

SUMMARY OF THE 2nd MEETING OF THE CLEARING, SETTLEMENT AND REGISTRATION GROUP (CLR GROUP)

25 September 2019

1. Introduction

The Chairman of the CLR Group welcomed the attendees and thanked them for their participation.

Before starting on the agenda, the Chairman reported on the following matters:

- i) On 28 September, Iberclear was authorised as a central securities depository (CSD) in accordance with Regulation (EU) 909/2014 (CSDR);
- ii) The Chairman highlighted the importance of Iberclear's User Committee, created on 3 April 2019, which should be convened as soon as possible, to deal, among other issues, with some of the agenda items of this meeting;
- iii) With regard to the action plans and procedures in the event of insolvency of a participant, considering the test performed on 21 May 2019, in future tests, the CSD should carry out a more rigorous procedure, and it is essential to increase the participation of participants.

2. Settlement efficiency and situation of Spanish entities (Spanish system) in relation to default rates. Reasons for default and late reporting

The CNMV highlighted the importance of improving the system's efficiency rates, inter alia, due to the economic impact of settlement fails which will be sanctioned upon the entry into force of the settlement discipline measures under CSDR. The remainder of this year, and until the entry into force of Articles 6 and 7 CSDR and RTS 2018/1229, scheduled, as a minimum, for November 2020, should be exploited to put in practice the measures to be adopted to improve settlement efficiency, without waiting for sanctions or buy-ins, once they are implemented, to be the driver of improvements, but instead, preventive measures should be identified.

Iberclear was invited to report on its analysis. Participants were also invited to share their views in order to assess the degree of readiness of the system.

Iberclear reported on the settlement efficiency analysis carried out in the past year, which shows the participants exceeding the suspension threshold during the sessions analysed (Article 7(9) CSDR). Iberclear also reported on its

ongoing actions, on the basis of these statistics: contacts with entities with lower efficiency rates, requesting relevant clients from key participants, and contacts with participants that nominally exceed suspension thresholds. According to the analysis performed, the entities that would be in this situation are participants with little activity.

(Presentation attached).

Iberclear reported on the works being carried out at ESMA aimed at ascertaining the cause of the settlement fail, and when asked by a participant with regard to the possibility of the CSD cancelling instructions already matched, Iberclear stated that the CR-0691 of T2S (which is pending legal review) proposes to automatically cancel matched instructions with no changes in status during the last 60 days.

The CNMV expressed its concern about the high percentage of late reporting in the Spanish system, stressing the need to analyse it. According to some Group members, the lack of positions is the main reason for instructions entering into the systems after their ISD. According to a participant, in the Spanish case, this problem is associated with the registration, this being the reason why the ratios vary according to the model or the types of accounts used, the Financial Intermediary Model (SFI) being the most efficient model.

The CNMV proposed to Iberclear that it would be advisable to perform monitoring and control analyses by types of accounts and types of financial instruments, even if their ratios were higher than the market average.

3. Financial Intermediary Model (SFI) – Rule 5 of Circular 18/2017

The attendees were also informed about the update of Iberclear Circular 18/2017, for its alignment with the amendments to RD 878/2015 and the CSD Regulation.

Also reported was the potential inconsistency between the wording of Rule 5 of the Circular, which refers to the unavailability of the individual third party account, which is typical of this model, and Article 96 of the Spanish Securities Market Act with regard to guarantees aimed at mitigating settlement risks. There is consensus that undoubtedly a rule with the force of law has priority over the Circular but, as participants using this model stated, it is necessary to know the operating procedure, in detail, of the CSD.

Iberclear stated that it would create a technical group to address this issue. The CNMV proposed that these works should be submitted to the User Committee and that the proposals should be forwarded to the supervisor.

A member of the Group stated that, apart from this issue, the SFI model has other aspects that could be improved: primary market transactions, a procedure for linking in certain transactions or disaggregation of flows for retail, which should be addressed in the future.

4. Amendment of PTI – Instruction 03/19

In February 2019, Iberclear published the Instruction no. 3/2019 for the amendment of the PTI manual and the Monitoring and Control Manual. Since

then, a number of questions arose, resulting in the publication, by the CSD, of a Q&A in response to such questions.

Iberclear stated that the amendment of the PTI was aimed at: improving settlement efficiency, facilitating and simplifying its implementation, standardising the information to be provided by the parties involved (including other CSDs) and improving communications with issuers; emphasising that these amendments did not entail any change for market members. BME stated that the modification of the PTI was not motivated in stock exchange fees and it does not have impact on these fees.

However, various Group members stated that there were still open issues, on which the industry had different interpretations. It was noted that these amendments could affect the SFI model and market members.

Iberclear stated that these amendments had been being considered with participants since October 2017. The CNMV stressed the need to review these changes to determine whether impacts not duly identified exist, to clarify how they affect participants and market members, and to correct industry interpretations which could lead to proposing changes to the business model.

The CNMV pointed out that it was vital to resolve these issues prior to the entry into force of the amendments, and proposed that this issue be submitted to the User Committee.

5. Reporting by internalisers and update of the CNMV's readiness

The CNMV reported on the status of the development of the receiving system for internalised settlement reports, whose implementation is scheduled for November, and stressed the need for entities engaged in this activity to perform the relevant testing. All the information related to this process is available on the CNMV's website.

(Presentation attached).

Some of the Group members stated that there was not a lot of internalised activity in the Spanish market, and that they had some doubts with regard to the scope. The CNMV reminded the attendees that there was a mailbox for possible queries: csdr.mercados@cnmv.es

6. Transposition into Spanish law of the Shareholders Rights Directive (identification of shareholders)

The process for the transposition of Directive (EU) 2017/828 is under way. However, as yet, there are no details with regard to the timetable.

Iberclear stated that they were analysing the CSD's procedures to adapt them to the standards under development by the international work groups, and that regarding the identification of holders, the current system does not differ very much from that of the Directive. With regard to the notice convening general meetings and voting rights, little progress has been made; pending the transposition of the directive, but its line of work is that, once the communication channels have been automated, these same channels can be used for the confirmation of vote stage.

7. Requests and questions

There were no requests or questions.

MEMBERS OF THE CLEARING, SETTLEMENT AND REGISTRATION GROUP (CLR GROUP)

CNMV
Bank of Spain
Iberclear
BME Clearing
Spanish Stock Exchanges and Markets
European Central Counterparty NV
Santander Securities Services
Banco Bilbao Vizcaya Argentaria
BNP Paribas, S.A. Sucursal en España
Citibank International PLC
The Spanish Confederation of Savings Banks (CECA)
Credit Suisse Sucursal en España
GVC Gaesco Beka S.V., S.A.
The Spanish Banking Association
Gestora del Fondo General de Garantía de Inversiones, S.A. (Investment
Guarantee Fund)
Spanish Issuers