of the procedure for the investor client, highlighting their differences with respect to the general settlement procedure. This information must be produced on the terms and with the detail that is consistent with each client's specific class. The information needs of retail clients in particular will have to be assessed and may be used by Financial Intermediaries to comply with the obligations that they are legally responsible for by informing their clients about the settlement procedures they place at their disposal.

7. The participants will establish the internal procedures needed to verify compliance by the Financial Intermediary with the obligations and limitations set out in the preceding subsections.

Rule 2^a. Opening of special Accounts.

1. Before using this procedure, participants must apply to IBERCLEAR to open a Financial Intermediary special Account in the Central Register for each Financial Intermediary to whom they offer the special and optional settlement procedure, as set out in the second paragraph of article 19.2.d) of the IBERCLEAR Regulation. Participants will also identify an individual third-party Account, or, where applicable, request that such an account be opened, for the Financial Intermediary indicating in both cases whether that account will be used exclusively for the special financial intermediary procedure. The Financial Intermediary special Account will be held in the name of the Financial Intermediary and it will be used for the transitional accounting entries required for execution of the transfer orders resulting from the settlement instruction.

2. Given the instrumental and transitional nature of the entries in the Financial Intermediary special Accounts, balances of securities may not be held in the accounts once the daily settlement processes have been completed. In case there are fails in the settlement that cause the remaining balances of securities in a Financial Intermediary special Account, IBERCLEAR will proceed in accordance with Rule 5 of this Circular.



3. If a participant acting as a Financial Intermediary vis-à-vis one of its clients uses this procedure, it must apply to IBERCLEAR to open a Participant Financial Intermediary Special Account in the Central Register, as referred to in paragraph two of Article 19.2.a) of IBERCLEAR Regulation, and it shall also identify or, where applicable, request that a Proprietary Account or an Individual Third-Party Account be opened, indicating in both cases whether the account shall be used exclusively for the special financial intermediary procedure. The Participant may also act as a Financial Intermediary through a Financial Intermediary Special Account, as referred to in paragraph two of Article 19.2 d) of IBERCLEAR Regulation, in which case it shall be opened as stated in section 1 of this Rule.

Rule 3^a. Settlement procedure specialties

1. Transfer of securities shall be effected in two or more phases, via the entry of two or more account transfers, corresponding to one settlement instruction and one or more Auxiliary Transactions.

2. The market or trading system, or where appropriate, the central counterparty shall send the respective settlement instructions in accordance with that established in the general settlement procedure of transactions executed in a market or trading system or those in which a central counterparty is involved, respectively. Such general procedures will also be applicable to the settlement of securities transfer orders arising from settlement instructions sent by the market or trading system or central counterparty; i.e., via a transitory credit or debit of securities in the Financial Intermediary special Account.

3. Auxiliary Transactions that are instructed between the Financial Intermediary special Account and the account of the client thereof or the special Account of another Financial Intermediary (if more than one is involved in the process) will be considered transfer orders. The same procedure will apply to transfers that are instructed between the Financial Intermediary special Account and an account opened in the Financial Intermediary's name. The participants will notify IBERCLEAR of the Auxiliary Transactions that complete the securities transfer process as soon as they get the ownership details for these orders. These Auxiliary Transactions must be matched by the counterparty participant, as applicable.

4. In securities purchase transactions, the first stage in the procedure is the execution of the transfer orders arising from the settlement instruction set out in subsection 2 above; this precedes the execution of the Auxiliary Transactions between the Financial Intermediary special Account and the client's account. The settlement process is only completed when the latter have been settled and the corresponding book-entries have been made.

5. In securities sale transactions, the first stage in the procedure is the execution of the transfer orders arising from the Auxiliary Transactions from the client's account to the Financial Intermediary special Account; this precedes the transfer orders arising from the settlement instruction set out in subsection 2 above. The settlement process is only completed when the orders arising from both the Auxiliary transactions and the settlement instructions have been settled.

Rule 4^a. Notification of linkages

Participants will report all linkages between the Auxiliary Transactions settled and the trades included in the settlement instructions sent by the corresponding market or trading system or central counterparty. If more than one Financial Intermediary is involved in the process, the linkage must also include the Auxiliary transaction settled between the Financial Intermediaries and the Auxiliary transactions in favor of the final investors.

Rule 5^a. Fail management

1. IBERCLEAR will manage any fails that occur in the settlement of transfer orders arising from the settlement instructions sent by the market or trading system or central counterparty, applying the general procedures set out in this Circular and Circular in those Circulars relating to the general procedure for settlement of trades executed in a market or trading system, or in which a central counterparty is involved.

2. In the event that any securities remain in the Financial Intermediary special Accounts on completion of the daily processes as a result of incidents involving transfer orders arising from Auxiliary Transactions, these securities will automatically be transferred, where



applicable, to the individual third-party account or Proprietary Account referred in subsections 1 and 3 of Rule 2 of this Circular. Subsequent transfers of such remaining balances may be made to the Financial Intermediary special Accounts for settling trades of the Intermediary involved, in accordance with the requirements and manner included in the IBERCLEAR procedures.

3. IBERCLEAR will duly identify the transfer orders arising from the settlement instructions sent by the market or trading system or central counterparty and the Auxiliary Transactions that could not be settled, as well as the securities balances which, in applying that set forth in the previous sections, have been transferred. When IBERCLEAR becomes aware of the bankruptcy of a Financial Intermediary, it will make this information available to the bankruptcy judge, bankruptcy receiver and the Spanish National Securities Market Commission.

Rule 6^a. Supplementary application of the general procedures

1. Additionally, the general procedure on communication, acceptance and execution of securities and cash transfer orders set out in Circular relating to the general procedure for settlement of trades executed in a market or trading system, shall apply to Financial Intermediary trades executed in markets or trading systems without the involvement of a central counterparty.

2. Additionally, the general procedure on communication, acceptance and execution of securities and cash transfer orders set out in Circular relating to the general procedure for settlement of trades involving central counterparties, shall apply to Financial Intermediary trades involving a central counterparty.