

MARCH 2004

**COMMITTEE ON PAYMENT AND SETTLEMENT SYSTEMS
INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS**

DISCLOSURE FRAMEWORK FOR



CADE PLATFORM

MARCH 2004

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Introduction

The Committee on Payment and Settlement Systems of the central banks of the Group of Ten (G-10) countries (CPSS) and the International Organisation 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 settlement system. This report also clarifies the meaning of delivery-versus-payment (DVP) mechanisms 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 analysing 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 deposit risk, custody 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 risks, 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 a 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 centralised, 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 emphasised the importance of transparency of market mechanisms. At the same time, however, growth in worldwide settlement 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 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 organise 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.

The sections below are intended to elicit important information from SSSs in the areas of organisational 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.

I. BASIC INFORMATION

A. *What is the name of the SSS?*

Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A., Sociedad Unipersonal commercially known as IBERCLEAR. IBERCLEAR manages two settlement platforms: CADE Platform for Public Debt and AIAF Fixed Income Markets, and SCLV Platform for Stock Exchanges and Latibex trades.

The answers in this Disclosure Framework document refer to the CADE Platform.

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

Address: Pedro Teixeira, 8 1st and 2nd floor, 28020 Madrid (Spain).

Time zone: Central European Time (CET).

C. *What functions does the SSS perform?*

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

IBERCLEAR provides central securities depository and securities settlement services.

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

IBERCLEAR manages in the CADE Platform the register, clearing and settlement of fixed-income securities:

In the Book-Entry Public Debt Market: Treasury Bills, Government Bonds, State Bonds, Public Debt issued by the Autonomous Regions, Strip Bonds and Corporate Debt. CADE also registers Public Debt securities of other EU countries through the links established between SSSs.

The fixed-income securities traded on the AIAF market are commercial paper issued by private and public companies, medium and long-term bonds, mortgage bonds, mortgage-backed bonds, matador bonds, securitised bonds and preferred participation units.

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

Same as those mentioned above.

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

All the securities registered are dematerialised with the only exception of some AIAF Market securities which are represented by certificates (physical securities)

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

No. The certificates are deposited in a financial institution for their administration.

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

CADE Platform does not provide cash accounts, but it does provide funds transfers. All funds transfers are made in Euros, through the cash accounts that participants maintain at the Banco de España.

These cash accounts are provided by the Spanish large value payment system called "Servicio de Liquidación del Banco de España" (SLBE), managed by the Banco de España.

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

CADE Platform provides a trade matching service.

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

CADE Platform does not provide a trade netting service and, at the moment, no other party provides such a service. CADE system is a real-time gross settlement system, both for cash and securities.

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

Yes. With the aim of reducing settlement risks, CADE has developed a procedure to provide securities systematically to those participants that do not have sufficient balance of securities for the transactions that they have instructed.

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

CADE Platform manages automatically the corporate actions for the registered securities. On maturity date, as set up on the issuance date, the redeemed securities are debited in the participants' accounts. Simultaneously, the cash account of the participant who maintains balance of the redeemed securities is credited and the global amount is debited to the issuer or its paying agent.

In the same way, on payment day for periodical coupons, IBERCLEAR credits to each entity the corresponding cash amount in relation to the balances the participants have at the end of the day prior to payment day. According to the tax treatment of the issue, the coupon payment is made on a net basis, once the tax has been withheld. The sum of the credits is debited in the account of the issuer or its paying agent.

There is a specific procedure for non-residents in order to refund the withholding tax the day the coupon is due.

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

No.

8. Other? Please specify.

No

D. What type of organisation is the SSS?

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

Private Sector Company.

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

It is organised on a non for profit basis.

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

Article 44 bis of the Spanish Securities Market Act, 24/1988, as amended by Law 44/2002, and the Royal Decree 116/1992, as amended by RD 2590/1998, RD 2813/1988, RD 867/2001. RD 705/2002.

For Book-entry Public Debt Market the legal basis for the establishment for the securities transfers was made through the Act 41/1999 of November 12th (Payment and Securities settlement systems) and RD 505/1987 of April 3rd

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

A diagram outlining the organisational structure of IBERCLEAR is available on our web site www.iberclear.es

1. Who are the owners of the SSS?

IBERCLEAR is owned by a Holding company "Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A.

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

IBERCLEAR operates CADE Platform. However, until the migration from Banco de España IT environment is complete, IBERCLEAR "outsources" the system.

3. Does the SSS have a Board of Directors?

Yes, IBERCLEAR has a Board of Directors.

(a) What is its composition?

IBERCLEAR Board of Directors is composed of 15 members representing the Stock Exchanges, the National Central Bank and its participating members.

(b) What are its responsibilities?

Define the general policy of the company, set up the annual budget, and supervise the day-to-day running of the company.

F. Please describe the financial resources of the SSS.

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

Not available.

2. Guarantees, insurance coverage or other similar arrangements?

Not available.

3. Credit lines or letters of credit?

None.

4. Powers to assess participants or equity holders?

According to its legal status, IBERCLEAR has powers to assess to what extend participants comply with the rules laid down through the “Reglamento de Organización y Funcionamiento”, Releases and Instructions (Circulares and Instrucciones) regarding the way book-entry securities are kept and clearing and settlement are performed.

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

CADE Platform is under the supervision of the National Commission of Securities Market (CNMV) and Banco de España as supervisor of the Book-Entry Public Debt Market.

II. RULES AND PROCEDURES OF THE SSS

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

Yes.

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

The rules governing the rights and obligations of participants and the duties of IBERCLEAR are included in the following regulations:

- Act 24/1988, of July the 28th (Securities Market Law) as amended by Law 44/2002, and the Royal Decree, 116/1992, of February the 14th, as amended by RD 2590/1998.
- Act 41/1999 of November 12th (Payment and Securities settlement systems) and RD 505/1987 of April 3rd.
- Reglamento de Organización y Funcionamiento de IBERCLEAR (IBERCLEAR functioning and organisation regulations).
- Internal rules: Releases and Instructions. The Releases include rules on the general procedures for clearing and settlement. The Instructions are related to detailed technical aspects.

The Releases are published, when passed, in the Stock Exchange Bulletins. The Releases and the Instructions are sent to the participant entities by e-mail

Additionally, all these rules are available to participants through the private domain of IBERCLEAR web page.

A complete set of these rules is given to the new participants.

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

There are no more rules than those referred to in paragraph 1 with the same status.

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

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

The change of the Releases, or the approval of a new one, requires a resolution passed by the Board of Directors of IBERCLEAR. These changes or new rules may be made ineffective by the National Commission of Securities Markets (CNMV) if it considers that the regulation included therein is against other rules or against the principles of the market.

The changes of the Instructions or the approval of a new one, as they simply refer to technical aspects, only require a resolution passed by IBERCLEAR Chief Executive Officer.

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

Once the new Release is passed, it is published in the Stock Exchange Bulletins, and is sent to all the participants via e-mail. The Instructions are not published, but they are all sent to participants by e-mail as soon as they are approved. In addition, new rules and procedures are immediately available through the website.

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

The changes in Releases and Instructions, are previously discussed in the “Technical Advisory Committee” meetings, where the participants are represented.

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 rules and procedures are binding for IBERCLEAR as well as for the participants.

In principle, it is not foreseen that the rules can be waived or suspended once they have come into effect. Nevertheless, the National Commission of Securities Market (CNMV) could, as it has already been pointed out, suspend the effect of one of IBERCLEAR’s rules when it considers that this rule goes against superior rules or the market principles.

III. RELATIONSHIPS WITH PARTICIPANTS

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

1. How do the types differ?

Book-entry Public Debt Market:

There are two main types of members:

- Members who are only authorised to open securities accounts to maintain their own holdings, are called “Titulares de Cuentas”.
- Participants allowed to open securities accounts to maintain client’s holdings (third party’s account). They are called “Entidades Gestoras”.

The system strictly separates the own holdings of the participants from the “third party” or customers holdings due to the fact that there are two different securities accounts. One account for participants’ holdings (“Cuentas propias”) and another one for customers’ accounts (“Cuentas de terceros”).

AIAF Market

All the participants have the same type of membership, they can maintain their own holdings as well as their client’s holdings.

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.

Yes. All participants are subject to the same rules and procedures, with the only differences described above.

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

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

There is a total segregation between the holdings of the participants and the holdings of their customers. Customer’s accounts are maintained through a single omnibus account for each participant. Detailed information of the customers’ assests is held in the participants’ books.

2. Is the segregation optional or compulsory?

The Spanish Securities Market Act of 28th July 1988, as amended by Law 44/2002, of 22nd November, and the Royal Decree of 16th February 1992, as amended by RD 2590/1998, made it compulsory that securities of participants and their clients are segregated.

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?

No. There is no sub-account in the central register. Customers' accounts are segregated in the books of the direct participants.

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

- Participants must be members of the respective market: Book-Entry Public Debt Market or AIAF Market
- It is compulsory to open a cash account in Banco de España.
- Participants must have qualified systems and technical resources approved by IBERCLEAR

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

As the European passport to investment services has been included with the enactment of the new Securities Market Act, participants are not obliged to be residents in Spain.

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

As in any other institution operating in the securities markets, IBERCLEAR's participants are under the supervision of the CNMV, but they also have to comply with the technical and prudential obligations laid down by IBERCLEAR regarding their activities in the keeping of its book-entry registers and carrying out the clearing and settlement of the securities traded in the market. IBERCLEAR supervises that the participants maintain their book-entry registers in accordance with the legal rules of segregation and the technical standards laid down by itself. However, the CADE Platform and for the Book-entry Public Debt Market, participants are also subject to the supervision of Banco de España as supervisor of the market.

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

No.

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

As indicated before the only requirements are "fit and proper" tests.

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

IBERCLEAR supervises that the participants maintain their book-entry registers in accordance with the legal rules of segregation and the technical standards laid down

by itself. It also supervises that the participants manage properly the clearing and settlement activities.

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.*

A participant may terminate its membership in IBERCLEAR by renouncing it. From this moment, the participant cannot carry out any registering, clearing or settlement functions. Nevertheless, the participant must finish pending settlement transactions and the registry activities deriving from a reduction in its account balances.

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

- When the participant loses its condition as Market Member.
- When the participant is unable to comply with the new technical standards required by IBERCLEAR;
- When the participant repeatedly fails to comply its duties in the settlement process, including delays.

G. *Please describe the scope of the SSS's liability to participants, including the standard of liability (negligence, gross negligence, wilful misconduct, strict liability or other), the force majeure standard, and any limitation to the scope of liability of the SSS (e.g. indirect or consequential damages). Where are these liabilities and their limitations set out (e.g. in statute or contract)?*

The nature of the relationship between IBERCLEAR and its participants is both statutory and contractual.

According to article 27 of Royal Decree 116/1992 IBERCLEAR will be liable vis-à-vis its participants for any inaccuracy or prejudice due to its lack of diligence or default in compliance with applicable rules, unless it may give evidence that the prejudice is due exclusively to the negligence of the prejudiced party.

IV. RELATIONSHIPS WITH OTHER SSSS AND COMMERCIAL INTERMEDIARIES

A. *Does the SSS maintain linkages (including sub-custodian or cash correspondent relationships) or other relationships with other SSSs?*

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

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

Currently, IBERCLEAR has established through CADE Platform, direct bilateral links with the following SSSs: Monte Titoli (Italy), Euroclear France (France), Euroclear Netherlands (The Netherlands), and Clearstream Banking Frankfurt (CBF).

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

All securities registered in CADE Platform are eligible for transfer. Conversely, foreign securities are eligible to be registered in CADE Platform through the mentioned linkages.

(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.

Transfers of securities made via linkages to other SSS are always free of payment and are based on ECSDA (European Central Securities Depository Association) standards.

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

There is a strict liability regime in the agreements signed between IBERCLEAR and other CSDs. According to such agreements the foreign CSDs are responsible for any loss due to mistake, error, negligence, etc.

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.*

No.

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.*

As mentioned before, IBERCLEAR has set up links from CADE Platform to other SSSs according to ECSDA standards. That includes the coverage of technical and legal

aspects that assures the soundness of the link. There is a specific agreement signed between IBERCLEAR and each CSD, that includes both a Legal Section, and an Operational Section.

- 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.***

No.

- 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.***

There are no risks arising from the failure of other SSSs in delivering securities, since the delivery is made once the availability of securities is assured.

V. SECURITIES TRANSFERS, FUNDS TRANSFERS AND LINKAGES BETWEEN TRANSFERS

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

There is a registry and matching procedure in CADE Platform. IBERCLEAR is developing a new matching procedure for IBERCLEAR operations, both for those traded on CADE Platform as well as in SCLV Platform

1. Is matching required for all transactions without exception?

Matching is required for all transactions between direct participants in the Platform, including free of payment transfers. The operations coming from Electronic Trading Systems (Senaf, EuroMTS, MTSEspaña and BrokerTec) are received in the Platform already matched. Transactions involving third parties (clients) are not matched in the system.

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

In case of mismatching, the participants are immediately informed through the automatic reporting procedure (online computer communication) in order to solve the problem.

3. Are matched settlement instructions binding on participants?

Yes, once a transaction is matched, it is binding on participants.

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

The consequences of a participant's failure can be:

- Penalties
- Reiteration could cause a temporary or definitive exclusion of the System.

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

This is a feature of the SSS's rules and procedures, confirmed and approved by the Law.

- (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.**

From 7:00 am to 18:00, and prior the reception of the orders, the transactions are matched on a trade-by-trade basis. Once orders are matched, the instructions become binding.

At the moment, there is no pre-matching process.

B. Are securities transferred within the SSS registered?

1. Who is the registrar?

IBERCLEAR, through CADE Platform, has the functions of keeping the book-entry register of securities traded on the Book-Entry Public Debt Market as well as on the AIAF Fixed Income Market. IBERCLEAR also handles the clearing and settlement of trades transacted on these markets.

The book-entry register is structured as a central component in charge of IBERCLEAR, in which the aggregate balance of securities for each of the participants is kept, and an itemised individual register in each authorised participant's charge, in which securities are listed under each holder's name.

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

The securities must always be registered in the name of the beneficial owner

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

CADE Platform only keeps the aggregate balance of securities for each of the participants, segregated into own account and third parties account. The participants are in charge of an itemised individual register in which securities are listed under each holder's name.

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

If the securities' account of the seller has sufficient balance and the buyer has enough balance in the cash account (for DvP transactions) the CADE Platform registers the securities' transfer either on a real-time basis or in one of the two batch processes as final.

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

The registration process is immediate as long as there are enough securities in the seller's account and enough cash in the buyer's account for DvP transactions. Participants receive on-line information on the status of their orders.

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?

The securities cannot be transferred before registration in the buyer's name.

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

The securities transfers are processed by debiting and crediting the respective securities accounts (buyer's and seller's) once their orders have been matched, and provided there is enough balance of securities (seller) and of cash (buyer)..

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

The transfer of securities are processed as debits and credits to members' accounts.

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

CADE Platform is a real-time system with two additional batch processes: the first one is an overnight process while the second one is an end of day batch.

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

The real-time process is available from 7:00 to 16:00.

There is an overnight batch that starts at 18:00 on S-1 with settlement finality for the transfers processed in this batch at 7:00 am on S.

The end of day batch process starts at 17:00.

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

The settlement process for all types of securities occurs daily.

- 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 transfers of funds are always debited and credited in central bank money.

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 CADE Platform does not maintain cash accounts for its participants. Cash settlement is always made through the direct accounts that the participants hold in Banco de España. Those participants that do not hold a direct account with it must arrange their settlement through some other participant, always provided that IBERCLEAR and Banco de España are informed of this situation.

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

On the Central Bank, Banco de España, so participants do not bear cash deposit risks.

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

IBERCLEAR does not provide credit extensions or advances of funds to its participants.

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

Not applicable.

E. *Is the SSS a DVP system? If so, please describe the DVP model used according to the models outlined in the DVP Report (see the Introduction). Please also provide a diagram indicating the timing of events in the processing of securities and funds transfers in the SSS. Where the SSS provides more than one alternative for settlement processing, please provide a response for each alternative and indicate the relative importance of each alternative.*

CADE Platform is a DVP system following Model 1 according to the BIS definitions. CADE Platform settles securities and cash on a gross basis (trade-by-trade), providing finality by crediting/debiting simultaneously the securities and cash accounts

The system checks if the seller has enough securities, if it is so, immediately checks if the buyer has sufficient balance (through the interface with the payment side). In this case the transaction is settled with finality and is irrevocable.

The instructions can also be final in either of the batch processes provided that the buyer has funds and the seller securities. CADE Platform strictly fulfils the DvP principle.

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

(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.

CADE Platform settles both securities and funds on a gross basis. Each securities transfer is linked to a specific fund transfer on a trade-by-trade basis.

(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?

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

Transactions become final when the seller has enough securities and the buyer enough cash in their balances.

Transactions that are settled in the overnight process (S-1) are final at 07:00 on S. Transactions settled in real-time can be final from 07:00 to 16:00, while transactions that are settled in the end-of-day process are final at 17:00.

(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?

Securities transfers become final as soon as the buyer has funds and the seller has securities, i.e. when settlement has been carried out.

- (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.**

Currently, the timing of finality is the same for all types of securities, there is no difference according to type. The only currency used is Euros.

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

Participants in CADE Platform receive on-line computer communication on the status of their orders in real-time. Therefore, participants are able to trace their orders (matched, unmatched, final....) during all the matching and settlement process.

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

CADE Platform does not guarantee funds or securities transfers before finality is achieved. Only when finality is obtained, transfers can be considered final and irrevocable

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

As mentioned above, only when the transfers are final, the Central register guarantees the transaction. Therefore, CADE does not take any risk.

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

CADE Platform is only the binding register for securities accounts as stated in the regulations.

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

All these matters are regulated in the Law 24/1988 of Securities Markets as amended by Law 44/2002, Law 41/1999 and in the Royal Decree 505/1987.

VI. DEFAULT PROCEDURES

- A. Please discuss the events or circumstances that would constitute default of a participant under the rules and procedures of the SSS or that would lead the SSS to make use of exceptional settlement arrangements or unwind procedures.*

The default procedures in CADE Platform are really measures to prevent failure in settlement.

There is an automatic securities lending procedure in case of securities default at the end of day. The failing entity would be able to borrow the needed securities from a lender's pool via an overnight penalised repo transaction. This securities loan depends on the funds available on the account of the failing entity in order to face the payment for the securities received via the repo.

In addition, Banco de España provides standing facilities for the participants in order to obtain liquidity, if needed. If neither of the facilities mentioned above are available (for securities or cash), the system can cancel unsettled transactions. This implies high penalties and the possibility of exclusion from the system.

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

In case of insolvency, CADE Platform would implement the adequate procedures in order to protect the rest of the participants as well as the customers of the defaulting participant.

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

See answer to question 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.**

A default is only constituted when there is a failure to make payments or deliveries of securities, in the moment that the participant should meet these obligations, that is, on settlement day. The reason behind this failure is not relevant for IBERCLEAR. Transactions never become unwound.

- 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?*

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

At the end of the day, participants are notified if there are any imbalances in funds and/or in securities accounts. However, participants are usually aware of the possible imbalances prior to the closing time through the information received by the on-line communication system, which allows participants to monitor the status of their orders in real-time. Anyhow, the defaulting entity is informed of

this situation and is notified of the application of the overnight penalised repo transaction.

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

There are specific mechanisms to prevent failures in settlement such as securities and cash facilities, extra-time to find cash/securities lenders, etc.

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

At 17:00 participants are fully aware of any possible lack of either securities or cash to settle their transactions. Extra-time could be given (until 18:00) in order to solve imbalances.

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

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

Transaction cannot be unwound once they are final. Orders that can not be settled, are cancelled by the Platform at the end of the day

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

There are no provisional transfers in CADE.

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

Debit balances are not allowed. Those orders that had been cancelled at the end of the day must be introduced in the Platform again the following day.

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

Not applicable. Unwinding not permitted

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

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

Bankruptcy or insolvency can be declared retrospectively in Spain, but according to Law 41/1999, of November 12th, it does not affect securities instructions introduced in CADE Platform.

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.**

The final transfers of securities or funds, cannot be unwound in any case.

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

Yes. There were four cases during the last 12 years. None of them created serious settlement problems.

1. **Have loss-sharing procedures been invoked?**

No. There is no loss-sharing agreement in CADE Platform.

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

No, there were no losses for either IBERCLEAR or for the participants.

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

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

Debit balances are not allowed in CADE Platform

1. Under what conditions could such debit positions occur?

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

Not applicable

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

Debit positions in participants' securities accounts are not allowed.

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? and

Not applicable

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

- (a) Application of loss-sharing provisions allocating the loss to participants?**
- (b) Absorption of the loss by the SSS?**
- (c) Other? Please specify.**

Not applicable

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

In CADE Platform and in the event of a securities default, the failing entity would be able to borrow from a lender's pool via an overnight penalised repo transaction. Such pool is made up of a number of entities that, on a voluntary basis and by prior signature of a contract, make their securities available to the system. Should these securities not be available in the pool, the Banco de España could act as lender of last resort offering the needed securities against a securities' pledge, as approved by the ESCB.

- 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.**

The process is not automatic. Before starting the lending process, CADE informs the failing participant about the default and proceeds to solve it via an overnight penalised repo.

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

Defaulting participant is immediately notified by telephone as well as by the information provided through the on-line communication system.

- 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?**

All securities registered in the Platform are eligible for lending. Participants may decide to act as lenders by signing an agreement with IBERCLEAR. Once the agreement comes into force the participant may be obliged to cover a default with an overnight repo.

- 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?**

The overnight repo is carried out as any other repo transaction. CADE Platform registers it as any other transaction. There is no common pool of securities for this purpose. The principals are the lending and the borrowing participants. CADE does not act as part or principal.

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

CADE Platform settles back-to-back transactions following the usual procedures, like any other transaction (repo or outright). There is no possibility to identify back to back transactions: if there are enough securities and enough cash, the transaction will be final.

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

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

See answer C

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

See answer C

- (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?

See answer C

- (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.**

See answer C

- (e) Other? Please specify.**

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

Not applicable

- 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?**

Not applicable

VIII. RISK CONTROL MEASURES

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

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

There is a Supervision & Control Department and an Internal Auditor in charge of operational and financial audits.

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

All new products, services and procedures implemented by IBERCLEAR are analysed in relation to the risk that these products may cause to the system.

The risk policies defined for these procedures are finally approved by the Board of Directors.

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

As it was described in the answer to question 1, there are Departments in IBERCLEAR in charge of risk management.

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

There is an Internal Auditor which report directly to the Board of Directors.

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.*

1. Who performs the audit or examination?

Internal Audits / Examinations: Supervision & Control Department, Internal Auditor and Risk Department.

External Audits / Examinations: The supervisory body (CNMV), and different accounting firms.

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

Internal Audits / Examinations:

Supervision & Control Department and Internal Auditor: They revise the fulfilment of the rules and perform financial and operational audits.

External Audits / Examinations:

The supervisory body (CNMV): It is empowered to administer or enforce laws related to securities matters. It is also performs operational audits.

Accounting Firms: They perform operational and financial audits

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

Yes, it addresses the sufficiency of and compliance with internal controls. It is one of the aims of the different audits / examinations when it is applicable.

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

Yes, it addresses the SSS's compliance with its own rules and procedures. It is one of the aims of the different audits / examinations when it is applicable.

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

Internal Audits / Examinations:

Supervision & Control Department and Internal Auditor: They review the fulfilment of the rules on a daily basis and perform financial (two or more times a year) and operational audits (two or more times a year).

External Audits / Examinations:

The supervisory body (CNMV): It is empowered to administer or enforce laws related to securities matters. Everyday IBERCLEAR informs CNMV about the registration and settlement activities. It is also performs operational audits two or more times a year

Accounting Firms: They perform operational (every two years) and financial audits (annually).

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

The results of the financial audit performed by an external audit are publicly available.

C. Please discuss whether the SSS has the capacity to value (i.e. mark to market) the securities that it holds.

CADE Platform does not calculate the value of the securities that it holds.

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

Not applicable

2. How frequently are securities revalued?

Not applicable

3. What are the sources for security valuations?

Not applicable

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

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

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

No

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?

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

CADE Platform does not require collateral to participant entities.

1. Does the SSS manage its own collateral system?

No.

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

No

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.

IBERCLEAR does not use limits on exposures to monitor or control risk.

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

No 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?**

No applicable.

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

No applicable.

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

No applicable

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

No applicable

- 6. How are limit policies developed and reviewed?**

No 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?**

No 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?**

The participants can monitor the status of their orders and their accounts via the on-line communication system.

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

Yes, particular cases of participants can be followed-up more directly.

- 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

A. *Please provide assessments of the operational reliability of the computer and other systems used by the SSS, including any criteria that the SSS uses internally for this purpose.*

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

(a) Whole system overall?

The system works 20 hours per day. The percentage of availability of the system is over 99.9%

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

During the last year there were no failures in those components.

(c) During critical processing periods?

The percentage uptime last year was 100%

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

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

The settlements haven't had any problem of this type in this period.

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

None.

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

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

Yes.

2. Is this plan available for review by participants?

No, but the participants have received information about their responsibilities of the continuity plan.

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

It is checked approximately every six months . Participants were involved in the continuity plan tests, buy they do not systematically test it.

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

The plan is based on a duplicate air conditioning system, peripheral elements and fault tolerant UPS and CPU.

In case of non-recoverable failure, we have an external backup installation identical to ours in software, hardware and communications lines.

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

We will be able to resume operations in 120 minutes.

C. *What are the key features of the internal controls covering operations and security at the SSS (e.g. change controls or those covering remote access)?*

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

Communications are encrypted. There is a previous identification for remote terminals in order to access CADE system. This identification takes place at participant level.

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

There are internal controls, included in the internal audit.

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

There are not regulatory requirements, but it is covered by the design of the information system.

D. *Does the SSS impose minimum operational or performance standards on third parties (e.g. communications providers)?*

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

The agreement fulfilments are usually controlled.

The providers are responsible for their own failures according to the agreements.

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

According to the rules.

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 financial instrument (e.g. income, voting rights, power to transfer). Beneficial ownership is usually distinguished from "legal ownership" of a security or 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 immobilised by the depository or securities may be dematerialised (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 the country in which one trade counterparty or both are located.

Custodian: an entity, often a 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, with the cumulative result that a substantial number of transfers fail to be executed on the scheduled date.

Gross settlement system: a transfer system in which the settlement of funds or securities transfer instructions occurs 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.

Immobilisation: 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 unrealised 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 settlement 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 in 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 a 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 account: 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 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 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 institution 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 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 countries 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 that date.