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1 15th Anniversary of IBERCLEAR as Central Securities Depository

The book-entry system was introduced into the Spanish system in 1987 in order to register Public Debt securities under the management of the Bank of Spain, governed by Royal Decree 505/ 1987 of 3 April, according to the Spanish Law 21/ 1986, of 23 December.

On the 14th December 1992, the Securities Clearing and Settlement Services (SCLV), acting as Central Securities Depository for Spanish securities listed on the Spanish Stock Exchange commenced its operations. It was initially responsible for the transformation of physical securities into book entries, accounting for the balances of the entities in the Central Registry of Book Entries under its management, a job assigned to it by the Stock Market Law of 1988 and Royal Decree 116/ 1992, of 14 February, along with other responsibilities such as the clearing and settlement of transactions.

Later on, in 1993, Espaclear was incorporated - the Depository and Clearing House for the fixed income securities listed in the AIAF Market.

As a consequence of significant, technical and operational developments IBERCLEAR was officially created on the 1st of April 2003. Here, the clearing and settlement functions were carried out for the before mentioned securities and along with the Public Debt securities. This responsibility had been taken before by the Banco de España, integrated in CADE platform.

With such an auspicious anniversary looming, IBERCLEAR has decided to celebrate a party with all the institutions making up this industry, aimed at those that work or have worked for the participant organisations, Official Bodies and IBERCLEAR.

The date chosen for what we will call "The Back-Office Party", is Tuesday, 15 January 2008, and it will take place on the trading floor of the Madrid Stock Exchange from 7.30pm. Invitations for the event will be sent shortly, either by e-mail or by post.

2 TARGET2 Cash

Spain belongs to the group of countries that compose the second window for connection to the Single Shared Platform (SSP), expected for 18 February 2008. The SSP substitutes and incorporates the Settlement Systems under the management of the National Central Banks that have integrated the current TARGET system.

According to this, cash settlements from securities transactions, with registry and settlement assigned to IBERCLEAR, will be carried out in the accounts allocated in the SSP to the IBERCLEAR participating institutions.

IBERCLEAR will forward any cash settlement to the SSP according to one of the proposed models:

- Model 2 Real- time settlement
- Model 3 Bilateral settlement
- Model 4 Standard multilateral settlement
- Model 5 Simultaneous multilateral settlement
- Model 6 Dedicated liquidity

The preliminary connection tests started in October and IBERCLEAR is participating in them, with all its settlement models, in close collaboration with the participating institutions and the Banco de España.



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3 Technical Risk Commission

IBERCLEAR's Board of Directors, in a session celebrated on 21 February 2007, approved the creation of the Technical Risk Commission, and assigned the task of carrying out the study, follow up and of producing proposals on the development and implementation of the "Action Program for the Risk Management of Stock Market Settlements".

During the meeting sessions organised to date, the procedure used for calculating the daily and monthly margin has been analysed, along with various alternatives for simplifying and improving the process, thereby increasing the level of detail of the information that is sent to the various entities.

The decisions taken by this Commission are included in Annex II of this Bulletin.

4 Annual Windows for Projects Implementation

In the session of 4 June 2007, the IBERCLEAR Executive Committee approved the establishment of three "IT Implementation Windows" for the implementation of new procedures that affect IBERCLEAR participants, to be applicable from 2008.

This decision is aimed at facilitating the planning of internal developments for participating entities to enable them to adapt to new systems through clear test and implementation schedules.

The three "Implementation Windows" are defined:

- 1st) from the 1st February until 15 days before Holy Week.
- 2nd) from 15 days after Holy Week until 30 June.
- 3rd) from the 1st October until 30 November.

5 News

Code of Conduct: Access and Interoperability

- At the end of last June, the three European associations for market infrastructures, FESE (trading), EACH (central counter-party clearing) and ECSDA (registry, depository and settlement), completed their negotiations to establish the terms in which sections 19 to 37 of the European Code of Conduct relative to access and interoperability, will be developed. IBERCLEAR, from the settlement side, and BME's International Department, from the trading side, were active participants in the meetings aimed at drafting definitive guidelines that will set out the framework that will henceforth regulate the access and interoperability relationship between the different market infrastructures. IBERCLEAR expressed its support for these Guidelines through a letter of intention signed on 3rd July, in which it expressed its readiness to accept such terms provided there is no opposition from the CNMV.

Technical Advisory Commission

- The Technical Advisory Commission is the body where IBERCLEAR's technical projects are discussed and launched before their final development and implementation. Representatives from IBERCLEAR's participating bodies, AIAF Mercado Renta Fija [Fixed Income Market] and the Stock Markets are in said commission either as members or guests.
- TAC has met four times during 2007, three of them during the first quarter, to agree on the definitive tests to be performed prior to the implementation of the Single Matching System and to conduct monitoring after its launching.
- During the fourth meeting, the findings of the Technical Risk Commission and the Working Group on loans were presented. The commission detailed the change in the period covered by the monthly margin on the stock market settlements and there was an initial presentation on IBERCLEAR's new procedure for Linked Loans, which will replace the current Centralized Loan.

6 Recently published IBERCLEAR regulations

Circulars

- 4/2007 of 23 May on the "Modification of the Documentation on Technical and Operational Requirements".
- 5/2007 of 27 June on the "Modification of Tariffs".



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6 Recently published IBERCLEAR regulations (continuation)

Instructions

- 13/2007 of 18 July on the "Modification of Technical and Operational Requirements".
- 14/2007 of 21 September on the "Modification of ISO 15022 Messages".
- 15/2007 of 18 October on "Explicit Confirmations of Sale Transactions".

7 Contact

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Annex I: Current System of Guarantees

The section 61 of the Royal Decree 116/ 1992, of 14 February established the obligation to constitute a margin for the institution members of the Securities Clearing and Settlement Service in order to guarantee fulfilment in the transactions pending settlement. In the beginning, the CNMV was responsible for guarantee calculations. Its role was to calculate and review the amount of such margins according to the settlement volume for each organisation, and leaving it to the SCLV to define and calculate the additional margin in case the risk from daily transactions exceeded the margin deposited.

Since 1999, with the modifications established by Royal Decree 2590/ 1998, of 7 December, the SCLV assumed full responsibility as regards margins.

The margin can be realised both in cash and pledge of Public Debt, banker guarantee, or insurance policy, or through any other financial formula that IBERCLEAR considers to be a sufficient and liquid guarantee for hedging the risk and that is accepted by the European Central Bank and the Banco de España as collateral in monetary policy transactions.

The market guarantee is therefore the result of the sum of two components: monthly margins and additional margins.

1 Monthly Margin Calculations as Market Guarantee

The margin for Market Guarantee covers the normal operation of the institutions. It is calculated monthly on the daily average of purchases pending settlement, sales pending settlement and sales pending justification for the last three months. We must apply to this calculation, the highest negative variation in the IBEX-35 (according to security type), in groups of four days (from "T" to "T"+4) for the twenty four months previous to the margin calculation, after excluding, for the purposes of this calculation, the 3% extreme observations. This attempts to account for the variation in the most favourable prices between trade date "T", and performance date for the buy-in or replacement sale that, in case of failure, would be carried out on "T"+4.

The daily average of purchases and sales pending settlement that are the basis for the calculation are previously purged of transactions that, because of their significant amount, are assumed not to take place on a regular basis. These are Take-Over Bids and Initial Public Offerings, registered transactions when the purchase and sale have been settled by the same participant, and other transactions singular in their character, and considered as such because of their size or because of the percentage of equity of the issuer represented.

2 Calculating Additional Margin

The balance in the guarantee is verified on a daily basis to check that it is sufficient to cover the daily settlement risk, requesting additional guarantees when the participating entities reach a risk level higher than the hedging effect provided by their margin, i.e., when it exceeds the guarantees provided or when, relative to the equity of the participating entities, it exceeds the amounts determined by the tolerance margins established by Circular 4/1995, of 19 July on Additional Margins and updated by Circular 5/2006, of 25 October on Market Guarantee Margins.

In this daily risk management, when a purchase and a sale allocated to the same settlement entity can be proved to have been originated in a registered transaction settled directly between the parties or that does not represent a risk to the system, both transactions will be excluded from the calculations.

The additional margin requirements are calculated by the system at 9.00pm on a daily basis, once the communications on volumes and the breakdown of operations have been received from the Stock Exchanges. The risk incurred by each institution is quantified according to the following components of the addition:

- For each security code, the highest between allocated purchases pending settlement and allocated sales pending justification, excluding those purchases used for justifying sales pending settlement. This base will be weighted for the possible variation in prices as determined by the Board of Directors of IBERCLEAR, currently estimated at 7%.

The system requires all contracted volumes to be broken down for the transactions to be settled in terms of issuer and strike price, allocating in this break down a clearing institution participating in IBERCLEAR that must accept or refuse its designation for the settlement of the transactions. Therefore, transactions agreed between market members but pending the breakdown or turned down, and those pending confirmation from the clearing institution specified in the breakdown will also be considered to be allocated transactions for the market members.

- The sum of the debtor positions between the amount paid for sold purchases and the amount received from such sale.



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Annex I: Current System of Guarantees (continuation)

- The sum of the differences between the amount for allocated purchases pending settlement and allocated sales pending justification, and their last appraisal at the average market price when such differences are positive in favour of the original amount for the purchases, in their case and in favour of the market value appraisal in the case of sales.
- The sum of the adjustments due to financial transactions pending endorsement.

3 Mandatory Margin.

Monthly Margin: each participant entity, regardless of their position as a member of the market or not, will have to set up a collateral as a guarantee for their transactions with a minimum amount of 300.000 euros. The real amount to constitute the collateral will depend on the activity of the entity during the last three months.

Additional Margin: As the general premise and according to the section 1 of the Regulation 2 of the Circular 5/2006, of 25 October "the members of the market will be considered punishable for risk that derives from the transactions negotiated from their agreement to their confirmation by the identify as settlement entities in the breakdown and they will be consider punishable for the risk of the transactions from the confirmation to the settlement".

Therefore, IBERCLEAR calculates the risk at the end of the day of the agreement, and requests, if it is necessary, the constitution during the following day, of an additional collateral. This collateral is requested because of the increase of the before said risk due to the transactions negotiated on the same day by the member of the market, as well as the pending settlement of the buying and the pending confirmation of the sale and adding to those transactions agreed by the member of the market tha remain pending breakdown or rejected, as those ones to be confirmed by the settlement institution. The duty to set up this collateral by the member of the market remains until the settlement institution accepts the breakdown, at that time, the entity has to constitute the collateral. The current regulations for the additional margin is mentioned in the Circular 4/1995 of 19 July in the regulation 1st of the before said circular 5/2006.

Note: This section corresponds to Additional Margin. It is necessary to mention that until last 28 February 2007 all the transactions agreed during a "T" day, were considered for the calculation of the risk as from the time when the transactions were assigned to the corresponding entity. Just in cases that the breakdown transactions had not been rejected at the end of the "T+1", since then, they became part of the risk of the entities designed as a settlement entity.

From the 1st March 2007, the calculation is done at the end of the day of the agreement, consequently, buys and sales for which IBERCLEAR had not received during that day the breakdown of the agreed volumes, or those breakdowns had been rejected or not confirmed by the entities designed as settlement entities, they will become part of the risk of the member of the market that executed them.



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Annex II: Agreements Adopted within the Technical Risk Commission

The Technical Risk Commission has reached the following agreements for improving the measurement and management of risk and margins of institutions participating in the Securities Clearing and Settlement System:

1. Including the following alterations in the formula currently used for measuring daily risk:

1.1. In regards to transactions involving the own account of each participating institution, risk will be estimated as the difference between the amount of the purchases and sales that, maintaining the same number of securities, are held by the institution as pending settlement for each security code and future settlement date.

1.2. In the case of transactions involving third party accounts, only the amounts of purchases and sales corresponding to the number of securities with registry references from purchases used for justifying sales, and pending settlement on the same date, can be netted, as is currently being done.

1.3. When calculating the differences between the amounts of transactions pending settlement and their last appraisal at market prices, both implicit gains and losses that could be generated will be taken into account.

1.4. When carrying out a market price appraisal of transactions pending settlement, developed in the previous paragraph, we will use the closing market price for each security class, instead of the weighted average.

2. Continuing with a four day period volatility for determining the weight to be applied during the calculation of daily risk, accounting for a possible variation in prices.

3. Modifying the payment date for the monthly margin, now coinciding with the calendar month. From 2 October 2007, the monthly margin will be realized on the 2nd of each month, and until the 1st of the following month.

IBERCLEAR will produce a schedule of payments for the margins as market collateral to be distributed among participating institutions.

4. Modifying the criteria to calculate monthly the margin so that they are unified with the ones used in calculating additional margin.

According to this, it has been agreed that monthly margin will be determined applying an 80% to the daily average risk for the three preceding calendar months from the one for which margin is being calculated.

5. Establishing a process that allows market members to develop agreements with the participating institutions to transfer responsibility for the settlement of those transactions within a specified volume agreed by said member, as long as the participating institution has agreed in a specific way such responsibility through the process establishing by IBERCLEAR to this effect.

Through this acceptance, the participating institution, will accept, in a firm and irrevocable way, the responsibility for the settlement of the transactions within the specified accepted volume, as long as those transactions have not been confirmed, whether tacitly or expressly, by the participating institution specified for settlement in the breakdown IBERCLEAR will therefore include the transactions ordered by the market member in the risk calculations for the accepting institution.

6. Excluding from daily risk calculations the transactions corresponding to the bidder in a take over bid that is completely or partially for cash, as long as said bidder has contributed a guarantee to be used by IBERCLEAR and guarantees the full payment for consideration in the System as stipulated in section 15 of the Royal Decree 1066/ 07, of 27 July.

7. Including the possibility of explicitly confirming not only purchases but also sales, to improve the process of allocating the transactions to the corresponding clearing institution (Instruction 15/ 2007, of 18 October).