



**CIRCULAR 5
CHARACTERISTICS OF TRADING IN THE PUBLIC
DEBT SEGMENT: BONDS AND OBLIGATIONS,
STRIPS , TREASURY BILLS AND SWITCHES.**

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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 15th of December 2009.

1. Tradable financial instruments

1.1. Bonds and Obligations

Bonds and Obligations authorised to be traded on the Public Debt Market.

1.2. Strips

Coupons and Principals authorised by the Spanish Treasury. They result from the segregation of the issues of Bonds and Obligations.

1.3. Treasury Bills

Bills issued by the Spanish Treasury and traded on the Public Debt Market.

1.4. Switches

The simultaneous purchase/sale of one security and sale/purchase of another security, understood to mean different issues traded in the Bonds, Obligations, Strips and Treasury Bills.

2. Incorporation of financial instruments

2.1. Bonds, Obligations, Treasury Bills and Switches

The incorporation of financial instruments will be carried out according to what is established in article 10 of SENAF SMN Regulations.

Those issued by the Treasury shall, as a rule, be incorporated by SENAF, once the characteristics of the issues have been published in the *Boletín Oficial del Estado* [Official Spanish State Gazette].

The rest of financial instruments, observed in point 1, shall be incorporated, as a rule, by SENAF when the *Boletín Oficial del Estado* has published their characteristics or when SENAF has knowledge of them.

2.2. Strips

These instruments shall be incorporated once the Spanish Treasury authorises the segregation of the corresponding Bond or Obligation, by publication in the *Boletín Oficial del Estado*.

3. Suspension and exclusion of financial instruments

SENAF may suspend financial instruments temporarily or exclude them from trading under Title III of the Regulations and in accordance with any notifications from the instrument issuers of this segment, and of the Bank of Spain as Public Debt market supervisor.

4. Characteristics of the trading

4.1. General characteristics of the orders for the entire segment

The minimum volume of orders is €1 million and multiples of this quantity.

The standard settlement date is D+3, except for the Treasury Bills segment, in which it is D+2. Those instruments traded with settlement dates other than the standard shall be distinguished by a green background in the trading window of the terminal. A click with the mouse on this background will show the corresponding settlement date at the bottom left of the window.

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.

All the orders are positioned in the System until they are cancelled by the Member who has generated them, or until the close of trading for the day, if no transaction takes place.

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

4.1.1. Additional characteristics of the orders for the Bonds and Obligations

The price is quoted ex-coupon, to 3 decimal places. The third decimal place may only be 0 or 5, rounded up or down as appropriate.

4.1.2. Additional characteristics of the orders in the Strips

The price is quoted as the interest rate to 3 decimal places. The third decimal place may only be 0 or 5, rounded up or down as appropriate.

4.1.3. Additional characteristics of the orders in the Treasury Bills

The price is quoted as the interest rate to 3 decimal places. The third decimal place may be any number from 0 to 9, rounded up or down as appropriate.

4.1.4. Additional characteristics of the orders in the Switches

The issues forming part of a Switch are called “short” or “long”, according to their respective maturity dates.

A bid order will refer to the purchase of short orders and sale of long orders.

An offer order will refer to the sale of short orders and of purchase of long orders.

The form of quoting is by the IRR spreads between the two issues (long IRR issue minus short IRR issue) and is given in pips (3 digits) to two decimal points. The second decimal may be any number from 0 to 9.

It is possible to quote with zero or negative spreads.

4.2. General characteristics of the transactions for the entire segment

Orders on the same security, at the same price and in the opposite direction are executed automatically, giving rise to a transaction. This transaction originates 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. In addition, the System identifies the securities that are the object of a cross-trade by a visual indication (change of colour).

The cross-trade shall be determined by 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 one 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, either before or after the transaction.

The transactions shall be settled on a daily basis as explained in this Circular, except those in the Treasury Bills segment, which are not settled, unless they are crossed with a value date different to the standard one, that is to say D+3 or greater than this value.

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. Mode of transactions for the entire segment

The transactions are at maturity and may be spot or term.

4.4. Liquidity agreements

A group of Members can exist to whom any issuer can, if they consider appropriate to the characteristics of the issue, concede the condition of Market Makers. This group has to facilitate secondary market liquidity according to the agreements in force at any time.

To help the issuers that have designated the Market Makers control compliance of their obligations, SENAF will inform them of the activity of each of the Market Makers in the System on a daily basis.

5. Registration and settlement of transactions

Once a transaction is executed, it is considered firm. The registration and settlement of the transactions is carried out as follows:

The transactions executed are settled and registered with Iberclear in the CADE platform, according to the procedures established for this purpose. SENAF is the sole communicator of these transactions (one-to-one match).

6. Daily adjustments at market price

For this process, SENAF calculates the settlement prices of each security based on the prices at market close. For those securities without this price at the end of the session, SENAF calculates the theoretical price based on the theoretical price curve and IRRs at the time.

Once the settlement price has been fixed for each of the traded securities according to the above procedure, SENAF will carry out a daily settlement of the transactions by comparing the price of each of the transactions with the settlement price (market closing price).

If the buy price of each of the traded securities is below the settlement price, the buying Member shall receive a credit for the difference between the buy price and the settlement price, and the selling Member shall receive a debit for the difference in price between the sell and the settlement price.

If, however, the buy price of each of the traded securities is higher than the settlement price, the buying Member shall receive a debit for the difference between the buy price and the settlement price, and the selling Member shall receive a credit for the difference between the sell price and the settlement price.

The Members who are to receive a credit by the settlement process will have the interests on the amount paid discounted from the credit at that day's EONIA rate,

taking into account the days until the following settlement; for those Members who are due to receive a debit, they will have interest credited using the same calculation.

Confirmation of the settlements will then be issued to all the Members involved.

The amounts to be charged or paid into the account will be entered on the settlement date of the transactions once the transactions are successfully completed.

SENAF will on a daily basis report to the Bank of Spain the credit or debit corresponding to each entity for registration in its treasury accounts.

The adjustment shall be made for all financial instruments mentioned in this Circular, except for the Treasury Bills segment, where the daily settlement shall only be made for those transactions in which a settlement date is traded at more than two working days from the standard trading date (D+2). In this case, the process described above will be followed.

7. Market timetable

The trading timetable for the entire segment shall be from 08:30 hours to 17:15 hours on working days, in accordance with the trading calendar in force at the time.

8. 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 adopted under the SENAF Regulations.

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

AIAF is exempt from any liability that may result from the aforementioned situation.

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

- An error produced in a Dealer Member on an order introduced by a Broker Member, which will give rise to a modification.
- By an obvious error as to the cross price of a transaction, which will give rise to a cancellation of the transaction.

8.1. Modification or cancellation of transactions in bonds and obligations.

- a) The error will be referred to the Dealer Member who issued the order introduced by the Broker Member. In this case, a modification will be made in the Dealer Members affected, provided that the Broker Member notifies the change to the Supervision Department of SENAF within 15 minutes after the cross-trade.
- b) For a transaction to be cancelled due to an obvious error in the price, this error must be greater than the margin in basis points (bps) established in the

following table with respect to the theoretical market price at the time of the cross-trade.

Maturity	Bonds and Obligations
Up to 3.5 years	20 pbs in price
From 3.5 to 5.5 years	30 pbs in price
From 5.5 to 10.5 years	40 pbs in price
From 10.5 to 15.5 years	50 pbs in price
Over 15.5 years	60 pbs in price

Any Member, whether Dealer or Broker, who participates in a transaction and 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. When 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.

8.2. Modification or cancellation of transactions in Strips

In the case of the Strips, the procedure will be the same as that described in point 8.1., except for the table outlining the theoretical market price at the time of the cross trade, which will be as below:

Maturity	Strips
Up to 3.5 years	10 bps in interest rate
From 3.5 to 5.5 years	10 bps in interest rate
From 5.5 to 10.5 years	10 bps in interest rate
From 10.5 to 15.5 years	10 bps in interest rate
Over 15.5 years	10 bps in interest rate

8.3. Modification or cancellation of transactions in Treasury Bills

In the case of Treasury Bills, the procedure will be the same as that described in point 8.1., except for the table outlining the theoretical market price at the time of the cross trade which will be as shown below:

- 10 pbs in interest rate for all the issues.

8.4 Modification or cancellation of transactions in Switches

In the case of Switches, the procedure will be the same as that described in point 8.1., except for the table outlining the theoretical market price at the time of the cross trade which will be as shown below:

<u>Difference in maturity between the two securities</u>	<u>Difference with respect to theoretical price</u>
Up to 3 years.....	0.20
3 to 10 years.....	0.30
Over 10 years.....	0.50

9. Trading Interruption

9.1 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 fault 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 that the messages reach the API Server by complying with the formats and protocols of use established by SENAF in the technical specifications current at any time.

9.2 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 an appropriate decision. This decision may include the modification or cancellation of the transactions in question.

9.3. Procedures

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

10. Entry into force

This Circular shall be notified to all Participating Members and shall be in force on the 15th January 2010.