

Circular n1 4/2017, of 4 September

**PROCEDURE FOR MEMBERSHIP OF ENTITIES OF THE SECURITIES SETTLEMENT
SYSTEM MANAGED BY IBERCLEAR**

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

Title III of the IBERCLEAR Regulation governs the regime applicable to participants in IBERCLEAR systems. Article 9 stipulates that the status of participant may be acquired by those entities which belong to any of the following categories: credit institutions, investment companies authorised to provide financial instrument custody and administration service, the Bank of Spain, General State Administration and the General Treasury of Social Security, and public institutions and legally private bodies when a general stipulation expressly authorises them to act as participants in systems managed by IBERCLEAR.

Likewise, authorised Central Securities Depositories and Central Counterparties may acquire participant status under the same conditions as the aforementioned categories when they access the same services that IBERCLEAR offers participants. In any case, the membership procedure outlined in this Circular shall be applicable. Otherwise, their access shall be governed by the provisions of Title IX of the aforementioned Regulation and their implementing provisions.

As a result of the second phase of the Reform of the Securities Clearing, Settlement and Registration System, settlement has now been included in the ARCO Settlement System (hereinafter ARCO System) of those securities which until now were part of the Clearing and Settlement System for transactions carried out in the Book-Entry Public Debt Market and the AIAF fixed income market (CADE system), and the connection of IBERCLEAR to the Target2-Securities technical support (hereinafter T2S), managed by the European Central Bank and the group of euro area Central Banks, will now proceed. It is, therefore, necessary to reflect on the characteristics and requirements resulting from these changes on the membership procedure.

The purpose of this Circular is to approve the procedure for entities to join the ARCO System, including the new features, requirements and procedures resulting from the connection of IBERCLEAR and its participants to T2S.

Therefore, the Board of Directors of IBERCLEAR has approved the following:

Rule 1. Scope of application

Entities wishing to join the ARCO System must meet the requirements and carry out the membership procedures laid down in this Circular.

Rule 2. Requirements for joining the ARCO System

1. Entities wishing to access and maintain their status as an ARCO System participant must have the proper control systems and technical means for the operations they carry out, as set out in Appendix 1 to this Circular.

To this end, they need to have adequate connection systems with IBERCLEAR, to enable them to carry out their functions and to meet their obligations of the provision to data information, transmission and storage System. The participants may use their own technical resources or those of another participant in the ARCO System or of a Stock Exchange Management Company (delegated entity).

Participants may also connect directly to T2S, without making use of IBERCLEAR's technical means (DCP connection). To make this DCP connection, participants may use either their own technical means or those of another entity which has DCP connection.

2. Those entities applying to be ARCO System participants that use their own technical means must pass the tests stipulated in Regulation 4 of this Circular to acquire ARCO System participant status.

3. For cash settlements, participants must have one or more dedicated cash accounts linked to each of the securities accounts held in the Central Register. To do this, participants may use their own dedicated cash accounts or have the settlement debited against the cash account of another entity, that must be open at the Bank of Spain, European Central Bank or other Central Bank of another member State of the European Union whose system is connected to that of the Bank of Spain through the Central Banks Eurosystem framework.

4. The payment of the fees established by IBERCLEAR will take place in the payments module account designated by the participant and open at the Bank of Spain, European Central Bank or other Central Bank of another member State of the European Union whose system is connected

to that of the Bank of Spain through the Central Banks Eurosystem framework by the entity or other entity where the payment of these fees is domiciled.

Rule 3. Membership agreement and specific conditions

1. Entities that wish to become participants in the ARCO System must complete and deliver to IBERCLEAR's registered office a duplicate copy of the membership agreement in Appendix 2 to this Circular, along with the document stipulating the Specific Membership Conditions, in accordance with the specimen set out in Appendix 2a.

Entities must present the following along with the specific membership conditions:

- A detailed report specifying the IT resources available.
- The document accepting the use of technical means, in accordance with the specimen set out in Appendix 2b, if the applicant is not using their own technical resources.
- The document accepting cash debits, in accordance with the specimen set out in Appendix 2c, if the applicant makes use of the account or accounts of another entity to make cash settlements.
- The document accepting direct debits for billing in the payments module account, in accordance with the specimen set out in Appendix 2d, if the applicant makes use of the account of another entity to pay fees.
- Letter of authorisation to make debits and credits in the payments module account, which is included Appendix 2e.
- Documentary evidence of the DCP connection, in the event that the applicant additionally opts for this connection to T2S.

2. If the participant wishes to have more than one operational BIC code with IBERCLEAR, it must present the aforementioned documents for each BIC code it uses, along with the membership agreement.

Rule 4.- Technical membership tests

1. Entities wishing to join the ARCO System that intend to use their own technical means must carry out tests.
2. Stock Exchange Management Companies that allow entities to use their technical means to send IBERCLEAR information must also carry out tests.
3. Once IBERCLEAR receives the participant's membership agreement, it shall initiate its connection or, where appropriate, that of the participant whose technical resources are to be used, to its communications network.
4. IBERCLEAR shall establish the content, order and deadlines for carrying out each of the tests to be performed by the entities.
5. The purpose of the tests is to check the proper continuous connection between the entity's computers and those of IBERCLEAR and their respective data transfer products; the ability of the entity to receive each of the intended formats for transmissions from IBERCLEAR to the entity, with the proper volume of registrations, frequency and schedule; and the capacity to generate each of the intended formats for transmissions from the entity to IBERCLEAR, with the volume, frequency and criteria for validation of the data specified in the definition of procedures.
6. Entities shall also be responsible for carrying out any internal application and performance tests that may be required, and must specifically ensure that they can recognise and process any data sent to them by IBERCLEAR.
7. When the technical tests stipulated in this Regulation have been passed, IBERCLEAR shall issue a report with the contents and results of the tests performed by the entity.
8. The tests in relation to the DCP connection are not included in this Regulation. The establishment and maintenance of this DCP connection, which enables the participant to connect directly to T2S, is subject to the terms, conditions and authorisations set by the manager of TARGET2-Securities in force at any time.

Rule 5. Confirmation of ARCO System membership.

Once the corresponding documentation has been delivered to IBERCLEAR's registered office, IBERCLEAR shall reply to membership applications within a maximum period of one month. Where appropriate, IBERCLEAR shall register the participant on the ARCO System and send them a signed copy of the membership agreement. It shall also inform the Spanish Securities



Market Commission (CNMV) of the new member prior to the date on registration becomes effective.

If, however, IBERCLEAR refuses to accept an entity as an ARCO System participant, it shall provide a reasoned explanation in writing of its decisions, pursuant to the provisions of IBERCLEAR's Regulation.

Rule 6. Amendment of membership conditions

1. Participants must notify IBERCLEAR of any circumstance affecting their status, corporate format or legal status, and may amend their membership conditions (specific membership conditions, technical means, cash debiting, and letter of authorisation to make debits and credits in the payments module account) with no need to sign a new agreement. To this end they must notify the new conditions, presenting the specimens set out in the appendices stipulated in Regulation 3 of this Circular to IBERCLEAR's registered office.

2. The application for amendment of the membership conditions must be accompanied by a letter in which the participant unequivocally states the date as of which it is requesting the change and, where applicable, that it has notified the application and has secured the approval of any other entity affected by the change.

3. In general, the application for amendment must be made at least five days prior to the effective date in the ARCO System, which shall be subject to the approval of IBERCLEAR.

Rule 7. Publication of the list of ARCO System participants.

1. IBERCLEAR shall keep a register of ARCO System participants containing all the data stipulated in Regulation 3 of this Circular.

2. IBERCLEAR shall post the updated list of ARCO System participants on its website.

TRANSITORY PROVISION

Those ARCO System membership agreements signed by the participants and IBERCLEAR in accordance with Circular 2/2016, before the entry into force of this present Circular, shall remain valid.



REPEALING PROVISION

Circular 2/2016, of 29 January, on procedure for membership of entities of the securities Settlement System managed by IBERCLEAR is repealed.

FINAL PROVISION

This Circular shall enter into force on the day following its publication.

Madrid, 4 de septiembre de 2017

Jesús Benito Naveira
Consejero Delegado