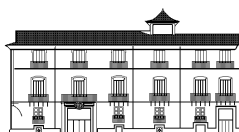


**SERVICIO DE ANOTACIONES EN CUENTA
Y LIQUIDACION**

&



VALENCIA STOCK EXCHANGE



Answer to Questions on

**Disclosure Framework for
Securities Settlement Systems**

From IOSCO and CPSS

julio 1998



CONTACT POINT

By the Valencia Stock Exchange and the Servicio de Anotaciones en Cuenta y Liquidacion this document is a response to the “Disclosure Framework for Securities Settlement Systems”, which is jointly initiated by the International Organization of Securities Commissions and the Committee on Payment and Settlement Systems of the central banks of the Group of Ten countries in March 1997.

The Disclosure Framework is structured in the form of a questionnaire which operators of the Securities Settlement Systems (SSS) would complete. This Framework does not necessarily identify all information that the SSS should disclose in the light of its individual facts and circumstances and therefore it may be necessary for participants to discuss issues directly with the SSS to obtain a full understanding of the system.

Please note that the answer in this paper is intended to provide general reference only and is no way legally binding.

Should you need further information and those who may wish to discuss the response itself or any related issues, please do not hesitate to contact me:

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INTRODUCTION

The Committee on Payment and Settlement System of the central banks of the Group of Ten (G-10) countries (CPSS) and the International Organization of Securities Commissions (IOSCO) have demonstrated a shared concern with regard to clearance and settlement practices throughout the world. Both the CPSS and IOSCO believe that common interests in the efficiency and risk management of securities settlement systems can be advanced through collective initiatives. Consequently, in 1996 the CPSS and IOSCO formed a joint working group to develop a disclosure framework for securities settlement systems. The working group consisted of securities settlement system operators, including both official and private sector representatives, securities regulators and central bankers. Both developed and emerging markets were represented in the working group.

The goal of developing a disclosure framework for securities settlement systems (SSSs) builds on important prior work undertaken by the CPSS and IOSCO to identify risks associated with securities settlement. The 1992 CPSS **report Delivery versus Payment in Securities Settlement Systems** (DVP Report) defines and analyses the types and sources of risk associated with settlements between direct participants in a single settlements system. This report also clarifies the meaning of delivery-versus-payment (DVP) mechanism and describes three common approaches to achieving DVP, each of which entails different risks to market participants.

The **Cross-Border Securities Settlements report** (Cross-Border Report), prepared by the CPSS in 1995, expands on the DVP Report by analyzing the channels that market participants use to complete cross-border securities transactions. This report outlines the different risks that may be present in these arrangements, even in those cases where DVP is achieved, including replacement cost risk, liquidity risk, cash risk, deposit risk and systemic risk. In particular, the report highlights the fact that custody risk will be present whenever market participants hold their securities through an intermediary, a standard practice for non-residents attempting to settle cross-border transactions.

The Cross-Border Report stresses the importance of understanding the nature of the custody risk, as well as the procedures used to effect back-to-back settlements and cross-system settlements in the cross-border context. The report concludes that the complexity of relationships between the multiple intermediaries associated with cross-border settlements poses challenges to the oversight of domestic markets and settlement systems. It notes that the most basic challenge stems from lack of transparency in cross-border securities settlement arrangements.

In 1990, IOSCO published a report in which it endorsed and supported the prompt implementation of **nine recommendations by the Group of Thirty**, such as shortening



the time between trade date and settlement and assuring the simultaneous exchange of payment and securities. Successive reports on their implementation have also been prepared (1993, 1994, 1995 and 1996). In 1992, IOSCO published a document entitled **Clearing and Settlement in Emerging Markets - A Blueprint**, to facilitate the development of centralized, automated SSSs.

More recently, IOSCO's 1996 **Report on Cooperation Between Market Authorities and Default Procedures** (IOSCO Report) determines that transparency of market default procedures is important in that it provides certainty and predictability to market participants, facilitates orderly handling in case of an actual default and enables market participants to make an informed assessment about markets.

These reports, as well as other work undertaken by the CPSS and IOSCO, have consistently emphasized the importance of transparency of market mechanisms. At the same time, however, growth in worldwide settlements volumes and greater use of financing transactions have required settlement system operators to develop processes for more rapid exchange of securities and funds and more efficient linkages between systems. Moreover, as prior reports have shown, apparent similarities in the technologies employed and services offered can mask significant differences in securities settlement arrangements, as well as in the approaches taken to the management of the associated risks.

Therefore, it is critical that participants in the securities markets carefully examine the rules and operating procedures and practices of each system, as well as the governing law, underlying custody arrangements and linkages across the systems. While much relevant information of this type is publicly available, it is often contained only in extensive, detailed handbooks of rules and procedures. A number of SSSs do publish informative pamphlets for their participants, but these can take a variety of forms, making it difficult for participants to assess similarities or differences in the risk management approaches used by the different systems.

To assist market participants in identifying important risks associated with their participation in SSSs, the CPSS and IOSCO therefore determined that it would be beneficial to develop jointly a disclosure framework that system operators and participants could use to gain a clearer understanding of the rights, obligations and exposures associated with SSSs. The CPSS and IOSCO welcomed the participation of a number of private sector SSS operators in the development of the disclosure framework.

The framework is intended to be completed by SSS operators for the information and benefit of their direct participants, both current and potential, as well as for indirect participants. It is not intended as an attempt to set prescriptive standards for SSSs, as a replacement for the rules and procedures of the SSS or as a legal representation or binding contract. Moreover, the framework does not necessarily identify all information that the SSS should disclose in the light of its individual facts and circumstances and therefore it may be necessary for participants to discuss issues directly with the SSS to obtain a full understanding of the system. The framework should, however, help market



participants and regulators to organize and understand the information that they need in order to appraise the risks, including any systemic risks, potentially associated with SSSs.

While the framework focuses on the risks of direct participation in SSSs, it is clear that many of the same issues arise in connection with the relationships between market participants and local or global custodians. Therefore, while this framework is not intended to cover the specific aspects of these relationships, it may be helpful as a point of reference for those using the services of custodians as well.



GLOSSARY

The following glossary of terms is not intended to provide legally precise definitions for all relevant jurisdictions. Rather, by clarifying the usual meaning of various terms, it is intended as a tool to help in answering the questions in the disclosure framework and in understanding the responses to those questions.

Back-to-back trades: a pair of transactions that requires a counterparty to receive and redeliver the same securities on the same day. The transactions involved may be outright purchases and sales or collateral transactions (repurchase agreements or securities loans). For example, a securities dealer might buy and sell the same securities for the same settlement date in the course of making markets for customers or it might buy securities for inventory and finance the position through a repurchase agreement.

Beneficial ownership/interest: entitlement to receive some or all of the benefits of ownership of a security or a financial instrument (e.g. income, voting rights, power to transfer). Beneficial ownership is usually distinguished from „legal ownership” of a security or a financial instrument.

Bilateral netting: netting between two parties.

Book-entry system: an accounting system that permits the electronic transfer of securities without the movement of certificates.

Bridge: the “bridge” is the name commonly used for the link between Euroclear and Cedel that permits cross-system settlement of a trade between a participant in one ICSD and a participant in the other ICSD.

Cash correspondents: banks (or similar institutions) used by the SSS to make or receive payments.

Cash deposit risk: the credit risk associated with the holding of funds with an intermediary for the purpose of settling securities transactions.

Cash memorandum accounts: records kept by the SSS of the funds due to be paid to or received by participants in conjunction with their securities settlements; the records are for information purposes only and do not represent legal claims or liabilities between the SSS and its participants.

Central securities depository (CSD): an institution for holding securities which enables securities transactions to be processed by means of book entries. Physical securities may be immobilized by the depository or securities may be dematerialized (so that they exist only as electronic records).



Certificate: the document which evidences the undertakings of an issuer of a security or financial instrument.

Chaining: a method used in certain settlement systems for processing transfers. It involves the manipulation of the order in which transfers are processed to increase the number or value of transfers that may be settled with available securities and funds balances (or available credit lines).

Clearance: the term „clearance” has two meanings in the securities markets. It may mean the process of calculating the mutual obligations of market participants, usually on a net basis, for the exchange of securities and money. It may also signify the process of transferring securities on the settlement date, and in this sense the term „clearing system” is sometimes used to refer to securities settlement systems. In this disclosure framework, the term is used only in the first sense.

Collateral: an asset or third party commitment that is accepted by the collateral taker to secure an obligation of the collateral provider vis-à-vis the collateral taker.

Confirmation: the process by which a market participant notifies its customers of the details of a trade and allows the customer to positively affirm or question the trade.

Counterparty: one party to a trade.

Credit risk: the risk that a counterparty will not settle an obligation for full value, either when due or at any time thereafter. Credit risk includes replacement cost risk, principal risk and cash deposit risk.

Cross-border settlement: a settlement that takes place in a country other than a country in which one trade counterparty or both are located.

Custodian: an entity, often bank, that safekeeps and administers securities for its customers and that may provide various other services, including clearance and settlement, cash management, foreign exchange and securities lending.

Custody-only link: a link between two SSSs which enables transactions in securities held in SSS1 to be settled using SSS2 (rather than SSS1) when the buyer and seller are both participants in SSS2. Custody-only links do not provide for the transfer of funds between SSS1 and SSS2 and cannot be used to settle transactions between a participant in SSS1 and a participant in SSS2.

Custody risk: the risk of loss of securities held in custody occasioned by the insolvency, negligence or fraudulent action of the custodian or of a sub-custodian.

Customer: a buyer, seller or holder of securities and financial instruments that does not participate directly in a system. A participant’s holdings in a system often include



securities and financial instruments of which the participant's customers are the beneficial owners.

Daylight credit (or daylight overdraft, daylight exposure, intraday credit): credit extended for a period of less than one business day, in a credit transfer system with end-of-day final settlement, daylight credit is tacitly extended by a receiving participant which accepts and acts on a payment order, even though it will not receive final funds until the end of the business day.

Debit balance: see net debit position.

Default: failure to complete a funds or securities transfer according to its terms for reasons that are not technical or temporary, usually as a result of bankruptcy. Default is usually distinguished from a "failed transaction".

Delivery: final transfer of a security or financial instrument.

Delivery versus payment: a link between a securities transfer system and a funds transfer system that ensures that delivery occurs if, and only if, payment occurs.

Dematerialisation: the elimination of physical certificates or documents of title which represent ownership of securities so that securities exist only as accounting records.

Depository receipt: an instrument issued in one country that establishes an entitlement to a security held in custody in another country.

Domestic settlement: a settlement that takes place in the country in which both counterparties to the trade are located.

Domestic trade: a trade between counterparties located in the same country.

Failed transaction: a securities transaction that does not settle on the contractual settlement date, usually because of technical or temporary difficulties.

Finality risk: the risk that a provisional transfer of funds or securities will be rescinded.

Final transfer: an irrevocable and unconditional transfer which effects a discharge of the obligation to make the transfer. The terms "delivery" and "payment" are each defined as a final transfer. See provisional transfer.

Forced settlement: securities or funds settlement that is either mandated or enforced by the actions of a third party.

Global custodian: a custodian that provides its customers with custody services in respect of securities traded and settled not only in the country in which the custodian is located but also in numerous other countries throughout the world.



Gridlock: a situation that can arise in a funds or securities transfer system in which the failure of some transfer instructions to be executed (because the necessary funds or securities balances are unavailable) prevents other instructions from being executed on the scheduled date.

Gross settlement system: a transfer system in which the settlement of funds or securities transfer instructions occur individually (on an instruction-by-instruction basis).

Haircut: the difference between the market value of a security and its collateral value. The haircut is intended to protect a lender of funds or securities from losses owing to declines in collateral values.

Immobilization: placement of certificated securities and financial instruments in a central securities depository to facilitate book-entry transfers.

Internal settlement: a settlement that is effected through transfers of securities and funds on the books of a single intermediary. An internal settlement requires both counterparties to maintain their securities and funds accounts with the same intermediary.

International central securities depository (ICSD) : a central securities depository that settles trades in international securities and in various domestic securities, usually through direct or indirect (through local agents) links to local CSDs.

Irrevocable transfer: a transfer which cannot be revoked by the transferor.

Issuer: the entity that is obligated on a security or financial instrument.

Issuing agent: an institution that acts on behalf of the issuer of securities in distributing the securities and in realising the proceeds thereof for the benefit of the issuer.

Legal ownership: recognition in law as the owner of a security or financial instrument.

Legal risk: the risk of loss because of the unexpected application of a law or regulation or because a contract or other right cannot be enforced.

Liquidity risk: the risk that a counterparty will not settle an obligation for full value when due, but on some unspecified date thereafter.

Local agent: a custodian that provides custody services for securities traded and settled in the country in which it is located to trade counterparties and settlement intermediaries located in other countries (non-residents).



Local custodian: a custodian that provides custody services for securities traded and settled in the country in which the custodian is located. See global custodian.

Loss-sharing agreement: an agreement among participants in a clearing or settlement system regarding the allocation of any losses arising from the default of a participant in the system or of the system itself.

Loss-sharing pools: cash, securities or possibly other assets that are provided by the participants in advance and are held by the system to ensure that commitments arising from loss-sharing agreements can be met.

Marking to market: the practice of revaluing securities and financial instruments using current market prices. In some cases unsettled contracts to purchase and sell securities are marked to market and the counterparty with an as yet unrealized loss on the contract is required to transfer funds or securities equal to the value of the loss to the other counterparty. See variation margin.

Matching (or comparison, checking): the process for comparing the trade or settlement details provided by counterparties to ensure that they agree with respect to the terms of the transaction. Settlement instructions that have been successfully matched between counterparties are referred to as matched settlement instructions. In some securities settlements systems, penalties may apply to participants that unilaterally revoke matched settlement instructions. In other systems, unilateral revocation of matched settlement instructions may not be possible.

Member: in this disclosure framework, the term is used synonymously with participant. See participant.

Multilateral netting: netting among more than two parties.

Net credit or net debit position: a participant's net credit or net debit position in funds or in a particular security is the sum of all the transfers it has received up to a particular time less the transfers it has sent; if this sum is positive, the participant is in a net credit position, if the sum is negative, it is a net debit position. The net credit or net debit position at settlement time is called the net settlement position. These positions may be calculated on a bilateral or multilateral basis.

Net settlement: a settlement in which a number of transactions between or among counterparties are settled on a net basis.

Netting: an agreed offsetting of mutual positions or obligations by trading partners or participants in a system. The netting reduces a large number of individual positions or obligations to a smaller number of positions. Netting may take several forms which have varying degrees of legal enforceability in the event of default of one of the parties.



Nominee: a person or entity named by another to act on his behalf. A nominee is commonly used in a securities transaction to obtain registration and legal ownership of a security.

Obligation: a duty imposed by contract or law. It is also used to describe a security or financial instrument, such as a bond or promissory note, which contains the issuer's undertaking to pay the owner.

Omnibus customer account: an account in which the securities held by the participant on behalf of all (or at least several) of its customers are kept. See also proprietary account, segregation.

Participant: a party which participates in a system. This generic term refers to an institution which is identified by the system and is allowed to send transfer instructions directly to the system or which is directly bound by the rules governing that system.

Paying agent: an institution that, acting on behalf of an issuer, makes payments to holders of securities (e.g. payments of interest or principal).

Payment: the satisfaction and discharge of a monetary obligation by the debtor's final transfer of a claim on a party agreed to by the creditor. Typically, the party is a central bank or a commercial bank.

Position netting: the netting of instructions in respect of obligations between two or more parties which neither satisfies nor discharges those original obligations. (Also referred to as payment netting in the case of payment instructions).

Pre-matching process: process for comparison of trade or settlement information between counterparties that occurs before other matching or comparison procedures. Generally, pre-matching does not bind counterparties as matching can do.

Principal risk: the risk that the seller of a security delivers a security but does not receive payment or that the buyer of a security makes payment but does not receive delivery. In this event, the full principal value of the securities or funds transferred is at risk.

Proprietary accounts: an account in which a participant holds only those securities it is holding on its own behalf (as opposed to those securities it is holding on behalf of its customers). See also omnibus customer account, segregation.

Provisional transfer: a conditional transfer in which one or more parties retain the right by law or agreement to rescind the transfer.

Real time: the processing of instructions on an individual basis at the time they are received rather than at some later time.



Registration: the listing of ownership of securities in the records of the issuer. This task is often performed by an official registrar/transfer agent.

Replacement cost risk: the risk that a counterparty to an outstanding transaction for completion at a future date will fail to perform on the settlement date. This failure may leave the solvent party with an unhedged or open market position or deny the solvent party unrealised gains on the position. The resulting exposure is the cost of replacing, at current market prices, the original transaction.

Repurchase agreement (repo): a contract to sell and subsequently repurchase securities at a specified date and price. Also known as an RP or buyback agreement.

Rolling settlement: a situation in which a settlement of securities transactions takes place each day, the settlement of an individual transaction taking place a given number of days after the deal has been struck. This is in contrast to a situation in which settlement takes place only on certain days, for example, once a week or once a month, and the settlement of an individual transaction takes place on the next settlement day (or sometimes the next but one settlement day) following the day the deal is struck.

Same-day funds: money balances that the recipient has a right to transfer or withdraw from an account on the day of receipt.

Securities borrowing and lending programme: a facility whereby a loan of securities is made to facilitate timely fulfilment of settlement obligations.

Securities depository: see central securities depository (CSD).

Securities settlement system (SSS): a system in which the settlement of the securities takes place. Often the SSS is a CSD.

Segregation: optional or compulsory separation of the securities held by a participant on its own behalf from those held on behalf of its customers. See also omnibus customer account, proprietary account.

Self-collateralising: an arrangement whereby securities being transferred can be used as collateral to secure risks involved in the transfer process.

Settlement: the completion of a transaction, wherein the seller transfers securities or financial instruments to the buyer and the buyer transfers money to the seller.

Settlement date: the date on which the parties to a securities transaction agree that settlement is to take place. The intended date is sometimes referred to as the contractual settlement date.



Settlement interval: the amount of time that elapses between the trade date (T) and the settlement date (S). Typically measured relative to the trade date, e.g. if three days elapse, the settlement interval is T+3.

Settlement risk: general term used to designate the risk that settlement in a transfer system will not take place as expected. This risk may comprise both credit and liquidity risk.

Sub-custodian: where one custodian (e.g. a global custodian) holds its securities through another custodian (e.g. a local custodian), the latter is known as a sub-custodian.

Substitution: the process of amending a contract between two parties so that a third party is interposed as an intermediary creditor/debtor between the two parties and the original contract between the two parties is satisfied and discharged.

Systemic risk: the risk that the inability of one situation to meet its obligations when due will cause other institutions to be unable to meet their obligations when due.

Trade date: the date on which a trade/bargain is executed.

Trade-for-trade (gross) settlement: a settlement in which a number of transactions between counterparties are settled individually.

Trade matching: see matching.

Trade netting: a legally enforceable consolidation and offsetting of individual trades into net amounts of securities and money due between trading partners or among members of a clearing system. A netting of trades which is not legally enforceable is a position netting.

Transfer: an act which transmits or creates an interest in a security, a financial instrument or money.

Unwind: a procedure followed in a certain clearing and settlement systems in which transfers of securities and funds are settled on a net basis, at the end of the processing cycle, with all transfers provisional until all participants have discharged their settlement obligations. If a participant fails to settle, some or all of the provisional transfers involving that participant are deleted from the system and the settlement obligations from the remaining transfers are then recalculated. Such a procedure has the effect of allocating liquidity pressures and losses from the failure to settle to the counterparties of the participant that fails to settle. Unwinds can be distinguished from debits to securities accounts that do not imply the original transfer is rescinded (e.g. in cases where securities are discovered to be forged or stolen).



Variation margin: the amount which is paid by a counterparty to reduce replacement cost exposures resulting from changes in market prices, following the revaluation of securities or financial instruments that are the subject of unsettled trades.

Zero-hour rule: a provision in the insolvency law of some securities whereby a bankruptcy or similar procedure declared by a court during the day is considered to have been declared at 0.00 a.m. of the same day. This generally has the effect of retroactively rendering ineffective all transactions of the closed institution that have taken place after 0.00 a.m. on trade date.



I. BASIC INFORMATION

The sections below are intended to elicit important information from SSSs in the areas of organizational structure and market context, ownership arrangements, rules and procedures, relationships with participants, links to other SSSs and intermediaries, procedures for funds and securities transfers, default procedures, settlement of back-to-back transactions, risk control measures and operational risks. The disclosure framework is structured in the form of a questionnaire which SSSs would complete. The CPSS and IOSCO encourage SSSs to complete the questionnaire and make their responses available to market participants, regulators and other interested parties. To ensure that the information in their responses to the questionnaire remains accurate, SSSs would also need to review their responses periodically, at least annually, and make appropriate changes if necessary. The questionnaires completed by SSSs would therefore serve to increase the transparency of their operations to the market-place.

This section addresses a number of fundamental features of the SSS, and provides the market context for its operation. The questions establish the basic functions of the SSS, including the securities for which it provides settlement services, as well as whether the SSS offers other services. Questions on the organizational and ownership structure of the SSS elicit information on its legal basis and corporate governance.

A wide variety of organizational structures and business functions are possible for SSSs. For example, systems may be owned by central banks, by their participants or by an independent private sector entity that may or may not be operated for profit. It is helpful to distinguish the type of ownership, the organizational and decision making structure of the SSS and the financial resources of the SSS, as well as the supervisory oversight to which the system is subject, as a first step in clarifying the respective responsibilities of all relevant parties.



What is the name of the Securities Settlement System (SSS)?

The name of the SSS is “Servicio de Anotaciones en Cuenta y Liquidación” (Book Entry and Settlement Service), using the initials SACL for short.

B. Where and in which time zone is the SSS located?

The SACL is located in Valencia (Spain) and is operative in the CET time zone (Central European Time).

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Telephone: 963870132

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C. What function does the SSS perform?

El SACL performs the following functions:

- a. Keeping of accounting records for securities represented by means of book-entries admitted for negotiation only on the Valencia Stock Exchange (VSE), as well as for those for which admission has been requested or is going to be requested.
- b. Keeping of accounting records for those securities which have not been admitted for negotiation on the Stock Exchange (OTC values).
- c. Exclusive management of clearing and settlement of securities and funds deriving from negotiation on VSE, of the securities admitted only on VSE.
- d. Fulfilment and execution of agreements with entities devoted to keeping accounting records of securities or to the clearing and settlement of securities.

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

The SACL provides central registration services of dematerialised securities and clearing and settlement services of securities and assets (Securities Settlement System service). It also keeps the registry book of stockholders on behalf of the issuers.

It does not perform the role of Global Custodian, or of Safekeeping for physical certificates.

(a) What types of instrument are eligible for deposit at the SSS?

The values which are registered in the SACL are as follows:



- a. Debt and Promissory Notes (3, 6, 12 and 18 months) issued by the Government of the Generalitat Valenciana (PGVs).
- b. Private Fixed Yield Securities (Bonds and Obligations).
- c. Stocks issued by private issuers, Security Investment Companies (SIM) and Security Investment Companies of Variable Capital (SIMCAV).

(b) What types of instrument are eligible for transfer within the SSS?

All the securities registered in the SACL, see I.C.1.(a).

(c) Please describe whether eligible securities are dematerialised, immobilised or transferred physically.

All the securities registered in the SACL are represented by book entries (dematerialised), these accounting records (registration references, RRs) certifying their ownership. According to Law 24/1988, of the Stock Market, all securities negotiated on Spain Stock Exchange should be represented by book entries. Therefore, all the securities of the SACL are totally dematerialised in a book-entry type system.

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

The SACL does not perform the functions of safekeeping for physical certificates.

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

The SACL provides:

- a. securities position accounts: for each participant and security, which reflect the balance of securities credited to each participant, differentiating proprietary account and third-party account.
- b. provisional settlement accounts: where the position in which operations pending settlement is kept.
- c. cash memorandum account: the SACL does not keep cash accounts for participating entities, however, it uses cash memorandum accounts for the implementation of BIS model 2. These accounts record the credit and debit movements, in pesetas, resulting from operations and are updated as soon as possible, so that they represent an accurate record as an advance on the cash settlements in accounts opened in a commercial bank (the Bank of Spain is



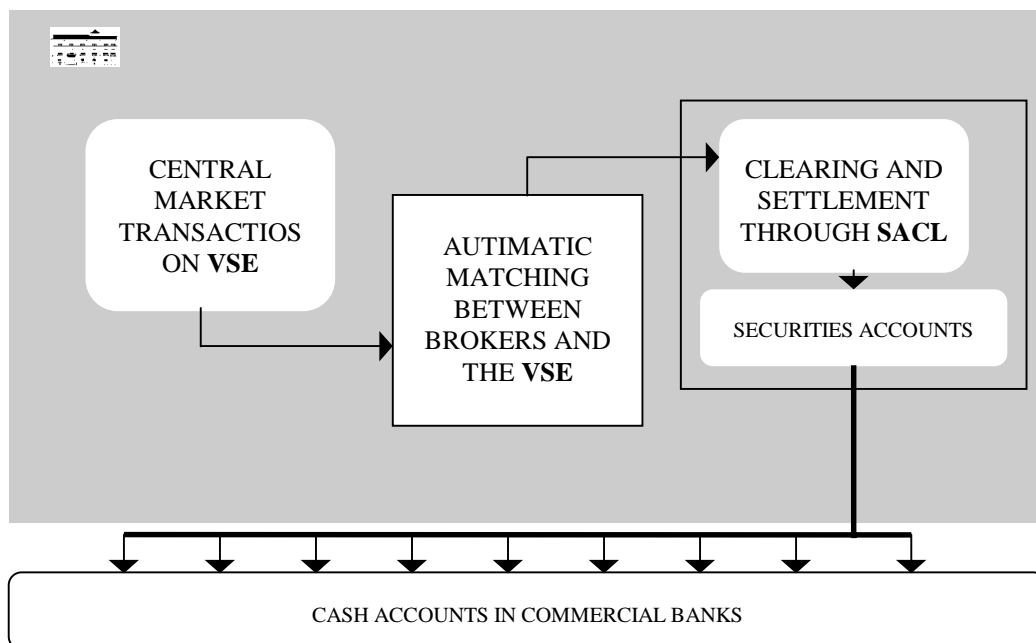
not used for the cash settlements) in favour of the SACL and with its approval, so that it can assign these debits and credits.

The Objective of the SACL, in any case, is that of ensuring Delivery Vs Payment.

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

The transactions of OTC domestic securities are confirmed and so the information referring to them is checked directly among the participants. The SACL does not keep this information.

For other securities admitted only for negotiation on VSE, the SACL does not provide trade matching services. Once the negotiation has taken place on the floor of VSE, VSE informs the SACL of the terms (See diagram below).



4. Does the SSS provide trade netting services? Do others provide such services for securities settled at the SSS? In either case, what types of netting, if any, are performed?



The SACL settles operations on a multilateral netting service with finality on the morning of T+3, i.e. clearing is multilateral through the SACL.

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

The SACL, in accordance with its Organisation and Functioning Regulations, can operate programmes of lending and repurchase of securities. However, in view of the fact that the registered securities have very little liquidity, these are not operative at the moment, with a procedure defined only in the case of repurchases.

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

Through the SACL, certificates of position of participant entities will be generated in cases in which perception of a right is applied to the set of securities from the same issue, and in proportion, so that it can be based on the global position of the entity, such as amortizations by reduction of face value, reduction of capital through reduction of face value (when there is cash payment for the stockholder), payment of dividends and interest, collection of passive dividends, single or final amortization or amortization on request, rights issue, separation of warrants, changes in face value in N x M proportion and trade-offs and conversions.

The certificates will indicate the position of the entity at the time of registration for the exercise of the corresponding economic rights to the issuer or to the designated issuing agent.

El SACL provides the service of keeping the register of stockholders on behalf of issuers, inclusion and exclusion of securities, register of non-admitted securities.

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

No, the SACL never acts as a central counterparty or principal in any transaction performed in its system.

8. Others? Please specify.

Not applicable.

D. What type of organisation is the SSS?



The SACL constitutes a specific service of VSE, directed by its Chief Executive and a Service Manager.

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

The SACL is a private sector service of VSE.

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

The resources of the SACL will be those necessary to carry out its functions (see I.C.), with the aim of covering operative costs.

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

The SACL constitutes a specific service of VSE, under the protection of national legislation:

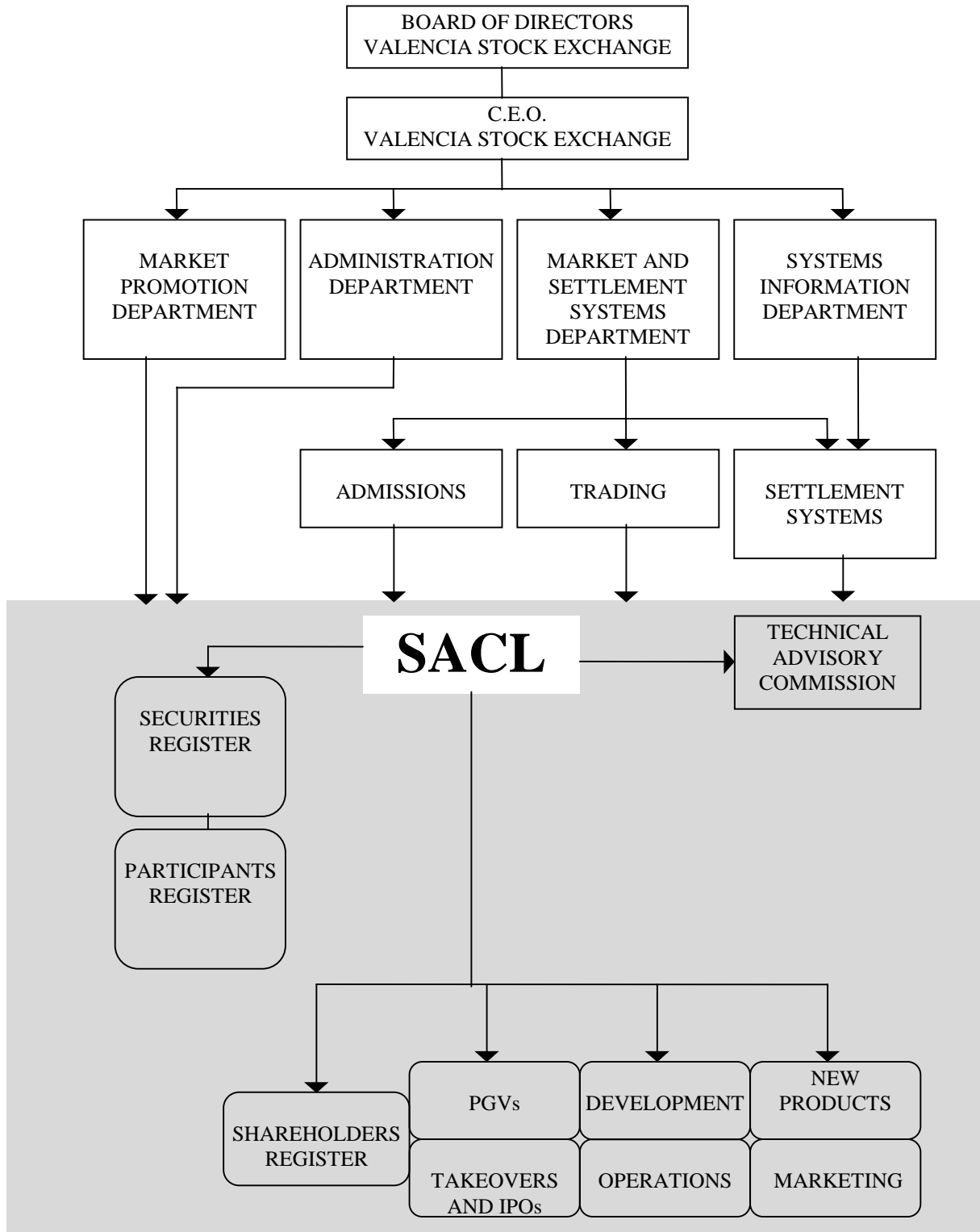
- a. article 54, second paragraph of Law 24/1988 of 28 July of the Stock Market.
- b. Royal Decree 116/1992, of 14 February, on representation of securities by means of book entries and clearing and settlement of stock exchange operations.

And on the basis of regional legislation in this respect:

- c. Decree 147/1991, of 29 August, of the Consell de la Generalitat Valenciana (Valencian Regional Government).
- d. Order of 27 April 1993, of the Consellería de Economía y Hacienda (Department of Economy and Income Tax).

E. Please describe and provide a diagram outlining the organisational and ownership structure of the SSS.

See next page.





1. Who are the owners of the SSS?

VSE is the owner of the SACL.

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

VSE is the operator of the SACL.

The Department of Markets and Settlement Systems of VSE provides the administrative information necessary for the SACL to proceed with the continuous updating of the different registers, accounts and lists with the aim of carrying out the registration, modification or withdrawal of the securities in the central register as well as the settlement and clearing of stock market operations.

The Department of Information Systems of VSE provides the technological equipment and development of new applications which facilitate linkages between the SACL and the participating entities.

The Department of Administration of VSE draws up the estimated budget of the SACL within the overall budget of VSE.

3. Does the SSS have a Board of Directors?

The SACL is directed by the Chief Executive Officer of VSE and a Service Manager. However, the Board of Directors of VSE can designate a Technical Advisory Commission.

(a) What is its composition?

The Technical Advisory Commission is comprised of 7 members:

- a. The Chief Executive Officer of VSE.
- b. A member who represents the Instituto Valenciano de Finanzas (Valencian Finance Institute) – IVF.
- c. The Manager of the SACL.
- d. Two members who represent Securities and Stock Market Dealers and Brokers members of VSE.
- e. Two members representing Participating Entities of the SACL.



(b) What are its responsibilities?

The Technical Advisory Commission will have, among other functions, that of monitoring, study and consultancy in order to guarantee the continuity and updating of the technical systems, under the principles of maximum efficiency and security.

F. Please describe the financial resources of the SSS.

See I.E.2.

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

Not applicable, the SACL does not have a capital structure, however, in order to participate in the registration and clearing and settlement of securities, it will be necessary for each participating entity to effect a deposit to the SACL.

2. Guarantees, insurance coverage or the other similar arrangements?

The participants of the SACL will effect a collective deposit, which will take the form anticipated in the Real Decreto 116/92, with the aim of taking the collective responsibility for guaranteeing the completion of the operations pending settlement.

The overall amount of the collective deposit and the participation fee of each of the participants is determined by the IVF, in accordance with the data supplied by the SACL. The participants will be contacted by the SACL to notify them of relevant modifications or adaptations. The deposit must be effected within a maximum of two working days from receipt of notification.

3. Credit lines or letters of credit?

See I.C.5

4. Powers to assess participants or equity holders?

The IVF will approve membership of participants to the SACL further to a report drawn up by the SACL, which declares that the participant in question meets the following requirements:



- a. Has appropriate control systems and technical facilities to perform the functions of registration and clearing and settlement.
- b. Passes the tests, checks and minimum levels of functioning.
- c. Meets the technical and functional requirements of intercommunication with participating entities.

G. Please describe whether the SSS or its operator is subject to authorisation, supervision or oversight by an external authority.

The SACL is supervised by the Chief Executive Officer of VSE, the IVF and if the case may be, by the Comisión Nacional del Mercado de Valores (Securities Exchange Commission).



II. RULES AND PROCEDURES OF THE SSS

It is important that SSSs have clear rules and procedures governing all major aspects of their operations. If participants have access to these rules and procedures, they will be able to form clear expectations about the actions of the SSS and will be able to use their understanding to make decisions on that basis. This is particularly important with regard to the resolution of failures to settle or other potential disruptions to the operation of the SSS.

The rules and procedures also typically describe the structures and processes for taking decisions that are at the core of any organization's corporate governance. For SSS operators, the integrity of the decision-making processes and the means for communicating decisions is important to the level of confidence participants have in the system's ability to manage risk fairly and effectively.

The questions below focus broadly on how participants can obtain copies of the SSS's rules and procedures, how participants can provide input to the rules and procedures, how they are notified of changes, the applicability of the rules and procedures to the SSS as well as its participants, and the circumstances under which the rules and procedures can be overridden. Taken together, the questions are intended to provide participants with an understanding of the role that the system's rules and procedures play within the operation of the SSS.



A. Does the SSS maintain a complete list of the rules and procedures governing the right and obligations of participants and the duties of the SSS?

The SACL, in conjunction with VSE, holds full updated Regulations of Organisation and Functioning of the SACL, which are at the disposal of the participants, together with circulars, operating instructions, bulletins and the procedure manual. These set out both the technical and legal responsibilities of the participants as well as those of the SACL. The basic legislation on which the SACL is founded is also available.

1. How can participants obtain a copy of the rules and procedures?

When an entity becomes a participant of the SACL it is provided with the procedure manual, circulars, operating instructions and bulletins, which describe how to proceed as regards registration and clearing and settlement, such as:

- a. The settlement of operations: breakdown, confirmation, assignment, justification, settlement and repurchases.
- b. The control of positions and ownership: monitoring of settlement and book-entry, cash settlement, cash transfers between participants, notification of holders to issuers, updating of the register of registered securities and cashing-up.
- c. Securities transfers and other operations: subsequent inclusions of registered securities and 'to the bearer' securities, securities transfer, changes and rectifications of ownership.
- d. Financial operations: position certification, cash adjustments, opening of rights accounts, exclusion of registration references and inscription of registration references.

Copies of these are also supplied on request.

2. Does other documentation provided to participants have the same status as the rules and procedures?

Periodically, the SACL adapts and updates the procedures manual in accordance with the new regulations which affect the work of registration and securities clearing and settlement. It is also updated as a result of the offer of new services or applications to the participants.

3. Describe the process for changing rules and procedures, including any need for regulatory approval.

VSE, by means of circulars and operating instructions, regulates operating processes and relations with participants of the SACL, giving rise to new adaptations of the procedures manual.



These circulars regulate the bookkeeping and control system of the accounting records and the processes of clearing and settlement. They are approved by the Board of Directors of VSE or approval can be delegated to the Chief Executive Officer. They must be communicated to the Instituto Valenciano de Finanzas (IVF) within 24 hours after being adopted and published in the Official Stock Exchange Bulletin of VSE.

The operating instructions must record, in conformity with the circulars, any development or modification in the sequence or instrumentation of the technical procedures which are applied to securities or operations. They are issued after signing by the Chief Executive Officer of VSE or a person delegated by him.

Proposals to carry out technical or legal changes made by participants of the SACL can also be implemented.

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

These depend on the legal status of the regulation. A Law requires parliamentary approval. A Real Decreto (Royal Decree) needs Government approval, whereas circulars and operating instructions are approved by VSE.

In any case, before a change, modification, development, implementation etc. of a new procedure is approved, the SACL consults all the professionals who participate in the market, including its governing bodies (participating entities, members of the market, VSE, IVF and CNMV).

(b) How are participants notified of changes in rules and procedures?

It is compulsory for changes in regulations, whatever the status of the rule, to be notified by post to all the participants of the SACL.

However, the SACL continuously maintains direct contact by telephone, E-mail etc.

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

The SACL, in conjunction with VSE, maintains a high degree of cooperation with its participants, and is always open to initiatives which can improve established procedures or the creation of new procedures, provided these are coherent and maintain the efficiency and security of the SACL.



Continuous daily exchanges of information between participants and the SACL guarantee that the proposals made are in line with the needs of the market.

The Technical Advisory Commission analyses the proposals for changes in the rules and procedures of the SACL.

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?

All the legal norms (Laws, Royal Decrees) and procedures (Circulars and Operating Instructions) must be strictly observed by both the SACL and its participants. They cannot be modified unilaterally by the SACL.

Exceptionally, market authorities (VSE, IVF and CNMV) and judicial authorities can suspend the application of a specific procedure or regulation provided that there are exceptional circumstances to warrant such a measure.



III. RELATIONSHIPS WITH PARTICIPANTS

In evaluating SSSs, it is essential that participants understand the nature of the relationships that the systems have with their participants. The different types of membership that are available as well as the requirements for admission as a participant should be understood. A knowledge of the account structure of the SSS is also important for an informed evaluation of the system. Participants should understand whether this structure allows or require the segregation of their customers' cash or securities in separate account or sub-accounts at the SSS.

This section addresses the issues as well as the procedures for and consequences of terminating participation in the SSS. Because of loss-sharing or other arrangements, termination of membership may not extinguish all obligations of participants with respect to the SSS. General limitation on SSS liability to participants are the subject of the final question in this section. These questions are obviously important in enabling participants to establish the magnitude of their exposures to different risks associated with the SSS.

Although these questions provide the basic framework of the relationship between participants and the SSS, many of the most important aspects of these relationships concern the resolution of failures to settle or events of default. Specific questions on these topics are discussed in Section VII below.



A. Please describe the types of membership offered by the SSS.

Basically, there exist two types of entities participating in the SACL:

a. Entities which keep the accounting records of the securities represented by itemized book entries and the clearing and settlement of stock exchange operations.

Entities within this category can, in turn, be of four types:

a.1. Stock Exchange Dealers and Brokers who are members of Valencia Stock Exchange (note that it is compulsory to be a participant in the SACL in order to deal on the floor of Valencia Stock Exchange).

a.2. Entities which belong to one of the following categories and, as such, meet this requirement in accordance with the criteria of the Order of 27 April, 1993 of the Consellería de Economía y Hacienda of the Generalitat Valenciana:

a.2.1. Banks

a.2.2. Savings Banks, including the Spanish Confederation of Savings Banks.

a.2.3. Official Financial Institutions.

a.2.4. Stock Exchange Dealers and Brokers

a.2.5. The Securities Clearing and Settlement Service S.A., and the Clearing and Settlement Services created by the Boards of the Stock Exchanges, subject to Law 24/88 of the Securities Market.

a.2.6. The Bank of Spain and the General Depository

a.2.7. Other entities, in accordance with prevailing legislation.

a.3. Foreign entities which carry out similar activities to those of the SACL, subject to reciprocal agreements when these entities do not belong to the European Union.

a.4. A participating entity which holds an account in the central register of the SACL can trade with another participating entity (a.1., a.2. y a.3.), with a Stock Exchange, or with the SACL itself (hereafter termed authorised entity), the keeping of its registration of book entries of settlements subject to the approval of VSE, when relevant. The authorised entity will carry out registration of the holder in accordance with the information it receives from the holder or from the SACL. The authorised entity will be answerable to the SACL for the correct functioning of the registration of holders.

b. Entities which are not responsible for detailed accounting records, but which handle clearing and settlement. This type of entity is termed *authorised entity* and can be any of those mentioned in a.1., a.2., a.3., and a.4..



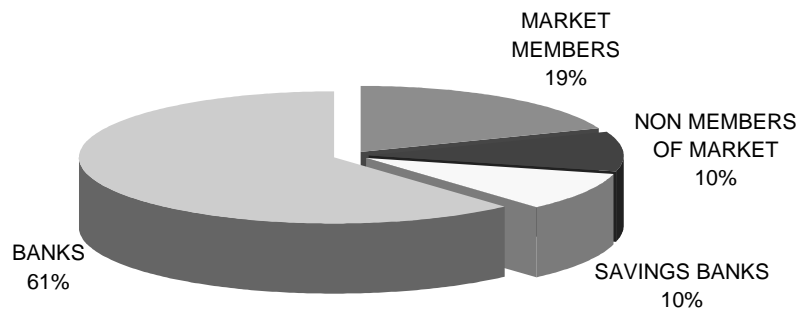
In order to participate in the activities of the SACL, all participant entities must effect their corresponding share of the collective deposit.

The registration system must strictly segregate assets belonging to the corresponding participant from the assets participants hold in their accounts for third parties.

1. How do the types differ?

The SACL has 52 participating entities, of which:

- 10 are stock exchange members (2 Securities and Stock Exchange Brokers and 10 Securities and Stock Exchange Dealers).
- 5 are not members of the market (2 Securities Brokers y 3 Securities Dealers).
- 5 are Savings Banks (4 Savings Banks and the Spanish Confederation of Savings Banks, CECA).
- 32 are Banks.





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.

All entities participating in the book-entry system and in the clearing and settlement of stock exchange operations are subject to the same rules and procedures.

B. Can participants establish accounts for their customers' assets that are segregated from their own asset accounts at the SSS?

The register of book entries of the SACL constitutes the only instrument representing all the securities belonging to the same issue included in the system. Entries deriving from trading operations, with the object of legal registration, will be carried out at the time of settlement.

The SACL keeps the accounting records of securities quoted on VSE, which is considered a central register. It contains, for each participating entity and with reference to each category of securities:

- a. the balance of account which each participant holds at all times: proprietary account.
- b. the global balance of account which the participant holds registered in his accounts in the name of third parties: omnibus customer account.

Complementary to the above mentioned balances, the SACL will keep a file of registration references to safeguard the balances of each security of the participants, allowing individual identification of each transaction. Each participant will maintain the same structure in his itemised register, assigning the balances of securities and corresponding registration references to each holder.

The same accounting system will be established for securities not admitted for trading which are in book entries and whose accounting records are entrusted to the SACL. However, for these securities only one record will exist, not two.

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

Each participant will keep an omnibus customer account open in the central register of the SACL, where balances belonging to third parties can be distinguished. The level of detail of customers is the participant's responsibility and not the SACL's, since the SACL only knows global positions.



However, the participants can keep sub-accounts with their customers, although these will not be registered in the SACL.

2. Is the segregation optional or compulsory?

The separation which exists in the central register of the SACL between proprietary balances and balances belonging to third parties is 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?

It is not applicable to the central register of the SACL, while it is a common practice in detailed customer accounts, although these would never be considered as participants of the SACL.

C. Please describe participant requirements for each type of membership.

The requirements for participation in the SACL are identical for all participants, see III.A.

In order to maintain the condition of participants, the entities mentioned in III.A must have at their disposal the appropriate systems of control and technical facilities to carry out the functions assigned to them.

The SACL will specify the tests, controls and minimum levels of functioning which must be met in order to acquire and maintain the condition of participant.

The SACL will determine the technical and functional requirements which the systems of intercommunication with participants must meet. Homologation by the SACL will be compulsory for their implementation and use.

The entities mentioned in III.A that wish to acquire the condition of participant must apply in writing to the SACL, indicating in their application:

- a. registration data of the Entity in question in the register of Banks and Bankers or Savings Banks of Spain, or of Stock Brokering Agencies or Firms of the Securities Exchange Commission.
- b. identification of the office or branch at which they are going to carry out their business relations with the SACL.
- c. their commitment to strictly comply with the Regulations of Organisation and Functioning of the SACL.



d. whether they hold the condition of participants in the Securities Clearing and Settlement Service. If so, they should give proof.

Within two months, the SACL will supply the IVF with a report on whether the entity meets the requirements mentioned above. The approval of the IVF will imply attainment of the status of participant.

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

All participants in the SACL must be resident or operate with a permanent establishment according to the Bank of Spain. This criterion will be modified shortly when the Directive 93/22/EEC, concerning Investment Services, comes into force.

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

Yes, all the participants of the SACL are under the supervision of market authorities, among them Valencia Stock Exchange itself, the Instituto Valenciano de Finanzas (IVF), the Bank of Spain and the Securities Exchange Commission, as the case may be.

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

Not applicable.

4. Are there financial, economic, personal or other requirements? If so, please describe.

No, the only requirement is that participants should be one of the entities mentioned in III.A., and meet the requirements of III.C. However, it is assumed that all the participants fulfil the conditions of professionalism and confidentiality necessary to perform efficiently and securely their functions of registration and clearing and settlement.

D. Does the SSS engage in oversight of its participants to ensure that the actions are in accordance with its rules and procedures? If so, please describe.

The SACL, VSE and the IVF are responsible for supervising the participants in the keeping of the register and securities clearing and settlement.

The SACL should oversee the proper keeping of the accounting records by the participants, compliance with settlement regulations and procedures of financial



operations and the efficiency of the processes of stock exchange clearing and settlement operations.

In particular, the SACL should constantly check the consistency of the balances of the securities accounts system and the participants' accounts system and that they coincide with registration references. Moreover, all participants should control the global position of each and every one of the securities daily. In order to do this, the SACL will put at their disposal the breakdown of the different balances which make up this position.

With the aim of maintaining the necessary level of security in the system, and in particular, consistency between the central register of the SACL and that of the participants, periodic procedures of cashing up of balances and registration references will be established between the SACL and the participants.

E. Under what conditions can participants terminate their membership in the SSS? Does this mark the end of all liabilities of the participant? If not, please describe what liabilities could remain.

The condition of participant of the SACL can be lost in the following circumstances:

- a. renunciation
- b. on losing the status of Stock Exchange Broker or Dealer or an entity mentioned in III.A.b.
- c. on failing to adapt to the technical demands imposed by modifications or improvements made by the SACL, or by legal requirements in the systems of keeping of accounting records and of clearing and settlement.

Loss of the status of participant will be in force from the date on which any of the circumstances mentioned in a. and b. occur, or from the date on which the loss is agreed by the IVF, in case c.

F. Under what conditions can the SSS terminate a participant's membership in the SSS?

At the SACL's proposal, the IVF can agree to the suspension of a participant if that participant is in default of payment of any debts incurred with the SACL.

Also, when the participants do not reach the minimum volumes of clearing and settlement established by the IVF, suspension can be agreed to on the SACL's recommendation.

Moreover, at the SACL's proposal, the IVF can agree to suspension or loss of the status of participant, if the entity repeatedly fails to perform its duties in the settlement process, including delays in settlement.



From the moment when the suspension or loss of the status of participant occurs, the entity cannot perform the activities of participant, without detriment to the finalisation of the operations in hand and the performance of the registration activities from which the entity derives a reduction in the volume of registered securities.

Both loss and suspension of the status of participant must be published in the Official Stock Exchange Bulletin of VSE.

G. Please describe the scope of the SSS's liability to participants, including the standard of liability, the force majeure standard, and any limitation to the scope of liabilities of the SSS. Where are these liabilities and their limitations set out.

The actions which the participants perform fall within the scope of the SACL's liability, except in the force majeure standard. The SACL cannot accept liability when the actions of the participants are in bad faith, constitute fraud or culpable negligence.

Within the scope of its functions of control, the SACL oversees the proper keeping of the accounting records by the participants, the fulfilment of the regulations and procedures of settlement of financial operations and the efficiency of the processes of clearing and settlement of stock exchange operations.

The SACL, in order to perform its duties of supervision, requires all the information necessary from the participants and will inspect directly, on the participants' premises, the activities carried out by them in relation with securities clearing and settlement, as well as their book entries, on obtaining the participant's consent.

The SACL will immediately inform the IVF and, if the case may be, the Securities Exchange Commission, of any facts or actions which come to its attention in the exercise of its functions that could constitute an infraction of the binding regulations, or any departure from the guiding principles of the regulation of the securities market (Law 24/1988, Securities Market).

The SACL will consider any possible discrepancies which might arise between its participants, and in order to resolve these, will request any information which it deems appropriate. The Chief Executive Officer of VSE will designate an Incidents Commission responsible for supervising the activities in this area and for dealing with complaints which might be made, if they warrant investigation. The commission will be formed in accordance with point III.E.3(a).



IV. RELATIONSHIPS WITH OTHER SSSs AND COMMERCIAL INTERMEDIARIES

Many SSSs have relationships with intermediaries who perform critical asks for the SSS and indirectly, therefore, for the system's participants and their customers. In particular, relationships or linkages between SSSs may be important for an understanding of the implications of settlement arrangements. For example, in those instances where the linkage includes using another SSS or a commercial intermediary as a securities sub-custodian, disclosure of information concerning the linkage would be essential for participants to fully evaluate the associated risks. The appraisal of risks may differ depending on whether the linkage allows only free deliveries or whether cash accounts at the two SSSs are also involved. The latter types of linkage deserve particular attention to ascertain whether they increase the potential for settlement disruptions to spread quickly between different systems.

Because it is the SSS and not its participants that negotiates and concludes the agreements with these third parties, it is important for participants to be fully advised on the relevant aspects of the system's various intermediary relationships, including the standards used by the SSS in the selection and monitoring of intermediaries, the functions that the intermediaries perform and any specific risk management mechanism in place specifically to protect against the risks posed by these relationships. It is also important to identify instances in which the SSS advances funds or securities on behalf of third parties or intermediaries, as these actions can pose risks to the SSS and its participants.



A. Does the SSS maintain linkages or other relationships with other SSSs?

The SACL does not have linkages with other SSSs, although, indirectly, through the Securities Clearing and Settlement Service, it will be able to transact FOP (Free of Payment) from 1999, and DVP (Delivery versus Payment) from 2002 approximately, to SSS participants in the ESCDA (European Securities Central Depository Association), as a result of bilateral agreements signed by them. For this reason, the SACL should endorse the corresponding bilateral agreement with the SCLV.

Nor does the SACL maintain linkages with other CSDs (Central Securities Depository), ICSDs (International Central Securities Depository) or GCs (Global Custodian).

1. Please identify each of the other SSSs used and the type of securities transferred via the linkages.

Not applicable.

(a) What is the name of the other SSS? Where is it located?

Not applicable.

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

Not applicable.

(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.

Not applicable.

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

Not applicable.

B. Does the SSS use securities custodians (other than the other SSSs addressed in the previous question) and/or commercial cash correspondents?, Please identify the custodians or cash correspondents used and the duties that each performs.

Not applicable.



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.

Not applicable.

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.

Not applicable.

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.

Not applicable.



V. SECURITIES TRANSFERS, FUNDS TRANSFERS AND LINKAGES BETWEEN TRANSFERS

At the heart of the operations of SSSs are the transfers of securities and fund that actually comprise the settlement process. The questions in this section begin by focusing on the process, if any, for matching settlement instructions prior to beginning the settlement process itself. In some markets, matched settlement instructions are binding, which may impose additional obligations on participants that are important for them to understand.

This section next considers issues raised by the practice of securities registration. Because the laws of different countries vary widely in this regard, this disclosure framework has not been designed to substitute for the legal analysis of the implications of registration, for example the issue of the nature of the title to securities that is transferred in the SSS if the system itself is not also the registrar. The questions are instead focused on the circumstances in which the SSS itself becomes involved in the registration process, as well as the risks that may arise if participants fail while securities are in the process of being re-registered in the buyer's name. In particular, it is important to understand whether the rules and procedures of the SSS would require transactions to be unwound in such an event.

The mechanics of securities and funds transfers are then addressed, including the issue of where cash transfers associated with securities transfers at the SSS take place. These questions also address the circumstances under which the SSS extends credit to participants as an aspect providing funds transfer capability at the SSS. It is clearly important for participants to understand what types of cash account are offered at the SSS and on whom they take a risk with respect to cash deposits, as well as whether the SSS itself bears credit risk in conjunction with these accounts.

The questions then explore the timing of processing within the SSS, whether the SSS is a DVP system, and what type of DVP model, if any, has been adopted by the SSS. DVP is a mechanism which ensures that final delivery occurs if and only if final payment occurs, which eliminates principal risk and contributes to reduction in liquidity risk.

The issues which arise in the practical implementation of DVP were outlined in the DVP Report referred to in the Introduction, and mainly concern the finality of the securities transfers and the funds transfers which together constitute the DVP settlement. Transfers are final if they are both irrevocable and unconditional. A transfer is irrevocable when the parties to it can no longer revoke their instructions, and it becomes unconditional when there are no longer any circumstances that could cause the SSS to unwind it. If transfers are provisional at the time of processing, even if DVP is achieved,



the risk remains that transfers may have to be unwound later if finality cannot be achieved.

If not properly recognized and controlled, this “finality risk” could have systemic effects. Members of SSSs are often provided with immediate availability of securities received, even if the transfer is not final. If these members sell the securities again, or make them available to custodial clients, and the original transfer is subsequently unwound, additional transfers by the member or the member’s clients may also have to be unwound, spreading the impact of the unwind to unrelated parties. It could also ultimately lead to losses to be shared among participants. For these reasons, the questions below attempt to clarify precisely the circumstances under which transfers become final.

The questions also address the provision of settlement guarantees by the SSS. If guarantees exist, it is necessary for participants to understand the events that trigger the guarantee as well as the coverage that is provided by the guarantee, including the liability of the SSS with respect to the guarantee.



A. Please discuss whether and how settlement instructions are matched between participants prior to processing by the SSS.

A pre-matching process is carried out at VSE for all instructions in respect of negotiations taking place between members of VSE (both for transactions made in the Central Market and for OTC securities) before beginning the settlement process in the SACL.

In the pre-matching process which VSE performs, in any case, the breakdowns of trading date T which the market members have made them observe, between T and T+1, both inclusive, will be checked. On the other hand, this information will be completed with notification of the ownership data associated to the applicants of purchase operations on registered securities, for which the time limit will be the same. Each breakdown will be identified with an operation number, assigned by the stock exchange, which will ensure that the transaction from one day of trading T is fully itemised on T+1.

The SACL will receive the data corresponding to the pre-matching the VSE has performed; the net cash of the order, the participant customer (when different from the clearing member of the operation), details of commissions of parties intervening in the operation, data of the registered holder, intermediary or applicant etc.

This notification must be made on trading days and always before the next trading day, except those authorised by the supervisors of VSE outside working hours that can be received before the beginning of the trading session on the following day. At the end of each day, the SACL, will deem closed the trading date of the previous day, first ensuring that the balances square.

Every time the SACL receives a breakdown, a matching process is initiated, the object of which is to ensure that the information corresponds to the previously received trading data and that the securities and itemised sums accumulated do not exceed, and finally equal, the totals of securities and amounts reflected in the register of trading volume for the same date of trading, type of deal, stock exchange, type of security and member. As a result of this matching, the SACL will send a message in reply to VSE, in which it will return the entries received, identified with an error or acceptance code. If VSE should receive an entry identified as erroneous, this must be corrected and retransmitted once the necessary corrections have been made.

If, as a result of an incident in the notifications, the date of trading has to be reopened exceptionally, the SACL will close it again as soon as the corresponding balance is squared.

Notification of executions to the SACL can be sent by transmission of files at the end of the day, which will validate the correct format of the data corresponding to the trading date, i.e. that the sales and purchases tally both in number of securities and cash amounts, in terms of each type of trading, class of security and for all the members of



the market. As a result of this process, the SACL will send a message of response to VSE, in which it will indicate whether the identified entries received are correct or erroneous.

Once trading at this level is accepted, the SACL will proceed to register the executions received and will be prepared to receive and process later notifications of breakdowns. At the end of the aforementioned processes, the SACL will put the breakdowns at the disposal of the designated entities as clearing members so that they can confirm or reject their clearing of operations, thus initiating the settlement process.

1. Is matching required for all transactions without exception?

Yes, both in DVP transactions and in FOP Delivery.

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

VSE has its own clearly defined procedures in the event of not receiving the instructions correctly. In any case, when the matching necessary to initiate the settlement process has not been possible, the details which have given rise to the unmatched operation will be notified immediately.

3. Are matched settlement instructions binding on participants?

Yes, once the process of matching has taken place all the transactions are automatically prepared for initiation of the settlement process.

(a) If so, please describe the consequences of failure by participants to meet obligations.

Exceptionally, the SACL might correct a breakdown which has already been confirmed by the entity identified as clearing member of the operation. In order to do this, when it is a question of correcting an error in the assignation of a participant of the operation, the two participants involved must request that the SACL rectify the breakdown before 12.00 H of day T+2, T being the trading date of the operation. The SACL, if it accepts this request, will correct the confirmed breakdown, assigning the liquidation to the new participant, which will be notified to the Stock Exchange.

When the error occurs, not in the assignation of the participant, but in the breakdown, and it is therefore necessary to cancel the RRs assigned to the operation and assign other RRs in the new breakdown, the member involved must approach the Stock Exchange. If they accept the request for rectification, they will communicate this to the SACL before 12.00 H of T+2. In this case, the SACL will unwind the operation, by sending it



to the stock exchange as rejected, so that the member can rectify the breakdown.

The SACL will immediately inform VSE, and they, in turn, will inform the IVF and, if the case may be, the Securities Exchange Commission, of the facts and actions of which they have knowledge in the exercise of their functions which could constitute an infringement of binding regulations or a departure from the guiding principles of the regulation of the securities market. Delays in settlement, failure to comply with regulations and overdrafts in settlement will give rise to penalties, which could even lead to cancellation of their membership as participants in the SACL.

(b) Please describe whether this is a feature of the SSS's rules and procedures or of national law or regulations.

The procedures described in V.A.3.(a) are contained in the Procedure Manual of the SACL as well as in applicable Legislation.

(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.

Basically, the operative cycle of settlement, supposing T to be the day on which trading takes place, corresponds to the following table, based on working days:-

T: day on which trading takes place. It must be matched at the end of the same day (or exceptionally on the following morning).
Between T and T+1: The participant of VSE must break down the operation, identifying the beneficial owner (in whose favour the securities will be provisionally registered) and the participant of the SACL, who will settle the operation.
Between T and T+2: The participant will confirm or reject the operation (if the member of VSE does not perform the breakdown or the participant of SACL rejects settlement of the operation, the operation will be assigned to the member of VSE).
From T to T+2: Sales are justified by participants to the SACL..
T+2: Assignment of operations pending breakdown and rejected to market members.
T+2: Communication of provisional advance of cash settlement.
T+3: Final and irrevocable DVP (see V.A.).
T+7: Beginning of repurchase period.

SETTLEMENT PROCESS IN SACL



TRADING							
BREAKDOWNS							
CONFIRMATION OR REJECTION							
		ASSIGN. TO MEMBER					
JUSTIFICATION OF SALE OP.							
		PROV. CASH ADV..					
			DVP				
							REPUR.
T	T+1	T+2	T+3	T+4	T+5	T+6	T+7



B. Are securities transferred within the SSS registered?

According to Real Decreto 116/1992, of 14 February, on recording of securities by means of book entries and clearing and settlement of stock exchange operations, all the securities admitted for negotiation on a secondary official market should be represented by book entries and the entry recorded in a public deed together with the entity responsible for the accounting record. Securities not admitted for negotiation on VSE can also be registered in the SACL provided they are recorded in book entries.

In any case, the content of the values represented by means of book entries will be determined by the public deed.

There exist two ways of registering the securities which are recorded in book entries in the SACL:

1. Bearer Securities.
2. Registered Securities.

1. Who is the registrar?

The central register, where the participants open their accounts, is kept by the SACL, while the itemised register, where the beneficial owner is identified, is kept by the participants.

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

All securities transferred between participants of the SACL should identify the beneficial owner, who can either be the participant himself in his proprietary account (which would figure in the central register), or in a third party account (which would only be known by the participant).

The SACL can never hold securities in its own name and does not provide nominee services.

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

Not applicable (See I.C.1)

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



When the member of VSE identifies the beneficial owner of securities in the breakdown, the SACL registers them provisionally in his name, linking the operation number (which coincides with the registration reference) to the beneficial owner. It then waits to verify that the seller has a sufficient balance of securities on the morning of T+3, when the definite registration will be effected (see V.B.2).

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

See V.A.c. and V.B.4.

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?

Yes, on the same day that securities are purchased, it is possible to use them to justify other sales operations.

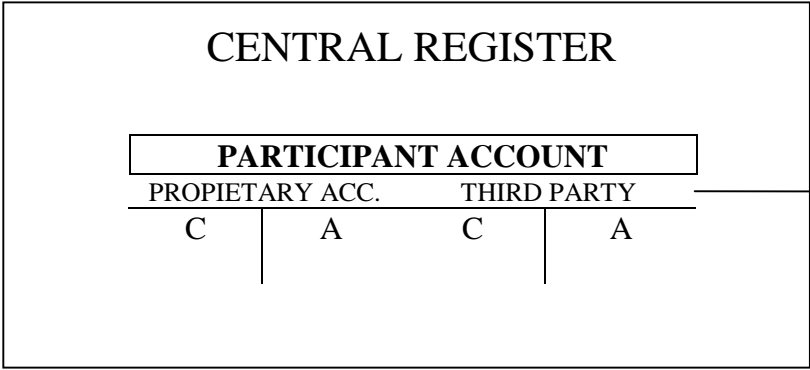
C. Please describe how securities transfers are processed within the SSS.

All transactions are processed as debits and credits in the accounts that the participants have open in the SACL.

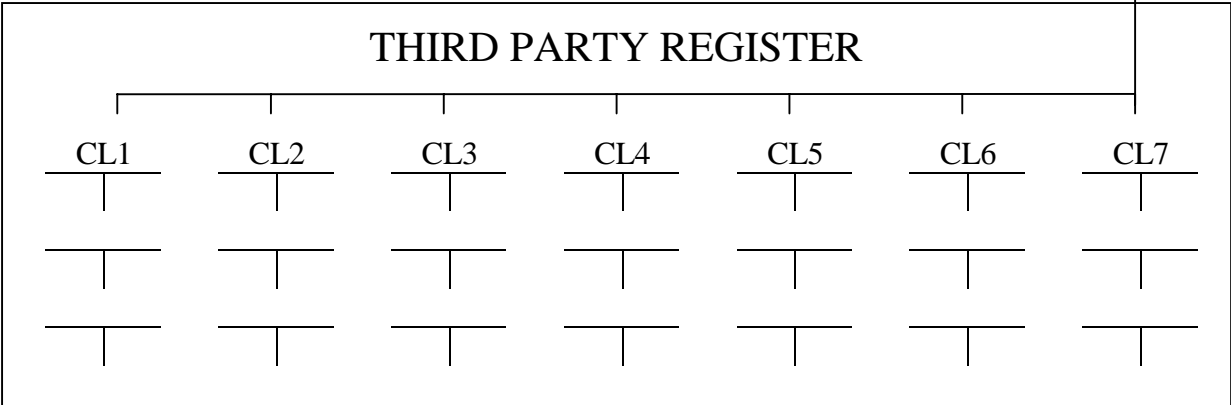
The SACL ensures, at all times, that the listings made in the book-entry of the central register coincide, both in the security and in the number, with those registered in the detailed accounts of the participants.



SECURITIES ACCOUNTING



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

The transfer of securities is processed in the same way that credits and debits in members' accounts are made in the book entry system.

2. On a continuous basis, or in one or more batches?

The instructions corresponding to transfers of securities are processed in different batches, while the settlement process is under way.

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

In general, DVP transfers start at 08.30 H and finish at 15.00 H.

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

Securities settlements, like cash settlements, take place on a continuous basis, i.e. settling on a daily basis, and within 3 working days (T+3), according to the calendar established by SACL to this effect. This form of settlement brings us closer to international standards and reduces systemic risks since it cuts down settlement intervals and, consequently, the amounts pending settlement, as well as decreasing the influence of price fluctuations which could occur in the meantime.

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.

The final transfer of funds to the SACL takes place in accounts held at commercial banks by participants.

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?

The SACL does not maintain cash account for its participants, however, it does have cash memorandum accounts.

2. On what entity does the participant bear cash deposit risk?



On no account does the SACL bear cash deposit risk. This is assumed by a commercial bank or its customers, according to a bilateral agreement established between them.

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

Not applicable

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 . 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.

For DVP transactions, the model of settlement used by the SACL is the BIS Model 2 (BRI report 1992):

GROSS SETTLEMENT OF SECURITIES TRANSFERS FOLLOWED BY NET SETTLEMENT OF FUNDS TRANSFERS DVP.

i.e. gross settlement of securities and net settlement of funds, the transfer of securities from the seller to the buyer being final (delivery) and *conditional* on the transfer of funds from the buyer to the seller (see V.A.3.c). The transfer of funds is final when the commercial bank has effected the corresponding credit or debit.

Therefore, the SACL strictly adheres to delivery versus payment, in accordance with BIS model 2.

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

Transfers of securities and funds are processed within the same system, although the final settlement of funds is effected by a commercial bank.

(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.



The SACL effects settlement in 5 simultaneous processes:

1. Gross debit from the securities account of the participant representing the seller.
2. Gross credit to the securities account of the participant representing the buyer.
3. Net credit to the cash memorandum account of the participant representing the seller.
4. Net debit from the cash memorandum account of the participant representing the buyer.
5. It frames an irrevocable and conditional notification obligating the participant's commercial bank to effect the debit/credit according to the statement of his cash memorandum account.

See V.E.1.

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

No.

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

The transfer of securities and funds becomes final on the morning of T+3.

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

The transfer of securities is final and irrevocable at 10.00 H of T+3, when the commercial bank verifies that the buyer has sufficient funds.

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

See V.E.2.a..

(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?

Not applicable



(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.

The SACL only makes entries in cash accounts in pesetas and all securities have the same settlement process.

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

The participants of the SACL know, at all times, the status of the position account (pending breakdown, pending justification, pending settlement, settled, pending entries, ...) and the cash account.

F. Does the SSS itself “guarantee” funds or securities transfers?

The SACL uses the lending and repurchase of securities as a procedure to ensure the delivery of securities in cases of nonfulfilment by sellers.

The SACL also uses the collective deposit effected by the participants to guarantee nonfulfilment in the settlement of operations which are pending settlement by participants.

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

Under no circumstances can the SACL assume risks for non-settled operations (see V.F.1).

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

The only obligation of the SACL is that of guaranteeing the registration of securities and funds.

3. Please indicate whether the guarantee is a feature of the SSS’s rules and procedures or of national law or regulations.

Regulated by Real Decreto 116/92.



VI. DEFAULT PROCEDURES

Events of default are among the most difficult and stressful occurrences that market participants and SSSs may experience. The IOSCO Report underscores the need for transparency in the area of default procedures on the grounds that it will provide more certainty in the operation of critical market mechanism during these stressful events, and thereby reduce the risk that a single default will cause further disruptions.

Because the definition of a default event may differ across systems, the IOSCO Report recommends disclosure with regard to the circumstances in which action may be taken, as well as who may take it, and the scope of the actions that may be taken. In some cases, the term „default” may not be used by the SSS in its rules and procedures or in contracts with its participants. In these instances, SSSs should attempt to spell out for their participants both how they would address the insolvency of a participant and any other circumstances in which they would initiate exceptional measures to fulfill settlement or other obligations to their participants.

In this regard, this section attempts to lay out in one place the available resources of the SSS with respect to meeting obligations in the event of a default or other events that would trigger exceptional measures. It is important for participants to understand that these resources are as well as the order in which they will be accessed. The questions also address the possibility that securities or funds transfers will be unwound by the SSS. Because unwinds are a way to reallocate liquidity pressures and credit losses, it is vital that participants understand all the possible circumstances in which an unwind can occur.



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.

The SACL uses the lending and repurchase of securities as a procedure to ensure the delivery of securities in cases of nonfulfilment of sellers, as well as obliging the participants to raise a collective deposit with the aim of guaranteeing amongst them the fulfilment of operations pending settlement.

In the specific case of the repurchase procedure, when a sales operation has not been settled, the participant will have a time limit, determined by the SACL, in which to justify the failure to settle, after which the SACL will direct them for repurchase. To do this, the SACL will send the corresponding orders to the members of Valencia Stock Exchange, on a rotating basis, who will execute the purchases in the market and will provide a breakdown against the participant who must settle the sale which is the object of repurchase. The cost of all these transactions will be charged to the funds received from the buyer and those deposited by the seller. In all these cases, by way of a penalty, the SACL will claim from the corresponding participant, the percentage of the price satisfied, which has been set previously.

The debits and credits of the net balances resulting from the clearing notified by the SACL to the banks where the accounts are held, should be effected, at the latest, on the following day of this notification. With the aim of ensuring finality of these debits and credits, the SACL can arbitrate formulas to guarantee that payment is effected immediately. In case of insufficient funds in the corresponding accounts, the necessary restitution of funds will be made from the collective deposit.

However, when there is a legal declaration of bankruptcy or temporary receivership is pending (in accordance with additional ordinance VII, number 2, of Law 3/1994), the IVF, or if the case may be, the Securities Exchange Commission, automatically proceed with the transfer from the bankrupt or suspended participant to the registers of private securities book entries, or else, provisionally, to the SACL itself, if there is no entity able to take charge of the entries. This transfer will not involve any cost for the investor and will be outside the auction procedure.

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

See VI. A.

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



See VI. A.

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.

In the case of repeated failures in delivery of securities or funds, the SACL can prompt the loss or suspension of participant status. To this end, the SACL will draw up the related report and the Board of Directors of the Stock Exchange will decide whether it is appropriate to propose such a measure to the IVF, so that they can make the relevant decisions.

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?

When a participant does not carry out the settlement of his operations within the agreed time, the SACL contacts him by telephone with the object of finding out the reasons that have caused the failure to settle.

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

When a decision is made to suspend or terminate the membership of a participant, the SACL immediately notifies the other participants of this decision. From the moment that suspension or loss of the status of participant takes place, the entity cannot carry out the activities of a participant, without detriment to the finalisation of the operations in hand and the performance of registration activities from which the entity could derive a reduction in volume of their registered securities.

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.

In the case where the SACL has to seize the deposit of a participant with the aim of clearing an unsettled balance and this deposit is insufficient, it would proceed to apply the portion necessary from the other participants' collective deposit, calculating this on a pro rata basis, and distributing the uncleared amount on a pro rata basis in proportion to their respective quantity.

If it were necessary to solicit a pro rata contribution from the deposits of the other participants, the entity in default would firstly have to repay within two working days to cover the deposits of the other participants, and would have to cover his own deposit immediately afterwards. If he failed to meet this



obligation, the SACL would require the other affected participants to cover their deposits temporarily in order to reach the overall sum within two working days, until the unwind procedure enacted by VSE resulted in funds becoming available.

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.

See VI.B.2.

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

See VI.A.3.

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

The IVF would make the decision.

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

See VI.B.1.

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

See VI.B.2.

(d) In the event of an unwind, would all transfers be unwound or would only a subset of transfers be unwound?

The IVF should choose the most appropriate solution with the aim of minimising the consequences of the failure.

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

Not defined.



5. Can bankruptcy or insolvency be declared retrospectively in the SSS's jurisdiction and could this cause provisional securities or funds transfers to be unwound?

Even though the zero-hour clause does not exist in Spain, bankruptcy or insolvency can be declared retrospectively. Consequently, the administrators in the bankruptcy procedure can unwind settlements with the same effects mentioned in the zero-hour clause. This aspect is going to be modified on the implementation of the Directive relating to settlement finality.

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.

See VI.B.5.

C. Has a participant in the SSS ever been declared in default or become insolvent?

There have been no cases of bankruptcy or insolvency.

1. Have loss-sharing procedures been invoked?

There exists no defined procedure for loss-sharing.

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

See VI.C.



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

In recent years, SSSs have implemented a variety of approaches aimed at satisfying increasing demands for more rapid securities settlements, particularly in the cross-border context. This section focuses on several related issues that can arise in conjunction with these procedures.

The first set of questions in this section relates to the possibility of debit positions in participants' securities accounts at the SSS. Because such positions indicate instances where participants have been allowed to transfer securities that they do not have on deposit at the SSS, they clearly involve substantial risk that the SSS may not be able to obtain the actual securities and complete all necessary settlements. For this reason, it is vital for participants to understand the conditions, if any, under which such debit positions can arise, and what actions the SSS will take to rectify them. The questions also address measures that SSSs can take to reduce or prevent such debit positions.

The existence of a securities lending program at the SSS and the conditions under which securities loans are trickered is another important topic covered by the questions in this section. Participants need to understand both when the SSS will arrange for securities to be lent to them and when securities they hold on deposit at the SSS will be made available for lending to others. The existence and terms of a securities lending program may also have implications for the SSS's ability to facilitate settlements in a variety of circumstances, particularly for back-to-back transactions.

Back-to-back transactions were a major focus of the Cross-Border Report and involve a pair of transactions that require a counterparty to receive and redeliver the same securities on the same day. They have the major advantage of avoiding unnecessary funding costs by the party buying and selling the securities.

This practice poses no particular risk when the delivery follows an actual final receipt of the securities, as there is then no risk that this receipt would have to be unwound. Especially in the cross-border context, differences in the timing of settlement cycles or of finality have led to the development of practices whereby SSSs in some circumstances allow on-deliveries under back-to-back transactions before the initial securities receipts are final, in effect extending temporary (often intraday) securities loans. The questions in this section attempt to clarify the circumstances under which this occurs, so that participants can understand the risks entailed by these practices.



A. Is it possible for debit positions in securities accounts at the SSS to arise?

The SACL does not allow debit positions in securities accounts.

1. Under what conditions could such debit positions occur?

Not applicable.

(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.

Not applicable.

(b) Are these situations covered explicitly by the rules and procedures of the SSS?

Not applicable.

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

Not applicable.

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

Not applicable.

4. What procedures would be followed by the SSS in case the debit cannot be rectified?

Not applicable.

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

Not applicable.

(b) Absorption of the loss by the SSS?

Not applicable.

(c) Other? Please specify.



Not applicable.

B. Under what circumstances does the SSS provide for the lending of securities to ensure settlements?

When the selling participant fails to meet his obligation of delivering the corresponding securities within the established period, the SACL proceeds to lend them on the settlement date, in accordance with the corresponding contract which has been previously signed and which will conform to the model approved by the Securities Exchange Commission.

Although it is reported in the Regulations of Organisation and Functioning of the SACL, the lending of securities is not operational due to the fact that the securities have little liquidity. Therefore, it is not defined in the procedure manual.

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.

See VII.B

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

See VII.B.

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?

See VII.B.

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?

See VII.B.

C. How does the SSS settle back-to-back transactions?

Back-to-back transactions are settled in the same way as any other DVP operation.



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?

The members of VSE do not specifically identify back-to-back transactions. All transactions are communicated to VSE (See VII.C.).

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

No.

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

Yes.

(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?

No.

(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.

No

(e) Other? Please specify.

Not applicable.

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.

See VII.B.

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?

See VII.B.



VIII. RISK CONTROL MEASURES

This section of the disclosure framework is intended to provide a description of the risk management systems employed by the SSS. Sound risk management encompasses a number of aspects, including assessment of risks and senior management and Board of Directors input into the risk management process, particularly with respect to the review of new products and services by the SSS. Internal and external audits as well as supervisory oversight can also play a vital role in ensuring that the risk management approach is sound and implemented with integrity.

A range of different risks can arise in conjunction with the different services that SSSs may provide. For example, in the course of providing settlement services, the SSS may become exposed to credit, custody or liquidity risks if it either explicitly or implicitly extends funds credit or lends securities to participants. In the provision of custody services, the SSS may take on credit risk if it extends funds to or on behalf of third parties. A variety of risk management approaches to these risks are possible, including in particular the use of collateral or limits on risk exposures. The questions also addresses several other provisions or tools that may be helpful to SSSs in managing or containing the different risks that they face, but are not meant to exhaust all the possible approaches that SSSs may employ.



A. Please describe the roles and responsibilities of those areas of the SSS responsible for risk management and control.

The SACL does not have a defined area specialising in risk management and control of the risks deriving from settlement operations. However, in conjunction with VSE, SACL is totally responsible for minimising settlement risks as far as possible. The SACL, with the aid of the Technical Advisory Commission, also analyses suitable measures with the aim of minimising systemic risk.

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

VSE, together with the SACL, defines the policy of risks in settlement and the best way of minimising them.

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

When the SACL launches a new product or service, it is necessary to obtain the approval of VSE, and in some cases of the IVF, or even the Securities Exchange Commission.

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

The functions of operational and risk management are integrated. The tasks of advertising and marketing of the services offered by the SACL are performed with the collaboration of the Market Promotion Department.

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

A specific audit committee does not exist, however, the SACL informs of risk management policies established at VSE.

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 SACL is audited externally within the global audit of VSE.



1. Who performs the audit or examination?

Independent Auditors: Arthur Andersen & Co.

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

The scope of the audit is to detect whether VSE, in general, and the SACL, in particular, meet the standards of accounting audits.

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

See VIII.A.4.

(b) Please indicate whether and how it addressed the SSS's compliance with its own rules and procedures.

See VIII.A.4.

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

Continuous, in accordance with the controls carried out by VSE. The audit takes place once a year, once the annual accounts of VSE have been closed.

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

Yes, in the annual report of VSE, among others.

C. Please discuss whether the SSS has the capacity to value the securities that it holds.

The SACL, through the Official Stock Exchange Bulletin of VSE, publishes the trading volume of its securities, prices, days of negotiation,

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

See VIII.C.

2. How frequently are securities revalued?

Frequency is Daily.

3. What are the sources for security valuations?



In the Official Bulletin of the Stock Exchange of VSE, changes are published: previous day, same day and during the year. For these three levels, the prices given are: the closing price, the maximum price, the minimum price and the average price.

(a) What outside price or data sources are used?

Not applicable

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

Not applicable

D. Please discuss whether the SSS has a lien on the securities held in or transferred through it.

Not applicable

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?

Not applicable

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

Not applicable

E. Please discuss the circumstances in which the SSS requires collateral to limit or mitigate risks.

The SACL does not require collateral.

1. Does the SSS manage its own collateral system?

Not applicable

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



Not applicable

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

Not applicable

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

Not applicable

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

Not applicable

6. How are collateral valuation methodologies developed and reviewed?

Not applicable

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

Not applicable

F. Please describe the SSS's use of limits on exposures to monitor or control risks.

Not applicable

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

Not applicable

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

Not applicable

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

Not applicable

4. Do limits apply to implicit as well as explicit extensions of credit or securities?



Not applicable

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

Not applicable

6. How are limit policies developed and reviewed?

Not applicable

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?

Not applicable

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?

Yes

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

It depends on individual cases, but will be a specific control carried out by BSE.

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



IX. OPERATIONAL RISKS

Operational failures at the SSS could limit participants' ability to access their assets held at the SSS and prevent them from honoring their commitments to others, with potential spillover effects on other payments, clearance, and settlement systems. Furthermore, prolonged problems could reduce or eliminate trading activity with respect to the affected securities, with substantial consequences for market participants.

It is good practice to mitigate operational risks through redundancy and the maintenance of strong internal controls over the operations of the SSS. In the event of an unavoidable problem or natural disaster, the SSS should also have in place a well-rehearsed plan for business continuity that addresses all the business functions and resources that the SSS would need to renew operations.



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.

The Systems Information Department of VSE is responsible for assessing and managing the security of the systems used by the SACL in the performance of its functions of registration and clearing and settlement of securities. This Department also analyses new applications and functioning.

1. What is the percentage uptime of the systems used by the SSS?

The system functions according to the calendar established by VSE for the settlement and clearing of operations.

(a) Whole system overall?

The system operates from 5 a.m. until 11 p.m. daily, according to the established calendar, with an availability percentage of 99.5%.

(b) Broken down by major components?

The electronic communication network and the central processing data have been unavailable 0,5%, on average.

(c) During critical processing periods?

Over 99.5%.

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

Due to hardware problems, the SACL was closed for two days in 1993.

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

No

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

Not applicable



B. Please describe contingency or disaster recovery planning at the SSS.

VSE, together with SACL, is studying the possibility of installing systems back-up in case of disaster before the end of 1998. At the moment, the data back-up is totally operative.

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

The contingency plan, in case of disaster at the SACL, is included in the general contingency plans of VSE.

2. Is this plan available for review by participants?

No, this plan is not publicly available, although requests made by participants are taken into account when drawing up the plan. It is approved by the Board of Directors of VSE.

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

Continuously, according to market needs and participants' needs and those of the SACL itself, the SACL proposed security measures and coverage plans to VSE.

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

The registration and settlement data of operations are kept in duplicate.

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

Two hours.

C. What are the key features of the internal controls covering operations and security at the SSS?

With the aim of maintaining a high level of confidentiality of the data supplied to the participants, the SACL and VSE safeguard the fulfilment of existing legal norms with the utmost care.

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

Communications are coded. There is remote identification of the terminals connected with the central system of communication of the SACL.



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

See VIII.

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

Internal controls and defined procedures are approved by VSE.

D. Does the SSS impose minimum operational or performance standards on third parties?

The SACL does not impose communications programmes, although the majority of participants use a series of standard programmes.

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?

Not applicable

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

Not applicable