

SENAF MTF Model

Bonds, Obligations, Strips, FRNs and FROBs
Segment

Contents

1. INTRODUCTION	3
2. MARKET MODEL	3
2.1 Continuous Market	3
2.2 Blind Market	3
2.3 Real Time Market	3
3. TRADING INSTRUMENTS	3
3.1 Bonds	4
3.2 Strips	4
3.3 Frobs	4
3.4 Switches	4
4. METHOD OF TRANSACTIONS	6
4.1 Multilateral Negotiation	6
4.2 Types of Negotiation	6
5. TYPES OF ORDERS	6
6. UNITS OF NEGOTIATION	7
7. PRICES	7
8. REGISTRATION AND SETTLEMENT OF TRANSACTIONS	9
9. CATEGORIES OF MEMBERS	9
10. CONTROL OF RISK	9
11 MARKET INCIDENCES	10
12. MARKET ACCESS	10

1 Introduction

SENAF MTF is an electronic trading Platform for the trading of financial instruments issued by the Spanish Public Treasury and by the Bank of Spain. Credit entities that meet the requirements for their admission in the system may participate on this platform as well as brokers which will act on behalf of Credit entities.

Negotiation is made in real time by electronic means, providing dealers with all the necessary means to carry out their book orders.

2 Market Model

2.1 Continuous Market

Trading takes place on a continuous way from 8:30 to 17:15 (CET).

2.2 Blind Market

Market is blind in the sense that Participant Entities are not identified at any moment. Positions and done transactions are visualized all the time.

2.3 Real Time Market

The system informs all participant entities of everything that is occurring on the market in real time. The spreading system provides participant entities with real time detailed information about everything that is taking place on the market (transactions, orders...) providing of a total transparency to the market activity.

3 Trading Instruments

Instruments form groups, these groups are identified in the System through a numeric value. Every instrument belonging to this Group is identified by a code assigned to the pair issue – settlement date.

Trading instrument groups in the System are as follows:

- BONDS (1) .- Instruments that are composed by Bonds, Obligations and FRNs
- STRIPS (2) .- Instruments that are composed by Coupons and Principals
- FROBS (12) .- Instruments that are composed by Frobs

- SWITCHES (7) .- Instruments that are composed by Switches

Each group has its own trading characteristics.

3.1 Bonds

The price is quoted ex coupon to 3 decimal places. The third decimal may only be 0 or 5.

The standard settlement date is T+2, i.e. the session date plus the 2 following business days. Nevertheless they may also be negotiated with different settlement dates such as T+3, T+4... . Instruments with no standard settlement date will have a special mark. It is possible that instruments with the same issue (ISIN code) may be negotiated with different settlement dates in the same session.

A feature of these instruments is that they can be marked as benchmarks. This means they are reference instruments for the Public Treasury which will be modified over time according to the Public Treasury criteria. Currently there are benchmarks for the terms of 3, 5, 7, 10, 15, 20, 30 and 50 years.

FRNs are a subgroup of Bonds, due to their special characteristics (floating coupon rates) IRR is not calculated.

3.2 Strips

They result from the segregation of the issues of Bonds and Obligations giving rise to coupons and principals. The price is quoted in interest rate to 3 decimal places. The third one may only be 0 or 5.

3.3 Frobs

See Bonds. Frobs have not got the characteristic of Benchmark at present.

3.4 Switches

Switches consist of the purchase/sale of one instrument and the sale/purchase of another instrument simultaneously. The instruments object of switches are the Bonds and the Obligations, the Strips and the Treasury Bills.

Instruments that are part of a switch receive the name of “short instrument” and “long instrument”, according to their respective maturity dates. A bid order will refer to the purchase of securities of the short instrument and a sale of the long instrument. An ask order will refer to the sale of securities of the short instrument and a purchase of the long instrument.

They are quoted by IRR difference between the two instruments (IRR of the long instrument minus IRR of the short instrument) in cents with two decimals places (3 digits any from zero to 9 X.XX).

Negative or zero quoting is possible.

4 Method of transactions

4.1 Multilateral Negotiation

It is named a multilateral negotiation to that form of trading in which the trades are the result of the crossing of the different orders introduced by the Dealer members or by broker members on behalf of the Dealer members in the book of orders of the System.

The orders are entered indicating the desirable volume (nominal amount equal or multiple of 1 million €) and price (ask, bid or both). The orders are placed in the System in accordance to a double principle of priority regarding the price and the input time. Negotiation of the positions takes place automatically based on these priority criteria. The orders are grouped by prices visualizing the sum of the nominal amount for each of the bid/ask prices.

All trades are placed in the System until they are cancelled by the member that has generated it or until the closing of the daily negotiation, provided that they have not produced a transaction.

4.2 Types of Negotiation

It is negotiated by Price or by interest rate depending on the characteristics of the instruments as it has been indicated in point 3.

5 Types of orders

All orders introduced are limited orders. Regarding the time they are remaining in the system the only choice permitted is "immediate or cancel".

Orders permitted by the System:

- Positions
 - Bid order
 - Ask order
 - Bid and Ask order
 - Market Making order
- Executions
 - Buy order

- Sell order
- Modifications and Cancellations
 - Single modification
 - Modification by segment
 - Single cancellation
 - Massive cancellation
 - Total cancellation (panic)

6 Units of Negotiation

Negotiation is made in nominal amounts. The minimum volume of trading is € 1 million and multiples of this amount.

7 Prices

Prices are expressed in percentage over the nominal value with 3 decimal places. Interest rates are also expressed with 3 decimal places, taking into account the restrictions of each instrument detailed in point 3.

Ex coupon price does not include the accrued coupon. Those issues that fulfill standard requisites which permit to know since their incorporation to the System the dates in which the different flows are produced (redemption, coupon payments, etc.) as well as their economic data (the accrued amount since the accrued date, the nominal reduction, ...) will be incorporated to the quoting modality "ex - coupon".

This implies that the Price shown in the input of the order or in the execution of a transaction does not include the accrued coupon. The trader indicates the nominal value and ex coupon price that it wishes to negotiate in such a way that the System is the one that calculates the accrued coupon from the accrued date of that coupon until the settlement date of the instruments in the SENAF MTF system. Likewise the System calculates the IRR automatically for these issues in certain cases.

Negotiating prices both in percentage and yield have a gap between bid and ask during the negotiating session that may be amended by the Supervision Department in the case that it exceeds the bid or ask.

This gap is calculated on a daily basis at the market closing for the next day's negotiating session.

8 Registration and Settlement of Transactions

Transactions will be registered and settled in T2S. Once a transaction is executed, it is considered definitive and is communicated directly to T2S by the System being SENAF MTF the sole communicator of the transactions (one-to-one match). Trades will be Settled and Cleared on their settlement date.

Registration and settlement of the executed transactions is entered in the member's account (own account or custodian account).

In case of no settlement of a trade is produced on its value date, it will go into a recycling period that lasts six working days from the value date that was contracted or in case the instrument matures within the aforementioned recycling period the trade will be cancelled in the first case on the sixth day and in the second case the day before its amortization.

9 Categories of Members

There are two Members categories in the System. Both are regulated by their corresponding Circulars:

- Broker Members who are authorized to mediate in the System. These Members may not enter their own positions and act for and on behalf of Dealer Members, receiving orders and transmitting them to the System for execution.
- Dealer Members who are authorized to negotiate in the System, may conduct operations in the system acting at full capacity, directly or through Broker Members and will be bound to meet the requirements of the entity responsible for clearing and settlement of transactions in the System.

10 Control of Risk

SENAF MTF will do a daily adjustment by difference based on the prices at market close as detailed in the corresponding Circular.

The transactions published by SENAF MTF shall be final in nature and binding on the Members originating them.

11 Market incidences

According to the regulations in force of SENAF MTF, if there are operations generated by typographical errors in price, these operations may be voidable by the Supervision Department. The aforementioned cancellation may be made if any one of the involved counterparties requests it by phone to the Supervision Department within the 15 minutes following the time of the execution of the operation, provided the counterparty agrees to cancel the trade or otherwise the price is out of range as specified in the Circular in force.

The transactions may also be modified by error in the name of the holder provided that these transactions have been introduced by a Broker Member and request to the Supervision Department within 15 minutes following the time of the execution of the operation.

12 Market Access

SENAF MTF offers two possibilities to access the market:

- Via remote Terminals: Terminals are a standardized GUI developed by the IT department, including all functionalities to access the market.
- Via A.P.I.: It would be the Entity or the Provider who would implement controls to order acceptance.

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