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## 1. Introduction of Iberclear.com

IBERCLEAR was created in April 2003 to replace the *Servicio de Compensación y Liquidación de Valores (SCLV)* and the Bank of Spain's book-entry public debt system (CADE). Four intense years have now passed featuring a number of changes and modifications to procedures which have required a huge effort from our participating entities. And it is them that we would like to thank for their support and understanding.

It is possible that this four year period has marked the end of a stage, of transition and adaptation to the new business situation, not just in relation to the merger of SCLV and CADE, but also due to the integration in BME and the corresponding Stock Exchange listing.

Therefore, in view of the challenges that lie ahead for our company and the sector in Europe (MiFID, Code of Conduct, TARGET2, TARGET2 Securities, etc...) we must adapt our strategy and improve the relationship and services that IBERCLEAR offers to its clients, the participating entities.

This first issue of Iberclear.com is seen as a further element amongst the innovative quality management measures that IBERCLEAR is going to undertake immediately. Transparency, proximity, information, quick responses and replies to suggestions are fundamental features of business relationships in the 21st century.

We hope that our clients will welcome this new initiative, which will keep them informed of current and future developments at IBERCLEAR and will help bring us closer.

## 2. Creation of the Commercial Department

In January IBERCLEAR set up the Commercial Department mainly to foster relationships with our participating entities.

The company is committed to improving the services it provides and its commercial and institutional relationships through a closer and more personalised relationship aimed at resolving doubts, listening to suggestions and also proposals on how to improve the services provided by the company, as well as outlining key projects for the future.

This will enable IBERCLEAR to offer higher quality services and monitor more closely

those issues which matter most to our participating entities.

Furthermore, the Commercial Department will be responsible for organising courses or seminars and will attend all promotional activities of IBERCLEAR.

### **3. Creation of the Technical Risk Commission**

On 28 February 2007 the contents of Circular 5/2006 of 25 October on the market's guarantee fund became applicable.

Market members have had to work especially hard to adapt to this new regulation as, under the new allocation methodology, risk is assigned from the trading date to the date of acceptance by a settlement entity.

These are the first in a set of 10 measures designed to overhaul risk management presented to the market on 30 May 2006.

In order to incorporate this into IBERCLEAR's management, the Board of Directors has set up a "Technical Risk Commission" comprising market members and representatives from settlement and custodian entities which will implement the most efficient measures as required under this reform.

### **4. Implementation of the Fixed Income Single Matching System**

On 12 March 2007 the Fixed Income Single Matching System (SUC) went live, culminating the four-year long "Unified Communications Window (VUC)" project.

The result is highly satisfactory for IBERCLEAR and all participating entities. Communication lines between IBERCLEAR and its participating entities have been expanded and upgraded with the addition of SwiftNet, -FileAct and InterAct-; the old 3270 fixed income terminal has been phased out; and IBERCLEAR's Client-Server procedure is now used, among other improvements.

The formats of the most important messages now comply with the most widely used international standard (ISO15022), instead of using "proprietary formats", meeting the public objectives of harmonising European settlement.

The new "SUC-Traspasos" is a marked improvement on the previous system; the "SUC-Loan" allows security loans against cash guarantees to be confirmed while the Fixed Income SUC has removed the need for pre-matching by phone by putting in place automatic settlement order retention mechanisms. All these initiatives have been deployed in accordance with the matching standards established by the European Central Securities Depositories Association (ECSDA) of which IBERCLEAR is a member.

### **5. News**

#### **Code of Conduct: Price transparency**

- IBERCLEAR has included a page on its website ([www.iberclear.es](http://www.iberclear.es)) on the European Code of Conduct for Clearing and Settlement, complying with transparency requirements for IBERCLEAR tariffs stipulated by the Code in a very satisfactory manner, according to

users and public authorities.

### **Securities Lending Working Group**

- Following a request from the CNMV (the securities market regulator) a Securities Lending Working Group has been set up involving IBERCLEAR participating entities, issuers, the International Securities Lending Association (ISLA), the Stock Exchange and the CNMV. The aim is to improve the reliability of the special securities lending registry held by IBERCLEAR and also the operation and quality of information relayed regarding these kinds of transactions.

### **Technical Advisory Commission**

- The Technical Advisory Commission has met three times this year to deal with issues regarding the Fixed Income SUC implementation, as well as to establish the necessary tests and evaluate the new procedure.

## **6. Future Developments**

### **Safekeeping Fee**

- As from 1 October 2007 the basis for calculating the safekeeping fee of securities included in the Stock Exchange System for Register, Settlement and Clearing will be modified. It will be calculated based on the market value of the securities registered instead of their nominal value, as set out in Circular 6/2006 dated 22 November. The valuation made by the ECSA (European Credit Sector Associations), which groups together the European federations of banks, savings banks and credit co-operatives, with respect to the compliance by IBERCLEAR of the Code of Conduct referring to price transparency should be highlighted. In its document "User Assessment" the ECSA states: "Since 2007 Iberclear is using market value as basis of safekeeping fees and no longer nominal value which is an improvement and line with general practices".

### **IBERCLEAR Linked Securities Lending**

- Now that the Unified Communications Window project has concluded, the next challenge facing IBERCLEAR is the IBERCLEAR Linked Securities Lending ("Préstamo Vinculado de Iberclear" PVI) which will entail reforming the current centralised lending system.

### **Reforms in risk management and failures**

- As indicated above, the Technical Risk Commission is in charge of drawing up the guidelines for reforming risk and failure management in line with stipulations of Royal Decree 363/2007, which partially amends R.D. 116/92 in the related articles.

### **Target 2**

- Of particular importance is the testing and implementation of TARGET2, the new payment system of the European Central Banks. TARGET2 is scheduled to go live in Spain on 18 February 2008. The new system requires a series of major changes in connection and cash settlement procedures for accounts opened at the Bank of Spain.

- To streamline the connections of its TARGET2-linked system, BME has created a common interface called "*Módulo Unificado de Liquidación (MUL)*" (single settlement module). This is also available to all participating entities in IBERCLEAR wishing to access TARGET2 by using the Swift tools installed at BME.

### **Migration to IP-based communications protocol**

- In order to update the IBERCLEAR communication standards, the "X 25" line is currently being replaced by migrating to the "IP" protocol, which offers superior features and sufficient growth potential to be able to guarantee the increases in activity of the sector in the future. The migration is expected to be completed by 30 November 2007.

## **7. Recently published IBERCLEAR regulations**

### **Circulars**

- **1/2007 of 16 January** on "Clearing and settlement of securities admitted to trading on the book-entry public debt market".
- **2/2007 of 13 March** on "Alternative Stock Market", "Accounting Register, Clearing and Settlement of Trades in Shareholdings of Funds and Shares in Private Equity Companies".
- **3/2007 of 20 March** on "Securities Denominated in Currencies other than the Euro, Accepted for Trading on AIAF, Fixed Income Market".

### **Instructions**

- **1/2007 of 15 January** on "File transfer of data supplied in printouts through the Bank of Spain's 3270 terminal".
- **2/2007 of 26 January** on "Trades carried out on the CADE platform".
- **3/2007 of 1 February** on "File transfer of data supplied in printouts through the Bank of Spain's 3270 terminal".
- **4/2007 of 9 February** on "Inclusion of securities in the Latin American Securities Exchange (Latibex)".
- **5/2007 of 22 February** on "Confirmation of Trades".
- **6/2007 of 8 March** on "Trades carried out on the CADE platform: Start-up".
- **7/2007 of 14 March** on "Headers of ISO 15022 messages".
- **8/2007 of 2 April** of 2 April on "Book-entry and settlement of "traspasos of equities".

- **9/2007 of 1 June** of 1 June on "Automatic securities lending on the CADE platform".
- **10/2007 of 6 June** on "Alternative Stock Market, Accounting Register and Procedure for Settlement and Clearing of Trades in Shareholdings of Funds and Shares of Private Equity Companies".
- **11/2007 of 20 June** on "Securities Denominated in Currencies other than the Euro accepted for trading on AIAF, Fixed Income Market".
- **12/2007 of 22 June** on "File transfer of data supplied in printouts through the Bank of Spain's 3270 terminal".

## 8. Participating entity helpline

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