



# **CIRCULAR 6 CHARACTERISTICS OF TRADING IN THE SELL- BUYBACK SEGMENT**

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In exercise of the powers conferred upon the Board of Directors of AIAF Mercado de Renta Fija, S.A.U. (hereinafter referred to as "AIAF") under the General Regulations on the Electronic Financial Assets Negotiation System, Multilateral Trading Facility (hereinafter "SENAF" or the "System"), AIAF has approved this Circular by means of a resolution adopted in its meeting held on the 14th of July 2009.

#### **Sell-Buyback Segment**

##### **1. Instruments traded**

These are two linked buy-sell transactions of Bonds, Obligations or Bills issued by the Spanish Treasury and traded simultaneously on the Public Debt Market, in opposite directions but with different settlement dates.

##### **2. Incorporation of financial instruments**

These instruments shall, as a rule, be incorporated by SENAF, once the Treasury, as the issuer, has published the characteristics of the issues in the *Boletín Oficial del Estado* [Official Spanish State Gazette].

##### **3. Suspension and exclusion of financial instruments**

SENAF shall suspend financial instruments temporarily or exclude them from trading under Title III of the Regulations and in accordance with any notifications from the Treasury as issuer of the instruments and the Bank of Spain as market supervisor.

##### **4. Characteristics of the trading**

###### **4.1. Characteristics of the orders**

SENAF shall accept all the orders from the Participants provided that these orders comply with the requirements detailed below for the segment. Each Member must ensure that the orders are issued by staff duly authorised by it.

All the orders are channelled sequentially to a single Book. Priority is always given to the best price. If prices are equal, priority is by age. The orders published by SENAF shall be firm in character and linked to their originator until their effective withdrawal from the SENAF electronic registers or until the close of the trading that day, if no transaction has been produced. The responsibility for the instructions given to the System corresponds solely to the Member who introduces them.

The price will be as an interest rate to 3 decimal places and the third decimal shall be 0 or 5 rounded up or down for all the terms.

The orders published by SENAF shall be firm in nature and binding on the originator until their effective removal from the SENAF electronic registers.

There are two forms of trading in this segment:

#### General Market

The entity that delivers securities (financed) may deliver any Bond, Obligation or Bill issued by the Treasury and traded on the Public Debt Market, with the exception of those Bonds and Obligations that pay a coupon within the term agreed for the sell-buyback trading.

The minimum trading volume, according to the maturities, is as follows:

Overnight Tom next and Spot next: €50 million at multiples of €1 million.

1 week to 6 months: €25 million at multiples of €1 million.

If, for market trading circumstances, a position of a lower price than the trading minimum should remain in trading, trading shall be permitted on the remainder.

#### Specific Market

The Members shall quote the repos for Bonds, Obligations or Bills issued by the Treasury and traded on the Public Debt Market. These will be the securities that will have to be delivered if the transaction takes place. Those Bonds and Obligations that pay a coupon within the term agreed for the sell-buyback trading may not be traded.

The minimum volume of trading is €1 million and multiples of this amount.

### **4.2. Characteristics of the transactions**

Orders on the same security, at the same price and in the contrary sense shall be executed automatically, giving rise to a transaction. This transaction shall originate an immediate confirmation from the System, which will be displayed by a message on the screen, both of the Members involved in the cross-trade and of the Participants. The System shall also identify the securities that are the object of a cross-trade by a visual indication (change of colour).

The orders shall be crossed in accordance with the following priorities:

- First, the best price.
- If prices are equal, the oldest order shall be executed first.



- In case of orders with inverse prices (bid & ask) that they have not still been published in the System and whose prices are crossed so that will generate a transaction, this will be executed at the price of the order that has been registered first in the System.

Notwithstanding the above, a transaction between inverse orders of the same Dealer Member shall not be executed. The System shall remove them immediately and communicate the situation to the Members involved.

The counterparty shall not be revealed in the transaction, either before or after the transaction.

The transactions published by SENAF shall be final in nature and binding on the Members originating them, once they have been registered in the SENAF computer system.

#### **4.3. Types of transactions**

The maturities that may be traded are:

- Overnight
- Tom next
- Spot next
- One week
- Two weeks
- Three weeks
- One month
- Two months
- Three months
- Six months

#### **4.4. Market timetable**

Except for the overnight maturity, which may only be traded from 08:30 to 14:00 hours, the trading timetable shall be from 08:30 to 17:15 hours on working days, in accordance with the trading timetable approved by the Board of Directors of AIAF.

#### **4.5. Liquidity agreement**

There are no liquidity agreements for this segment.

### **5. Registration and settlement of transactions**

Once a transaction is executed, it is considered final and the registration and settlement of transactions will be carried out in the following way:



As the sole communicator of these transactions (one-to-one match), SENAF communicates them simultaneously to Meffclear and Iberclear.

Meffclear acts as a clearing house, and in accordance with its internal procedures it must validate the transactions to Iberclear, which settles and registers the transactions on the CADE platform according to its own procedures.

## **6. Cancellation of transactions and trading incidents**

The transactions registered as such by SENAF may only be modified or cancelled by a decision of the Supervision Department and/or the Monitoring Committee adopted under the SENAF Regulations.

The SENAF Regulations do not cover the cancellation of a transaction by bilateral agreement of both parties.

If a transaction previously entered as "notified" is finally rejected by the central counterparty, this counterparty will communicate the fact to SENAF so that it can cancel the transaction and there will be no novation by the central counterparty with regard to the SENAF Members.

SENAF shall also cancel those traded transactions of a settlement member of the central counterparty or its clients who are SENAF Members, if the counterparty has refused to register these transactions because this settlement member has exceeded the total limit of registration capacity fixed for the central counterparty. Such a cancellation shall be applicable to the transactions traded on SENAF by a central counterparty's settlement members or their clients if this counterparty has an agreement with another counterparty that has an agreement with AIAF. The above provisions hold provided that the counterparty communicates to SENAF its rejection of the registration of these transactions within the period established in the corresponding agreement.

In the cases referred to in the above paragraphs SENAF shall inform the Members and the corresponding registration systems affected in the quickest way possible in those cases when it has communicated the transaction.

AIAF is exempt from any liability that may result from these situations.

### **6.1. Modification or cancellation of transactions due to incidents in the transaction**

There are two types of possible incidents in the trading process of the repo segment:

- An error by the Dealer Member in an order introduced by a Broker Member.

- An obvious error as to the cross price of a transaction, which will give rise to a cancellation of the transaction.

#### **6.1.1. Error at the holder**

No modifications shall be admitted in this segment for an error at the holder of the security.

#### **6.1.2. Evident error in the price**

For the price of a transaction to be considered an evident error, it must exceed the margin of basis points established in the following table with regard to the theoretical market price at the time of the cross-trade.

Maturity	Margin
Overnight and Tom-next	50 bps in interest rate
Week to a month	20 bps in interest rate
Two to six weeks	15 bps in interest rate

Any Member, whether Dealer or Broker who, after participating in a transaction, considers that its price exceeds the limit of the above tables with respect to the theoretical market price, may request a cancellation of the transaction by the Supervision Department of SENAF. This request must be made by telephone within five (5) minutes of the time of execution and subsequently confirmed.

The Supervision Department of SENAF shall inform the rest of the Members participating in the transaction of the request for cancellation, and proceed as follows:

1. If the Members participating in the transaction (excluding the Member who initially requested the cancellation) and the Supervision Department of SENAF agree that the cross-price is greater than the established margins, the transaction in question will be cancelled. The Members participating in the transaction (excluding the Member who initially requested the cancellation) shall then indicate their conformity with the cancellation via e-mail.
  
2. If there is no agreement as to whether the price of the transaction is greater than the established margins, the Supervision Department of SENAF shall request three of the most active Members in the market who are not involved in the transaction to set an average theoretical price for the security in question at the time of the cross-trade. The average of these three theoretical average prices shall be deemed the theoretical market price on which the corresponding margin will be applied.

The transaction may only be cancelled if the cross-price is outside the established margin. In this case, the Supervision Department of SENAF will

proceed to cancel the transaction, subsequently informing the Members involved.

In all cases, the Supervision Department of SENAF will make all the means it has available to ensure that the incidents described in this section are resolved as swiftly as possible.

## **7. Interruptions to trading**

### **7.1 Computer incidents in the System**

The System automatically detects communication problems between SENAF and the Members and informs them by a warning that appears on the screens of the Broker Members and the Dealer Members.

AIAF is liable for any faults that may occur in the hardware or software components of its own equipment that is installed at or made available to the Members (terminals, servers and API servers), provided that such faults are not attributable to any handling, alteration, movement or use of the equipment by Members outside the parameters established by the technical specifications current at any time.

The API server generates and receives information flows that exceed the limits established by the physical equipment itself. The liability of AIAF in this case is limited to the physical equipment (API Server) that generates the information flows. Thus it is the responsibility of the Members to interpret and handle the outgoing messages correctly. The Members shall also be responsible for ensuring the messages reach the API Server by complying with the formats and protocols for use established by SENAF in the technical specifications current at any time.

### **7.2 Other incidents**

Any claim with regard to incidents not covered by the above shall be communicated to the Supervision Department and/or the Monitoring Committee, which will analyse all the information available (this may include recorded conversations) and come to a decision as appropriate. Such a decision may include the modification or cancellation of the transactions in question.

## **8. Procedures**

The Supervision Department and/or the Monitoring Committee of SENAF may decide to totally or partially interrupt trading in cases of *force majeure* affecting the normal operation of the System and to protect the Members of the System. This will be communicated to them as swiftly as possible.



## **9. Entry into force**

This Circular shall be notified to all Participating Members and shall enter into force at the same time that the Regulations Governing the SENAF.