

***S.D. INDEVAL S.A. DE C.V.***

***(CENTRAL SECURITIES DEPOSITORY  
FOR THE MEXICAN SECURITIES MARKET)***

**DISCLOSURE FRAMEWORK FOR  
SECURITIES SETTLEMENT SYSTEMS**

***ENERO 8, 1998***

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## I. BASIC INFORMATION

### **A. WHAT IS THE NAME OF THE SSS?**

The SSS is the Mexican CSD: “S.D. INDEVAL, S.A. DE C.V., Institución para el Depósito de Valores”. (Referred to as INDEVAL in this document).

### **B. WHERE AND IN WHICH TIME ZONE IS THE SSS LOCATED?**

Located in México City, México.

Given Greenwich Meridian is time zone 12, México's time zone is as follows:

- from April to September, it is time zone 5,
- from October to March, it is time zone 6.

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### **C. WHAT FUNCTIONS DOES THE SSS PERFORM?**

#### **1. Does the SSS serve as a securities depository and/or provide securities settlement services?**

INDEVAL serves as both a securities depository and as a provider of securities settlement services.

#### **(a) What types of instrument are eligible for deposit at the SSS (e.g. debt, equities, warrants, etc.)?**

Debt instruments issued by banks, by corporations and by the Mexican government, as well as equities, warrants, certificates and other documents.

INDEVAL provides physical safekeeping for most equities and debt instruments; the central bank (*Banco de México*) provides safekeeping for government securities; and foreign global custodians provide safekeeping for securities issued in other countries and traded on the Mexican market.

#### **(b) What types of instruments are eligible for transfer within the SSS?**

All securities listed at the *Registro Nacional de Valores e Intermediarios (RNVI)*, which is in turn administered by the National Banking and Securities Commission (*CNBV*). This means that INDEVAL centralizes the transfer of all debt instruments, including government securities, and equities listed in the RNVI and traded on the Mexican securities market (Mexican Stock Exchange and OTC market).

Foreign issued securities that are traded on the Mexican market and may not be listed in the RNVI are also eligible for transfer within INDEVAL.

(c) Please describe whether eligible securities are dematerialized, immobilized or transferred physically.

All eligible securities are immobilized, and transfers are carried out using a book entry system.

(d) Does the SSS provide safekeeping for physical certificates?

Yes (see [I-C-1-a], above). All securities, except government securities and securities issued abroad and traded on the Mexican market, are physically held on deposit in INDEVAL's vault.

2. Does the SSS provide cash accounts and/or provide fund transfers in conjunction with securities transfer? If so, in what currencies?

INDEVAL does not provide cash accounts. However, INDEVAL uses "cash memorandum accounts" for the implementation of Model 2 of the DVP Report. At the end of the day, the balances of these accounts are posted at the central bank.

The cash memorandum accounts are denominated in Mexican pesos.

3. Does the SSS provide a trade matching service? Do others provide such services for securities settled at the SSS ?

Domestic transactions in the OTC market are confirmed, and therefore matched, directly by each participant through INDEVAL's system (SIDV). Trades carried out at the Mexican Stock Exchange are matched by the Exchange before being fed into SIDV.

4. Does the SSS provide a trade netting service (as distinct from undertaking the settlement of securities transfers on a net basis)? Do others provide such services for securities settled at the SSS? In either case, what types of netting (bilateral or multilateral), if any, are performed?

INDEVAL does not provide securities netting and no other institution provides it either.

5. Does the SSS offer a securities lending or borrowing program?

INDEVAL administers a Securities Borrowing and Lending Program. However INDEVAL does not borrow or lend securities as principal; it merely provides an electronic system through which the participants register and close bids. As part of this Program, INDEVAL administers the collateral involved in each securities lending/borrowing operation. Cash collateral may also be administered by banks.

6. Does the SSS provide custodial and/or related services such as the collection of interest, dividends, principal or withholding tax reclaims? Which types of services are

provided?

Yes. For all depositors, the SSS provides custodial services, collection and payment of interest, dividends and maturity proceeds, administration of execution of other rights such as subscription rights, splits and exchange offers. It also provides tax withholding services and corporate actions for foreign depositors.

7. Does the SSS act as a central counterpart or principal to transactions with its participants?

No. INDEVAL does not act as counterpart in any transaction.

8. Other? Please specify.

INDEVAL also offers the following services:

- Custody, administration, transfer, clearing and settlement services for transactions involving securities issued in foreign markets and traded in the Mexican securities market.
- Collateral Administration.
- ISIN Numbering. INDEVAL became a numbering agency on January, 1994. As such it assigns ISIN numbers to securities traded in the market.

#### **D. WHAT TYPE OF ORGANIZATION IS THE SSS?**

INDEVAL is organized as a private corporation.

1. Please indicate whether the SSS is a public sector or private sector entity.

INDEVAL is a private sector entity.

2. Please indicate whether the SSS is organized on a for-profit or a non-profit basis.

It is organized on a for-profit basis.

3. What is the legal basis for the establishment of the SSS and for securities transfers made through it?

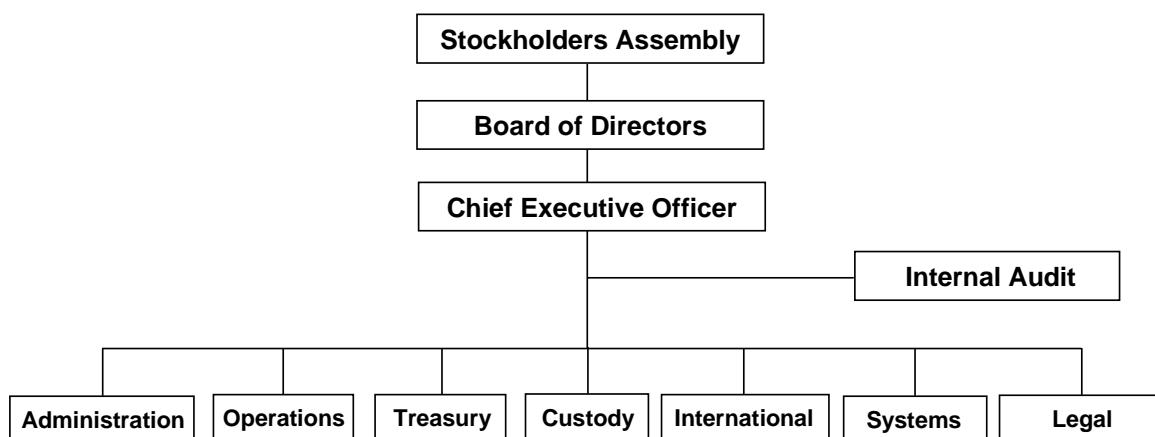
The general legal basis for the establishment of INDEVAL, and for the securities transfers made through it, is contained in the 1975 Securities Market Act (Ley del Mercado de Valores). In addition, the National Banking and Securities Commission and the central bank issue secondary regulations.

These regulations are contained in the Rules and Procedures and in the Internal Bylaws of INDEVAL.

#### **E. PLEASE DESCRIBE AND PROVIDE A DIAGRAM OUTLINING THE ORGANIZATIONAL AND OWNERSHIP STRUCTURE OF THE SSS.**

The following is the diagram outlining the organizational and ownership structure of

S.D. INDEVAL.



1. Who are the owners of the SSS?

According to Article 56 of the Securities Market Act, only the following Mexican institutions may be stockholders, each holding only one share: broker-dealers, banks, insurance companies, bonding companies, the central bank and the Mexican Stock Exchange. There are currently 58 stockholders: 33 broker-dealers, 17 banks, 5 insurance companies, 1 bonding company, the central bank, and the Mexican Stock Exchange.

Notice that under Mexican law, a subsidiary of a foreign financial institution, established in Mexico, is considered a Mexican institution.

2. What entity or entities operate the SSS? Which functions of the SSS, if any, are outsourced to third parties?

INDEVAL is operated by its own staff. It does not outsource any function.

3. Does the SSS have a Board of Directors?

Yes, INDEVAL does have a Board of Directors.

(a) What is its composition?

The Board consists of 11 regular members and 11 alternate members. These members are officers of stockholders and are elected annually at the stockholders' assembly.

(b) What are its responsibilities?

Its responsibilities, as established in INDEVAL's bylaws, are to:

- establish business, administrative and service policies,
- analyze and approve the income and expense budget,
- analyze and approve the monthly and annual reports,
- analyze and approve any extraordinary expenses not considered in the budget,
- set INDEVAL's fees,
- establish Rules and Procedures,
- sign the necessary contracts for the SSS,
- appoint the independent auditor,
- formally approve new Stockholders,
- appoint an Executive Committee.

**F. PLEASE DESCRIBE THE FINANCIAL RESOURCES OF THE SSS.**

1. Amount of paid-in capital and retained earnings?

Figures as of December 31st, 1996:

- Paid-in capital: 35'775,000 pesos (approximately 4,500,000 US dollars).
- Retained earnings: 75'525,000 pesos (approximately 9,500,000 US dollars).

2. Guarantees, insurance coverage or other similar arrangements?

- Errors and Omissions insurance covering up to 2 million US dollars.
- Insurance company : Lloyds London Market.
- Mexican Broker : Seguros Atlas S.A.

3. Credit lines or letters of credit?

None.

4. Powers to assess participants or equity holders?

None.

**G. PLEASE DESCRIBE WHETHER THE SSS OR ITS OPERATOR IS SUBJECT TO AUTHORIZATION, SUPERVISION OR OVERSIGHT BY AN EXTERNAL AUTHORITY.**

INDEVAL is currently regulated by the Mexican Securities Market Act, the General Mercantile Corporations Act, secondary regulations issued by the National Banking and Securities Commission (CNBV), the central bank, and by its own internal bylaws, Rules and Procedures. The bylaws, Rules and Procedures are subject to approval by the CNBV.

The Ministry of Finance grants authorizations to operate as a Central Securities Depository, under the terms of which INDEVAL is subject to supervision and

surveillance by the National Banking and Securities Commission and by the central bank, and must provide all of the necessary documentation for inspection. In addition, its Chief Executive Officer is required to have adequate technical background and practical experience, and the appointment must be approved and authorized by the CNBV.

## II. RULES AND PROCEDURES OF THE SSS

### **A. DOES THE SSS MAINTAIN A COMPLETE LIST OF THE RULES AND PROCEDURES GOVERNING THE RIGHTS AND OBLIGATIONS OF PARTICIPANTS AND THE DUTIES OF THE SSS?**

Yes. INDEVAL Rules and Procedures and Operating Manual govern the rights and obligations of participants and INDEVAL itself. Detailed interpretation of procedures is available in the User Guides.

#### 1. How can participants obtain a copy of the Rules and Procedures?

Current and potential participants can obtain copies of INDEVAL Rules and Procedures directly at INDEVAL offices. At present, when an intermediary becomes a participant or depositor, the SSS provides a copy of such documents.

Rules and Procedures will also be available at INDEVAL's Internet home page in the first quarter of 1998.

#### 2. Does other documentation provided to participants (e.g. user guides) have the same status as the Rules and Procedures?

No. There is a set of User Guides that is provided to participants, but these guides deal with details of system procedures and not with rights and obligations.

#### 3. Describe the process for changing Rules and Procedures, including any need for regulatory approval.

##### (a) What authority is required, and how does this differ depending on the type of change involved?

Any modification to the Rules and Procedures must first be approved by the Board of Directors. It is then submitted for authorization to the National Banking and Securities Commission and to the central bank.

##### (b) How are participants notified of changes in Rules and Procedures?

They receive a formal notification (signed by the Chief Operating Officer) of any modifications approved and the date they take effect.

##### (c) Is there a procedure for participants or others to comment on proposed rule changes?

The SSS coordinates working groups to analyze the proposed changes to the Rules and Procedures prior to submitting them to the Board of Directors. The working groups are integrated by market participants.

### **B. ARE THE RULES AND PROCEDURES BINDING ON THE SSS AS WELL AS ITS PARTICIPANTS? UNDER WHAT CONDITIONS AND ON WHOSE AUTHORITY CAN WRITTEN RULES AND PROCEDURES BE WAIVED OR SUSPENDED BY THE SSS?**



The SSS Rules and Procedures are binding on INDEVAL and its participants.

INDEVAL may suspend written rules provided it obtains approval from the National Banking and Securities Commission, or it receives instructions to this effect from the Commission.

### III. RELATIONSHIPS WITH PARTICIPANTS

#### **A. PLEASE DESCRIBE THE TYPES OF MEMBERSHIP OFFERED BY THE SSS.**

The following institutions are legally eligible to become depositors or participants:

- Mexican institutions: broker-dealers, banks, insurance companies, bonding companies, mutual funds, stock exchanges and the central bank.
- Foreign institutions: any foreign financial institution (based outside Mexico).

However, only Mexican institutions are allowed to become stockholders, each one holding one share. It is compulsory for broker-dealers to be stockholders.

As mentioned in [I-E-1], a subsidiary of a foreign financial institution, legally domiciled in Mexico, is considered as a Mexican institution under Mexican Law.

##### 1. How do the types differ?

Banks and broker-dealers are the only depositors allowed to participate in the DVP scheme.

Participants who are stockholders pay lower fees than non-stockholders, and only stockholders may be members of the Board of Directors.

##### 2. Within each membership category, are all participants subject to the same Rules and Procedures? Please describe important exceptions, including both differences in rules across participants and the rationale for these differences.

Participants in the same membership category are subject to the same Rules and Procedures. For more details, see answer [III-A-1] above.

#### **B. CAN PARTICIPANTS ESTABLISH ACCOUNTS FOR THEIR CUSTOMERS' ASSETS THAT ARE SEGREGATED FROM THEIR OWN ASSET ACCOUNTS AT THE SSS?**

Yes.

##### 1. If so, is this accomplished through a single omnibus customer account or through a multiplicity of accounts and/or sub-accounts?

A participant must open at least one proprietary account and one omnibus customer account.

A participant may open additional proprietary and omnibus customer accounts.

2. Is the segregation optional or compulsory?

Compulsory.

3. Does the fact that a sub-account at the SSS bears the name of a third party give any rights to that third party as a participant under the rules of the system?

Not Applicable.

**C. PLEASE DESCRIBE PARTICIPANT REQUIREMENTS FOR EACH TYPE OF MEMBERSHIP.**

See answer to [III-A] above.

1. Are participants required to be domiciled or resident in a particular jurisdiction?

No, if they act only as depositors. If they are stockholders in addition to depositors, they must be Mexican institutions domiciled in Mexico.

2. Are participants required to be subject to a supervisory regime? If so, please describe.

The SSS does not supervise the participants. They are subject to supervision, depending on their type, by either the National Banking and Securities Commission (CNBV), the central bank (BANCO DE MEXICO), the National Insurance and Bonding Commission (CNSF), or by the National Retirement Funds Commission.

3. Are participants required to hold an equity stake in the SSS?

Participant broker-dealers must be INDEVAL stockholders, each one holding only one share. All other Mexican participants may choose whether or not to be stockholders.

4. Are there financial, economic, personal or other requirements (e.g. minimum capital requirements, "fit and proper" tests)? If so, please describe.

No, the only requirement is to be any of the financial institutions listed in III.A.

**D. DOES THE SSS ENGAGE IN OVERSIGHT OF ITS PARTICIPANTS TO ENSURE THAT THEIR ACTIONS ARE IN ACCORDANCE WITH ITS RULES AND PROCEDURES? IF SO, PLEASE DESCRIBE.**

Not directly. However, INDEVAL's system (SIDV) will not accept instructions that breach its Rules and Procedures.

**E. UNDER WHAT CONDITIONS CAN PARTICIPANTS TERMINATE THEIR MEMBERSHIP IN THE SSS? DOES THIS MARK THE END OF ALL LIABILITIES OF THE PARTICIPANTS? IF NOT, PLEASE DESCRIBE WHAT LIABILITIES COULD**

**REMAIN.**

Membership can be terminated at the participant's request, providing there are no unpaid bills to INDEVAL.

**F. UNDER WHAT CONDITIONS CAN THE SSS TERMINATE A PARTICIPANT'S MEMBERSHIP IN THE SSS?**

When the participant's authorization to operate as a financial institution is revoked by the authorities. All its liabilities remain until they have been resolved either in a normal course of operations or through a judicial process.

**G. PLEASE DESCRIBE THE SCOPE OF THE SSS'S LIABILITY TO PARTICIPANTS, INCLUDING THE STANDARD OF LIABILITY (NEGLIGENCE, GROSS NEGLIGENCE, WILLFUL MISCONDUCT, STRICT LIABILITY OR OTHER), THE FORCE MAJEURE STANDARD, AND ANY LIMITATION TO THE SCOPE OF LIABILITY OF THE SSS (E.G. INDIRECT OR CONSEQUENTIAL DAMAGES). WHERE ARE THESE LIABILITIES AND THEIR LIMITATIONS SET OUT (E.G. IN STATUTE OR CONTRACT)?**

From the moment that INDEVAL enters into a business relationship with its depositors providing all the services as stated in its Rules and Procedures, it is responsible for any error or omission of its systems or for any willful misconduct, negligence and gross negligence of its personnel. These responsibilities are regulated by the Mexican Civil Code. In the case of force majeure, no one is held liable for damages.

**IV. RELATIONSHIPS WITH OTHER SSS AND COMMERCIAL INTERMEDIARIES****A. DOES THE SSS MAINTAIN LINKAGES (INCLUDING SUB-CUSTODIAN OR CASH CORRESPONDENT RELATIONSHIPS) OR OTHER RELATIONSHIPS WITH OTHER SSS?**

Yes, it maintains a custody-only link with CEDEL.

**1. Please identify each of the other SSS used and the type of securities transferred via the linkages.****(a) What is the name of the other SSS? Where is it located?**

CEDEL, located in Luxembourg.

**(b) What securities are eligible for transfer via the linkage to the other SSS?**

The link is used to provide custody and transfer of Mexican Foreign Debt securities issued outside Mexico, mainly UMS and Brady Bonds, although there are other types of bonds issued by government agencies that are also eligible for transfer.

(c) Are transfers of securities made via the linkage to the other SSS limited to only those that are free of payment or are transfers against payment also made via the linkage to the other SSS? If against payment, please describe the timing of the transfers and the corresponding payments.

The transfers are free of payment.

(d) Does the other SSS provide custody services to the SSS and, if so, who bears any credit or custody risks?

Yes (see [IV-A]). The link is a custody-only link, and as such Cedel provides custody services. INDEVAL bears the custody risks.

**B. DOES THE SSS USE SECURITIES CUSTODIANS (OTHER THAN THE OTHER SSSs ADDRESSED IN THE PREVIOUS QUESTIONS) AND/OR COMMERCIAL CASH CORRESPONDENTS? PLEASE IDENTIFY THE CUSTODIANS OR CASH CORRESPONDENTS USED AND THE DUTIES THAT EACH PERFORMS.**

INDEVAL has a custodial contract with Citibank Argentina, which acts as global custodian and cash correspondent.

The securities accounts are used to provide custody of foreign issued equities that are traded on the Mexican Stock Exchange. The cash accounts are used to collect the cash dividends, interest and other cash rights, and to distribute them to the beneficial participants.

**C. PLEASE DESCRIBE THE STANDARDS USED IN APPROVING OR REVIEWING RELATIONSHIPS WITH OTHER SSSs, CUSTODIANS OR CASH CORRESPONDENTS, INCLUDING ANY FINANCIAL OR OPERATIONAL REQUIREMENTS OR THE PRESENCE OF INSURANCE OR PUBLIC SUPERVISION.**

Whenever INDEVAL enters into a contract with another SSS or a custodian, it must verify that it complies with the following specific requirements as established by the National Banking and Securities Commission (Circular 10-177) and inform the CNBV of said contract within 5 days after it is signed:

- Legally established according to the regulations of the country where the SSS or the custodian is domiciled.
- The SSS or the custodian must have automated systems to handle the administration of securities.
- External audits must be performed on the SSS or custodian.
- INDEVAL must be able to obtain financial information on the SSS or custodian.
- The SSS or custodian must have well-defined procedures to allow delivery and replenishment of securities in case of bankruptcy.
- Regulations must exist prohibiting the SSS, the custodian, or its creditors from taking possession of securities to comply with any right or liability.
- There must be free currency conversion in the market where the SSS or custodian operates.

- INDEVAL must analyze the domestic and international prestige of the SSS or the custodian.
- INDEVAL must analyze the safety and efficiency of the services that the SSS or the custodian provides.

**D. DOES THE SSS ADVANCE FUNDS OR SECURITIES TO OR ON BEHALF OF OTHER INTERMEDIARIES SUCH AS ISSUING OR PAYING AGENTS? IF SO, PLEASE IDENTIFY THE CIRCUMSTANCES IN WHICH SUCH EXPOSURE COULD ARISE.**

When a Bank issues a security with a one-day maturity, there is not enough time to deliver the certificate for deposit at INDEVAL. In this case, INDEVAL receives by fax a copy of the certificates and registers it in its system and makes it available for transfer. The original certificate is deposited the following day.

This practice will be eliminated by the end of June 1998. Certificates will not be available for transfer before they are deposited.

**MODIFICAR SINO E. PLEASE DESCRIBE MEASURES IN PLACE TO PROTECT THE SSS AND ITS MEMBERS AGAINST THE FAILURE OF OTHER SSSs OR COMMERCIAL INTERMEDIARIES TO MEET OBLIGATIONS TO THE SSS, INCLUDING RISK CONTROLS, COLLATERAL OR ALTERNATIVE SOURCES OF FUNDS AND SECURITIES.**

INDEVAL's links with other SSS are custody-only links, therefore the only risk involved is the custody risk, which is assumed by INDEVAL. Prior to establishing a relationship, INDEVAL studies the SSS in order to minimize risks. If any of the SSS requirements as determined by the study ceases to be met, it is INDEVAL's obligation to terminate the relationship. See answer to [IV-C] above for the description of the study that INDEVAL must carry out.

## **V. SECURITIES TRANSFERS, FUNDS TRANSFERS AND LINKAGES BETWEEN TRANSFERS**

**A. PLEASE DISCUSS WHETHER AND HOW SETTLEMENT INSTRUCTIONS ARE MATCHED BETWEEN PARTICIPANTS PRIOR TO PROCESSING BY THE SSS?**

Settlement Instructions are matched as described below:

OTC Transactions. Transactions are matched directly by the participants as follows: the seller inputs the transaction and settlement information to INDEVAL system (SIDV), then the buyer verifies the information and confirms the transaction through the system. Transactions that are not confirmed by the buyers are not processed by INDEVAL.

Stock exchange transactions. The exchange matches instructions and sends them to INDEVAL.

1. Is matching required for all transactions without exception?

Only transactions involving the purchase of securities or repurchase agreements must be matched as described above. Free of payment transactions do not require matching.

2. What procedure is used when instructions do not match?

OTC Transactions. If instructions do not match, the buyer will not confirm them, leaving such instructions “pending” in the system. Non-confirmed instructions may be removed from the system by the seller or they may remain “pending due to lack of confirmation” during the day and then be removed automatically from the system at the end of the day.

Stock Exchange Transactions. The Stock Exchange has its own correcting procedures that applies for instructions that do not match. Once instructions are sent to INDEVAL they have been matched by the Exchange.

3. Are matched settlement instructions binding on participants?

Yes.

(a) If so, please describe the consequences of failure by participants to meet obligations (e.g. forced settlement, penalties, short positions).

i) Matched and confirmed instructions from the OTC market are binding on participants. If at the end of the settlement day a transaction has not been successfully processed, the transaction is removed from the INDEVAL system and the counterparts involved must settle directly between themselves.

ii) Matched Mexican Stock Exchange instructions are binding on participants. If on settlement date, a participant fails to meet its obligations, INDEVAL notifies all parties involved and the Stock Exchange applies the buy in/sell out procedure described in the following paragraph.

At the end of settlement day the participant must pay the affected party a penalty that is established by the exchange. Sufficient funds to offset any change in the price of the securities involved in the failed transaction are placed in a trust administered by the exchange and created with contributions from the broker-dealers. This process is repeated during the two days following settlement date. If at the closing of the second day after settlement date, the transaction failure continues, then the exchange may trigger during the following session a buy in/sell out procedure upon request by the affected party. It is the affected party that conducts the buy in or sell out on the stock exchange. The price differential that is segregated in the above mentioned fund is used by the affected party to settle the buy in/sell out transaction. If the buy in or sell out does not take place, then a cash agreement may be reached among the parties involved. Should this agreement not be reached, then the failing party is suspended by the stock exchange, and

such suspension lasts until an agreement is reached between the parties.

(b) Please describe whether this is a feature of the SSS Rules and Procedures or of national law or regulations.

The binding nature of the transactions and the mechanisms to deal with failed transactions is a feature of the SSS Rules and Procedures.

(c) Please provide a time line indicating the points at which matched instructions become binding, as well as any pre-matching process that takes place.

See answer to [V-A-3(a) y (b)] above.

## **B. ARE SECURITIES TRANSFERRED WITHIN THE SSS REGISTERED?**

Yes

### 1. Who is the registrar?

The figure of registrar does not exist as such, however its functions are given as follows:

The company that issues a share acts as its own registrar, keeping a stock transfer book. The company may appoint a bank, or even INDEVAL, to keep this registry. The registry is usually updated annually before a stockholders' meeting, when the company invites its stockholders to register.

Stockholders will not be able to exercise their corporate rights unless they are listed in the registry, but they are not obliged to register. Furthermore, stockholders may ask their broker-dealer or custodian bank to represent them at the annual meeting. In this case, the company's registry will show the name of the broker-dealer or bank instead of the name of the stockholder.

All shares traded on the Mexican Stock Exchange are signed over for administration by INDEVAL, so it knows only the names of banks or broker-dealers who hold stock on their own account or on behalf of third parties acting as custodians.

2. Is it normal practice to register the securities in the name of the SSS (or its nominee) or in the name of the beneficial owner? Are there instances in which securities housed within the SSS are registered to neither the SSS (or its nominee) nor the beneficial owner?

In this system, the securities can never be registered in the name of the SSS. Any security deposited at INDEVAL must be signed over for administration by this institution.

3. If the SSS offers custodial services, will it hold securities registered in the name of the beneficial owner?

Although the SSS offers custodial services, the securities are never registered in the name of the SSS.

4. Under what circumstances does the SSS initiate registration of securities in the buyer's name?

Under no circumstances.

5. How long does the registration process typically take? Are participants notified when registration is complete?

When a stockholders meeting is going to be held, the company establishes the term during which stockholders may register their shares; the length of the term therefore depends on the company.

6. Can securities be transferred within the SSS before registration in the buyer's name is complete? If so, do the Rules and Procedures of the SSS provide for an unwind or reversal of such transfers in case of bankruptcy or other events which result in the buyer's name not being entered on the register?

Not applicable. As we mentioned above, at INDEVAL securities are not registered in the buyers' name.

**C. PLEASE DESCRIBE HOW SECURITIES TRANSFERS ARE PROCESSED WITHIN THE SSS.**

Transfers of securities are done on a gross basis and can be either free or versus payment. In the latter, settlement is done using DVP model 2 (as defined in the "DVP report").

1. Please indicate whether the transfers are processed as debits and credits to members' accounts or via some other method.

Transfers are executed only when the sender has enough securities in its account and are processed as debits and credits to members' accounts (book entry system).

2. On a continuous (real-time) basis, or in one or more batches?

Transactions are processed continuously. Transfers of transactions that remain pending due to the lack of compliance with DVP scheme restrictions, are processed in batches.

3. If continuous, during what hours does the processing occur? If in batches, at what time or times is the processing initiated and completed?

Transactions are processed from 9:00 am to 3:45 p.m. with two 15 minutes breaks at 9.30 am and 12.30 p.m..

4. Do securities settlements occur daily? Please identify securities for which settlement occurs only on specific days of the week or month.



Securities settlement occurs on any business day for all types of securities.

**D. PLEASE DESCRIBE WHETHER FINAL FUNDS TRANSFERS IN CONJUNCTION WITH THE SSS ARE MADE AS DEBITS AND CREDITS TO BALANCES HELD AT THE SSS, AT ONE OR MORE COMMERCIAL BANKS, AT THE CENTRAL BANK, OR VIA SOME OTHER METHOD.**

Final funds transfers are made at the end of the day when the net debit or credit position of cash memorandum accounts are posted at the central bank.

1. Does the SSS maintain cash accounts for its participants? Are these accounts equivalent to deposit accounts at a commercial or central bank or do they serve only as "cash memorandum" accounts?

INDEVAL maintains cash memorandum accounts for banks, broker-dealers and insurance companies, but cash accounts for participants are held by a commercial banks or by the central bank.

2. On what entity (SSS or other) does the participant bear cash deposit risk?

Non bank participants bear cash deposit risk at the commercial bank of their choice.

3. Under what circumstances does the SSS provide credit extensions or advances of funds to its participants and thereby expose itself to credit risk?

Under no circumstances.

4. How long can such credit extensions last? How long do they typically last?

Not applicable.

**E. IS THE SSS A DVP SYSTEM? IF SO, PLEASE DESCRIBE THE DVP MODEL USED ACCORDING TO THE MODELS OUTLINED IN THE DVP REPORT (SEE THE INTRODUCTION). PLEASE ALSO PROVIDE A DIAGRAM INDICATING THE TIMING OF EVENTS IN THE PROCESSING OF SECURITIES AND FUNDS TRANSFERS IN THE SSS. WHERE THE SSS PROVIDES MORE THAN ONE ALTERNATIVE FOR SETTLEMENT PROCESSING, PLEASE PROVIDE A RESPONSE FOR EACH ALTERNATIVE AND INDICATE THE RELATIVE IMPORTANCE OF EACH ALTERNATIVE.**

Yes, INDEVAL applies DVP model 2 as defined by the DVP report.

Bank and broker-dealers "cash memorandum accounts" have net debit caps determined by the central bank. INDEVAL is responsible that: a) caps are not violated and b) net debit positions of each participant are fully collateralized according to the central bank requirements.

DVP transactions are processed only when they satisfy the above mentioned restrictions and those mentioned in section (V-C-1).

Every DVP securities transaction that is processed generates a credit in the cash memorandum account of the seller and a debit in the cash memorandum account of the buyer. At days end, cash memorandum accounts balances are posted at the central bank. If this were to generate an overdraft in the account of the intermediary at the central bank in excess of its overdraft facility, the central bank grants automatically a collateralized credit to the institution. Securities transfers are made on a trade by trade basis.

The schedule for DVP settlement is as follows:

**SCHEDULE FOR DVP SETTLEMENT**

At 8:30 hours	INDEVAL's system (SIDV) is opened.
From 9:00 to 15:45 hours	Processing cycle.
At 15:45 hours	INDEVAL closes the SIDV to intermediaries.
From 15:45 to 16:00 hours	INDEVAL applies an automatic mechanism to process pending operations.
From 16:00 to 16:30 hours	Intermediaries make cash transfers between SIDV and the payment systems of the central bank, in order to cover overdrafts in cash memorandum accounts.
From 16:30 to 16:45 hours	INDEVAL generates a general backup.
From 16:45 to 17:00 hours	INDEVAL applies automatic repos for broker-dealers.
From 17:00 to 17:45 hours	INDEVAL posts bank's cash memorandum accounts at the payment system (SIAC) of the central bank.

1. Are funds transfers and securities transfers processed within the same system or in different systems? If different, how are they linked?

Funds and securities transfers are processed in different systems, however these are linked through cash memorandum accounts.

(a) Please describe whether each securities transfer is linked to a specific funds transfer on a trade-by-trade basis or on a net basis or via some other method.

Funds transfers are made on a net basis at the closing of the system as mentioned at the beginning of this section.

(b) Does the SSS "split" large transactions into multiple transactions or require participants to do so?

The SSS does not split any transaction, and it does not require its participants to do so. However, for transactions in the equities market, participants have the option of splitting them, through INDEVAL's system (SIDV), should they wish to do so.

An optimization algorithm to split transactions in order to improve the efficiency of the settlement process is to be implemented by the end of this year.

2. When do securities transfers and funds transfers become final?

(a) At what time do securities transfers become final? After what event or events?

This may occur at any time during the working hours once the transfer is successfully completed in accordance with procedures described at the beginning of this section.

(b) At what time do funds transfers become final? After what event or events? Does this timing allow for same-day re-transfer of funds received in exchange for securities?

Funds transfers become final at the closing of INDEVAL's system, once cash memorandum accounts balances are posted at the central bank. Funds received in exchange of securities can then be re-transferred the same day to other accounts at the central bank.

(c) If final delivery of securities precedes the final transfer of funds, can participants dispose freely of such securities prior to funds finality? If so, what actions will be taken if funds are not received?

Yes, participants may dispose freely of such securities provided they have securities in excess of their cash memorandum accounts net debit balances.

If funds are not received, cash settlement is done as described at the beginning of this section.

(d) If final delivery of funds precedes the final transfer of securities, can participants dispose freely of such funds prior to securities finality? If so, what actions will be taken if securities are not received?

Not applicable.

(e) Does the timing of finality differ depending on the type of security transferred or the currency in which payment is to be made? Please describe.

No, there is no difference with regard to types of securities; timing of finality is the same for all transfers. All payments are made in Mexican pesos.

3. Please discuss whether participants are notified of securities or funds transfers while they are still provisional, only when they are final, or both.

There are no provisional funds or securities transfers, however transactions that are confirmed remain pending if any of the settlement conditions is not met. Information on pending and settled transactions is available to each participant involved in said transactions, on line through the SSS system and network.

**F. DOES THE SSS ITSELF "GUARANTEE" FUNDS OR SECURITIES TRANSFERS?**

No, INDEVAL does not guarantee delivery either of funds or securities for the completion of operations.

1. Under what circumstances and at what point are transfers guaranteed by the SSS?

Not applicable.

2. What actions does the guarantee obligate the SSS to take?

Not applicable.

3. Please indicate whether the guarantee is a feature of the SSS Rules and Procedures or of national law or regulations.

Not applicable.

## VI. DEFAULT PROCEDURES

**A. PLEASE DISCUSS THE EVENTS OR CIRCUMSTANCES THAT WOULD CONSTITUTE DEFAULT OF A PARTICIPANT UNDER THE RULES AND PROCEDURES OF THE SSS OR THAT WOULD LEAD THE SSS TO MAKE USE OF EXCEPTIONAL SETTLEMENT ARRANGEMENTS OR UNWIND PROCEDURES.**

INDEVAL is not a clearing house therefore, INDEVAL's Rules and Procedures do not consider any circumstance that would constitute default of a participant.

No exceptional settlement arrangements or unwind procedures exist in case of default by a participant. In case of a default, INDEVAL would be informed after the judge determines that the depositor is in bankruptcy. Before this happens, INDEVAL would attempt to process and settle any transaction submitted to the SIDV, applying the processes described in this document.

1. Failure by a participant to meet a test of its solvency under the applicable laws of its jurisdiction?

Not applicable.

2. Failure to make payments or deliveries of securities within the time specified?

Not applicable.

3. To the extent that the Rules and Procedures grant discretion in the determination of the use of default or other exceptional procedures, please discuss where the authority to exercise such discretion resides and the circumstances in which this authority would be used.

The Rules and Procedures do not grant discretion to INDEVAL in the determination of the use of default or other exceptional procedures.

**B. WHAT PROCEDURES ARE FOLLOWED BY THE SSS ONCE IT HAS DETERMINED THAT A DEFAULT EVENT HAS OCCURRED OR THAT EXCEPTIONAL SETTLEMENT ARRANGEMENTS ARE TO BE EMPLOYED?**

INDEVAL does not determine that a default event has occurred. In case of a default, INDEVAL would only follow the instructions given by the corresponding authorities.

1. How and at what point are participants notified that this has occurred?

INDEVAL is not in charge of notifying the participants that a default event has occurred. The authority in charge of this notification is the judge. The form and manner of notification is established by the judge according to the particulars of each case.

2. Would the SSS be expected to continue to meet all its obligations to participants under these circumstances? Please discuss the resources in place to ensure that this would occur (e.g. collateral, participants' fund, insurance, loss-sharing arrangements, etc.)

The SSS is not a counterpart in the settlement process, so it has no obligations to participants.

3. Please describe and provide a time line indicating the order in which these resources would be used as well as the timing of participant notifications and important deadlines (e.g. when the SSS obligations to participants would be met, when participants would need to cover their loss-sharing obligations).

Not applicable; the judge establishes the timing and order of participant notifications.

4. Please describe all conditions under which provisional transfers of securities or funds could be unwound by the SSS.

There are no provisional transfers of securities or funds.

(a) How and on what authority would a decision to unwind securities or funds transfers be made by SSS?

The SSS does not have any authority to make that decision; it could only unwind a transaction if the judge instructs it to do so.

(b) When and how would participants be notified of a decision to unwind provisional securities or funds transfers?

Not applicable.

(c) How long would participants must cover any debit positions in their own securities or funds accounts resulting from an unwind?

Not applicable.

(d) In the event of an unwind, would all transfers be unwound or would only a subset of transfers (e.g. only securities purchases or only those of a subset of participants) be unwound?

Not applicable.

(e) If only a subset of transfers, what procedure would be followed to determine which transfers and in what order?

Not applicable.

5. Can bankruptcy or insolvency be declared retrospectively in the SSS jurisdiction (e.g. under a "zero-hour" rule), and could this cause provisional securities or funds transfers to

be unwound?

The authority who may declare the bankruptcy retrospectively is the bankruptcy judge. The authority would notify INDEVAL of a participant's bankruptcy, at which point it would cease to process and settle its transactions. There are no provisional securities or funds transfers.

6. Please describe any circumstances in which transfers of securities or funds that were defined as final in response to question V.E.2 above would ever be unwound.

Processed transactions are final, even though the bankruptcy was declared retrospectively. The authority should instruct the counterpart of the failing participant the restitution of the money or the securities involved in any transaction that was considered to have been made to defraud creditors. In the event that securities were not available, the counterpart of the failing participant should pay compensatory and consequential damages.

**C. HAS A PARTICIPANT IN THE SSS EVER BEEN DECLARED IN DEFAULT OR BECOME INSOLVENT?**

No.

1. Have loss-sharing procedures been invoked?

Not applicable.

2. Please describe whether any of these defaults or insolvency resulted in losses for the SSS or its participants and how they were absorbed.

There had never been cases of defaults or insolvency.

**VII. SECURITIES OVERDRAFTS, SECURITIES LENDING AND BACK-TO-BACK TRANSACTIONS**

**A. IS IT POSSIBLE FOR DEBIT POSITIONS (OVERDRAFTS) IN SECURITIES ACCOUNTS AT THE SSS TO ARISE?**

No. Therefore none of the following questions are applicable.

1. Under what conditions could such debit positions occur?

(a) Do these conditions always result in debit positions in securities accounts rather than failed transactions? If not, please explain the basis for differential treatment by the SSS.

(b) Are these situations covered explicitly by the Rules and Procedures of the SSS?

2. How long can such debit positions last? How long do they typically last?

3. How are debit positions in securities account prevented, rectified or managed?

4. What procedures would be followed by the SSS in case the debit cannot be rectified? (e.g. failure by a participant with a debit balance in a securities account or unavailability of

the securities in the market)

(a) Application of loss-sharing provisions allocating the loss to participants?

(b) Absorption of the loss by the SSS?

(c) Other? Please specify

**B. UNDER WHAT CIRCUMSTANCES DOES THE SSS PROVIDE FOR THE LENDING OF SECURITIES TO ENSURE SETTLEMENTS?**

The SSS does not act as principal in securities lending or borrowing. It merely operates a securities lending system and administers the collateral involved in securities lending operations done through its system.

1. Is the process for lending securities automatic? If not, please describe the procedures used by the SSS to determine whether a securities loan will be made.

There is an automatic securities lending program that is part of the daily settlement process. If a trade remains unsettled at the end of the day, the SSS tries to close a securities loan (an automatic loan) on behalf of the seller that did not deliver. If this attempt is successful, the transaction is settled and the seller has an obligation to a securities lender.

2. At what point are participants notified that securities are being lent to them in order to complete their settlements?

All parties involved are notified at the end of the day. See [VII-B-1] above.

3. Which securities on deposit at the SSS are eligible for lending? Do participants have the option to make securities available for lending or is it mandatory?

DEBT: Government and bank securities.

EQUITIES: There are five marketability categories: high, medium, low, minimum and null. Equities in the top three categories are eligible.

Securities lending is optional for participants.

4. Are lent securities identified by the SSS with specific participants as lenders or only with a common pool of securities available for lending? Does the participant whose securities are lent become a principal to the transaction?

Lent securities are identified with specific participants as lenders.

Broker-dealers may lend securities as principals or on behalf of their clients.

Banks are only allowed to lend securities acting as principals.

**C. HOW DOES THE SSS SETTLE BACK-TO-BACK TRANSACTIONS?**

Currently, INDEVAL does not settle back-to-back transactions. A mathematical optimization algorithm is in the planning stages, which will allow settling back-to-back transactions in the near future.

None of the following questions are applicable.

1. Under what conditions are delivery instructions by participants receiving and redelivering securities on the same day under back-to-back transactions settled for same-day value?

(a) Only if the participant has securities on deposit with the SSS that have been received pursuant to a final securities transfer?

(b) If the participant has securities on deposit with the SSS that have been received pursuant to a provisional securities transfer?

(c) Before securities have been received either provisionally or finally, but when a matched receipt instruction exists for the same or greater value? Is such a practice limited to markets where matching is binding?

(d) Before securities have been received either provisionally or finally, but when a third party has promised to deliver to the SSS securities of the same or greater value? Must the provider of the guarantee have itself received the securities through a final transfer? Please describe how the SSS evaluates such promises, and whether they are addressed by the written Rules and Procedures of the SSS.

(e) Other? Please specify.

2. Please describe limits or controls in place with respect to any of the above arrangements for the settlement of back-to-back transactions, including limits on amounts involved or related to the liquidity of the underlying securities.

3. Under what conditions are payment instructions by participants in the SSS under back-to-back transactions settled for same-day value? Can participants use the proceeds of an on-delivery of securities without the need for an extension of credit?

## VIII. RISK CONTROL MEASURES

### **A. PLEASE DESCRIBE THE ROLES AND RESPONSIBILITIES OF THOSE AREAS OF THE SSS RESPONSIBLE FOR RISK MANAGEMENT AND CONTROL.**

INDEVAL does not have specialized areas for risk management and control because it is not a Clearing House. It does, however, continuously monitor the performance of its participants to help them solve any settlement problem they have. The SSS also analyzes any possible measures or market practice that may result in settlement or in systemic risk and makes every effort to prevent them. Typically, this is done in coordination with the financial authorities.

See section [V].

1. Please describe the process for the internal review of risk management policies and



procedures.

Not applicable.

2. Is there a risk management policy that addresses the review and approval of new products and services offered by the SSS? At what level of the organization is risk management approval granted for a new product or service?

A new product or service is given a great deal of attention by each one of the SSS areas involved and thoroughly analyzed to assess its effects on the market and on the participants. The new product also requires approval by the board of directors. Typically, any new product or service requires modification of the SSS Rules and Procedures and therefore must be authorized by the financial authorities.

3. Does the SSS have a risk management function with clear independence from and authority over operational or marketing functions?

Not applicable. See [VIII-A] above.

4. Does the Board of Directors review risk management policies and procedures? Does the Board have a risk management or audit committee?

The Board of Directors does not have a risk management or audit committee. However, there is a statutory auditor on the Board of Directors, who is in charge of reviewing risk management policies and procedures, which are also reviewed by the internal and independent auditors.

**B. PLEASE DESCRIBE ANY INTERNAL OR EXTERNAL AUDITS OR SUPERVISORY/REGULATORY EXAMINATIONS THAT ARE PERFORMED WITH RESPECT TO THE SSS. FOR EACH SUCH AUDIT OR EXAMINATION, PLEASE ADDRESS THE FOLLOWING QUESTIONS.**

The following types of audits are performed:

- External financial audit
- External legal audit
- External operating and systems audits
- Internal audits

1. Who performs the audit or examination?

The external financial audit and operating and system audits are performed by Arthur Andersen & Co.

The external legal audit is performed by the law firm Gutiérrez Díaz de Rivera y Torres, S.C.

There are also external operating and systems audits conducted by the CNBV.

Internal audits are performed by the Internal Auditing Department.

2. What is the scope of the audit or examination?

(a) Please indicate whether and how it addresses the sufficiency of and compliance with internal controls.

External financial audit. Audit scope includes review of financial transactions on a random basis, according to audit standards. Every six months a physical count of

all securities deposited at the SSS is performed, in conjunction with the Internal Auditing Department.

EXTERNAL Legal Audit. Examination scope includes review of all contracts signed by the SSS with all customers, suppliers or any third parties.

EXTERNAL operating or systems audits. Audit scope includes review of a specific item in relation to daily operations or system administration. The CNBV verifies that INDEVAL complies with the Rules and Procedures as defined in the Securities Market Act and secondary regulations issued by the CNBV.

Internal audits. Internal audit examinations are focused on the following matters:

Review of all transactions related to securities deposit and settlement, administration and execution of rights and securities lending activity.

Internal control review is performed based on the annual program, for all departments of the SSS.

Special attention is devoted to the systems department, in order to guarantee adequate performance, security, backup, contingency and recovery plans.

Written confirmation from all SSS customers is obtained to verify quantity and value of all securities deposited, as well as receivable balances. Individual confirmations and summary results are provided to the independent auditors.

Operational audits are conducted for all departments to improve efficiency and reduce cost.

Monthly financial statements are reviewed to verify quality, sufficiency and opportunity of the information provided to the Board of Directors every two months.

There is follow-up on all recommendations from independent auditors, legal and financial, as well as internal audits.

*(b) Please indicate whether and how it addresses the SSS's compliance with its own Rules and Procedures.*

EXTERNAL FINANCIAL AUDIT. The independent auditor's opinion is presented every year to the Stockholders' Meeting, Board of Directors, CEO and authorities.

EXTERNAL LEGAL AUDIT. Legal audit opinion is also presented to the Stockholders' Meeting, Board of Directors, CEO, independent auditors, the internal auditing department and authorities.

*3. What is the frequency of the audit or examination?*

External financial and external operating and system audits. A preliminary review is conducted during the last quarter and the final audit is performed at year-end.

External Legal Audit is performed during the last quarter of each year, with a

review of compliance of the Securities Market Act, official notices issued by authorities and SSS internal by-laws.

External operating or systems audits are executed at any time the CNBV deems appropriate.

Internal audits are performed on an ongoing basis.

*4. Are audit or examination reports available for review by participants?*

Copies of reports are provided to the Chairman of the Board of Directors, the CEO and to the areas involved in the review, specifically the Internal and External Audit Reports. All these are sent to the CNBV, but are not available to participants.

**C. PLEASE DISCUSS WHETHER THE SSS HAS THE CAPACITY TO VALUE (I.E. MARK TO MARKET) THE SECURITIES THAT IT HOLDS.**

INDEVAL receives the price vectors daily from the Mexican Stock Exchange and from the central bank, which are used to mark to market depositors' securities positions .

*1. Please describe how these valuations are used by risk control systems at the SSS.*

These valuations are used in the administration of collateral for the securities lending program that INDEVAL administers. See section [VII].

They are also used to value the collateral utilized to cover any overdraft in the "cash memorandum accounts" used in the DVP scheme described in [V].

*2. How frequently are securities re-valued?*

The Mexican Stock Exchange and the central bank value securities once a day at the end of the trading cycle. These valuations are sent to INDEVAL as price vectors that will be applied the following day in any valuation process. Once INDEVAL receives the price vectors, they do not change during the day. Throughout each session, every time a collateral is registered at the securities lending program or a bid is closed in this program, this collateral is marked to market applying the price vectors.

*3. What are the sources for security valuations?*

*(a) What outside price or data sources are used.*

Collateral used for settlement and securities lending operation purposes (see section [V]), are valued applying a price vector provided daily by the Mexican Stock Exchange and the central bank.

*(b) If pricing models are used, please describe how the models are chosen and how the model inputs are obtained.*

Price vectors are provided by central bank and by the Mexican Stock Exchange (see [VIII-C-3-a], above).

**D. PLEASE DISCUSS WHETHER THE SSS HAS A LIEN ON THE SECURITIES HELD IN OR TRANSFERRED THROUGH IT.**

It has none. Therefore the following questions do not apply. However, securities held as collateral follow the rules described in VIII-E-1 below.

1. Does the lien apply only to the securities owned by the participants themselves or does it extend to the securities beneficially owned by customers of participants?

2. Under what circumstances and in what manner would such a lien allow the SSS to use the securities?

**E. PLEASE DISCUSS THE CIRCUMSTANCES IN WHICH THE SSS REQUIRES COLLATERAL TO LIMIT OR MITIGATE RISKS.**

See section [V] for a complete description of collateral requirements for settlement transactions, and for securities lending operations.

1. Does the SSS manage its own collateral system?

For the settlement of transactions, a collateral system was developed by INDEVAL and the central bank. The collateral system is jointly managed.

For the securities lending program, the SSS has its own collateral system.

2. Does the SSS share a collateral system with another SSS or payment system?

As mentioned in [VIII-E-1] above, for settlement purposes the collateral system is administered jointly by the SSS and the central bank.

3. Can collateral at the SSS be posted and returned on the same day?

Yes.

4. What types of transaction at the SSS involve the use of collateral?

a) Overdrafts in cash memorandum accounts.

b) Securities lending operations.

5. What are the policies with regard to the type of collateral used or haircuts required?

For settlement purposes, the price vector provided by Bank of Mexico includes a haircut factor. The criteria used by the central bank is described in its secondary regulations.

For securities eligible for lending, the regulations stipulate minimum haircuts for each type of securities used as collateral in a securities loan, as shown in the following table:

<b>SECURITIES ACCEPTED AS COLLATERAL ⇄</b>	CASH AND GOVERNMENT DEBT SECURITIES	LETTERS OF CREDIT AND BANK ISSUED SECURITIES	HIGH MARKETABILITY EQUITIES	MEDIUM MARKETABILITY EQUITIES	COMMON MUTUAL FUNDS (VARIABLE INCOME)	COMMON MUTUAL FUNDS (FIXED INCOME)
<b>LENDABLE SECURITIES ↓</b>						

GOVERNMENT DEBT SECURITIES	102	104	120	125	110	105
BANK ISSUED SECURITIES	104	105	122	127	112	107
HIGH MARKETABILITY EQUITIES	110	115	130	135	120	115
MEDIUM MARKETABILITY EQUITIES	115	120	135	140	125	120
LOW MARKETABILITY EQUITIES	120	125	140	145	130	125
MINIMUM MARKETABILITY EQUITIES AND WITHOUT ANY CLASIFICATION CRITERIA	125	130	145	150	135	130

6. How are collateral valuation methodologies developed and reviewed?

See answers to [VIII-C-1], [VIII-C-2] and [VIII-C-3] above.

7. To what extent are collateral policies described in the written Rules and Procedures of the SSS?

Collateral requirements and administration are fully described in the Rules and Procedures of the SSS.

**F. PLEASE DESCRIBE THE SSS'S USE OF LIMITS ON EXPOSURES TO MONITOR OR CONTROL RISK.**

There is a scheme involving credit lines and collateral requirements that limit the level of operation of each participant. For a description see section [V-C].

1. Please explain the types of limit used and the exposures to which they apply.

See section [V-C].

2. Do the limits apply to all participants and/or to other SSS with which the SSS is linked? What are the exceptions to the limits?

They apply to all participants without exception.

3. Do limits apply to participants individually or in the aggregate or both?

They apply to participants individually.

4. Do limits apply to implicit as well as explicit extensions of credit or securities (e.g. when on-deliveries of securities are permitted pursuant to provisional but not final delivery of securities)?

Not applicable.

5. Does the SSS automatically reject transactions that exceed limits or is compliance determined ex post?

The effect of every transaction is determined ex ante. Should limits be exceeded, then the transactions remain pending until all requirements are fulfilled.

6. How are limit policies developed and reviewed?

The central bank has its own procedures to set net debit caps for commercial

banks. These, in turn, have their own policies to grant credit lines to broker-dealers subject to central bank limits.

See section [V] for a complete description of collateral requirements for settlement transactions, and for securities lending operations.

7. To what extent are limit policies described in the written Rules and Procedures of the SSS? Where does additional authority to set or amend limit policies reside?

The application of the limits is described in the SSS Rules and Procedures. However, as mentioned in [VIII-F-6] above, limit policies are determined by the central bank and the commercial banks.

**G. PLEASE DESCRIBE OTHER CONTROLS TO MITIGATE OR REDUCE RISKS AT THE SSS.**

1. Does the SSS or its participants have the capacity to monitor participants' accounts continuously during processing?

The SSS and the financial authorities have the capacity to monitor all participants' accounts on line during every session. Each participant can also monitor its own accounts on line.

2. Is there a special risk control regime that the SSS would apply to a participant known to be experiencing financial difficulties?

No, however special attention is paid to monitoring its accounts and to the settlement of transactions.

3. Does the SSS maintain or administer loss-sharing arrangements other than those applicable to events of default and addressed in Section VI above? Are these loss-sharing pools pre-funded by participants?

No. INDEVAL does not administer any loss-sharing arrangement.

## **IX. OPERATIONAL RISKS**

**A. PLEASE PROVIDE ASSESSMENTS OF THE OPERATIONAL RELIABILITY OF THE COMPUTER AND OTHER SYSTEMS USED BY THE SSS INCLUDING ANY CRITERIA THAT THE SSS USES INTERNALLY FOR THIS PURPOSE.**

1. What is the percentage up-time of the systems used by the SSS?

(a) Whole system overall?

Overall percentage is 97%, during business days.

(b) Broken down by major components? (e.g. communications network, central processing facility)

Communications Network: 99%

Central processing: 96%

Alternative system: 95%

(c) During critical processing periods?

For critical processing periods: 95%

2. Has the SSS experienced major operational problems during the past two years?

There have been three operational problems during the last two years. 1) There was an error in the settlement date being used by the system. The correction took three hours, and resulted in an equal delay in settlement, 2) There was an error in the "mirror" server affecting the main server. The correction took five hours, and resulted in an equal delay in settlement, 3) There was an inconsistency in the information of operations executed at the Stock Exchange. The correction took three hours, and resulted in an equal delay in settlement.

(a) Have settlements been delayed, been disrupted or otherwise failed because of operational problems during this period?

Three times, for three, five and three hours (as mentioned in IX-A-2 above).

There have been minor delays in settlement due to operational problems.

(b) Please describe the nature of any such problems.

The principal cause has been the communications network. However, none of these disruptions can be considered as a major problem.

**B. PLEASE DESCRIBE CONTINGENCY OR DISASTER RECOVERY PLANNING AT THE SSS.**

1. Does the SSS have a formal plan for business continuity in place?

INDEVAL's system incorporates an on-line Software Business Recovery Planning that allows continuous monitoring in order to identify any problem and determine what to do and when to do so.

INDEVAL has total equipment and software redundancy in its main offices.

In addition, INDEVAL has an alternative site, in the event of an interruption of operations at the main office. Once a month, INDEVAL personnel operate entirely at the alternative site in order to be prepared for any contingency. All participants are notified whenever INDEVAL does not operate at its main site.

2. Is this plan available for review by participants?

All participants are informed what to do in case INDEVAL has a problem or contingency, but INDEVAL does not inform them of the entirety of its contingency plan. Only the communication details are given, in order to re-route participants' instructions to the alternative site should it be necessary.

3. How often is this plan tested? Does this involve participants in the SSS?

Once a month, involving participants.

4. What are the major elements of the business continuity plan?

The business continuity plan provides complete redundancy in all aspects. With regard to equipment and software, there are two levels: there is mirror equipment that replicates all operations on line, and there is a remote backup site with slightly

less capacity in equipment and the same software used at the main site.

If the contingency is related to the communications network, the system is automatically switched to an alternate or redundancy network.

Close communication is maintained with the central bank and the CNBV, and total coordination to activate any special measures if necessary.

5. How long would it take the SSS to resume operations if primary systems become unusable?

Resuming operation from the alternative site takes 3 hours.

**C. WHAT ARE THE KEY FEATURES OF THE INTERNAL CONTROLS COVERING OPERATIONS AND SECURITY AT THE SSS (E.G. CHANGE CONTROLS OR THOSE COVERING REMOTE ACCESS)?**

1. Please describe controls or security procedures in place to ensure that the SSS acts only on authentic settlement instructions from valid participants.

**CONTROLS FOR PARTICIPANTS**

The securities administrator of INDEVAL's system (SIDV), assigns unique confidential ID numbers to traders depending on individual policies and rules.

The system is using several validations and a multilevel scheme of passwords:

- a) Remote institution password
- b) Main user password
- c) Area password
- d) User password

Confidential numbers used to access the system may not be duplicated, and there is no limit to the number of users per institution. There is a mathematical algorithm used to change the passwords on a monthly basis; and users are notified when passwords are about to expire so that they can change them.

**CONTROLS FOR PERSONNEL**

Access to the system computer is limited to those personnel authorized by the Systems Director.

Systems personnel have their own password to access the system in test environment, but only the database manager is allowed to modify the system in production environment.

2. Are internal operational and security controls included in the internal and/or external audits of the SSS?

Yes.

3. Are internal operational and security controls covered by regulatory requirements applicable to the SSS?

The system and security procedures listed above were validated and approved by



the CNBV.

**D. DOES THE SSS IMPOSE MINIMUM OPERATIONAL OR PERFORMANCE STANDARDS ON THIRD PARTIES (E.G. COMMUNICATIONS PROVIDERS)?**

Yes. INDEVAL defines in the contracts signed with suppliers the specific product or service and the main features it has to fulfill (product standards or service standards).

**1. How does the SSS ensure that such standards are met on a continuing basis and what sanctions are available to the SSS if they are not?**

The area receiving the product or service has the obligation to check that stipulated standards are met.

In case that stipulated standards are not met by the supplier, INDEVAL may demand from a third party a payment that covers losses incurred due to operational problems. In the contracts it is defined that third parties have the obligation to post a bond guarantee to ensure proper delivery of the product or service to INDEVAL.

**2. How would the SSS allocate losses incurred due to operational problems caused by third parties?**

As a first step, and in order to minimize any losses, INDEVAL uses the cash guarantee given to INDEVAL by the supplier. Then INDEVAL uses part of its capital. Since the first step INDEVAL would bring legal action against the third party, and obtain the necessary funds to cover its capital involved.