

CENTRAL COUNTERPARTY GENERAL CONDITIONS

Trades on Interest-Rate Derivatives
Interest-Rates Segment

BME CLEARING

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VERSIONS

Date	Version	Entry into force	Modifications	Sections
20/11/2023	2.0	05/12/2023	<p>Adaptation to CCP RRR standards</p> <p>Discontinuation of EONIA</p>	<p>2.8.5 and 2.9.1</p> <p>1.3.2, 2.3 and deletion 2.11</p>
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1. General Characteristic

GENERAL CONDITIONS

Trades on Interest-Rate Derivatives

Interest-Rates Segment

1.1. INTRODUCTION

These General Conditions implement the Rule Book of BME CLEARING, S.A.U. (hereinafter, BME CLEARING or CCP), forming part of the same, in accordance with Article 1.1 and they set the terms and conditions applicable to the services and functions of BME CLEARING in relation to Trades in the Interest Rate Derivative Segment (hereinafter, IR Segment) and which are the object of its activity as Central Counterparty.

The General Conditions are organized in separate sections, the first of which relates to General Characteristics, the provisions of which are applicable to all Interest Rate Derivatives in the IR Segment. The following sections relate to the specifications of each of the Interest Rate Derivatives.

These General Conditions and each of the sections relating to the Trades in the IR Segment will enter into force on the date to be determined which will be published in a Notice, once the pertinent authorization is received.

As a result of the Registration of Trades of the IR Segment in the BME CLEARING Trade Register, the Parties acquire the rights and obligations set out in the Rule Book and in these General Conditions.

1.2. REGULATION APPLICABLE TO INTEREST RATE DERIVATIVE SEGMENT

The provisions in the following chapters of the BME CLEARING Rule Book will govern the activity of BME CLEARING as Central Counterparty with respect to Transactions in the IR Segment, with the peculiarities set out in these General Conditions:

- General Provisions: The General Provisions of the Rule Book, articles 1 and 2, shall be applicable with the particularities established in these General Conditions. Additionally, the definitions established in these General Condition shall be applicable.
- Participants: Clearing Members and Clients shall be participants in this Segment, as regulated respectively in Chapter 2, articles and 3 to 5, both inclusive and in Chapter 4, articles 15 to 17, both inclusive, all of them of the BME CLEARING Rule Book. This Segment will not admit Non-Clearing Members, Proprietary Non-Clearing Members, Ordinary Non-Clearing Members nor Proprietary Ordinary Non-Clearing Members.

Pursuant Articles 4.2 and 4.3 of the BME CLEARING Rule Book, the solvency requirements for Members are as set out in these General Conditions and in Circulars implementing it, which equally establish specific conditions for Members' activity in relation to Trades in the IR Segment, pursuant to Article 3.4 of the BME CLEARING Rule Book.

These General Conditions establish certain specifics requirements for Member pursuant to articles 3.4 and 18.2.I) of the BME CLEARING Rule Book.

- Registration: The framework for registration set out in Chapter 6 of the BME CLEARING Rule Book will also apply to the aforesaid activity of the Central Counterparty, encompassing the regulations set out from Article 19 to 25 of the BME CLEARING Rule Book, both inclusive.

Pursuant to articles 21.5 and 22.3 of the Rule Book, certain caveats and particularities are established in relation to the management of the Accounts.

- Central Counterparty: The regulation of the functions of the Central Counterparty, and the framework for posting of Collateral by participants shall be as set out in Chapter 7 of the aforesaid Rule Book, including Articles 26 to 33, both inclusive.
- Clearing and Settlement: Regulation of the Central Counterparty functions in relation to clearing and Settlement of Trades in the IR Segment is set out in Articles 34 and 35 of Chapter 8 of the BME CLEARING Rule Book.
- Default: The default framework applicable to BME CLEARING as a Central Counterparty for this Segment shall be that set out in Chapter 9 of the BME CLEARING Rule Book, as implemented in these General Conditions, with the particularities foreseen in the Contributions for the Continuity of the Service and Voluntary Contributions pursuant to article 45.8.c) of the Rule Book.

1.3. DEFINITIONS

The terms used in the regulations relating to Trades in the IR Segment have the same meaning as given in the Rule Book, unless a different scope or meaning is specified in any of the cases in which they are used. The following terms will also apply:

1.3.1. Coupons:

These are payments to be made by the Clearing Member and/or BME CLEARING corresponding to the Fixed Amount and the Floating Amount, as these are calculated in accordance with the relevant Circular.

1.3.2. Overnight Rate

1.3.2.1. EuroSTR:

EuroSTR (Euro Short-Term Rate) is the Overnight Rate calculated, administered, managed by the ECB

(https://www.ecb.europa.eu/paym/initiatives/interest_rate_benchmarks/euro_short-term_rate/html/index.en.html)

and published daily at 8:00 AM CET. It reflects the interest rate on unsecured overnight loans in euro at the wholesale rate of banks in the euro area. The EuroSTR is published on each TARGET2 business day and is based on transactions executed and settled on the preceding TARGET2 business day (the reporting date "T") with a maturity date T+1 which is

considered to be executed under independent conditions and therefore reflects market rates in an unbiased manner. In the event that the European Central Bank ceases to perform any of the functions in relation to this index and ISDA modifies the EuroSTR definition, the new ISDA definition will be used

1.3.3. EURIBOR:

EURIBOR is administered by EMMI (<http://www.emmi-benchmarks.eu/euribor-org/about-euribor.html>). It reflects the deposit rate for different terms at which two interbank market entities of the EMU would lend to one another. It is published on a daily basis for 5 terms at 11 AM (CET) with spot value (T+2), on an Act/360 convention. If the EMMI should no longer perform any of the functions related to this index and ISDA should amend the definition of the EURIBOR, the new definition of ISDA shall be used.

1.3.4. Initial Margin:

The Margin amount periodically determined and communicated by BME CLEARING that each Clearing Member must post to BME to cover the risk of a Trade of the IR Segment

1.3.5. Variation Margin:

The amount of cash Margin necessary to cover the risk associated to the daily change in the net present value (NPV) a Clearing Member must transfer to BME CLEARING or BME CLEARING to the Clearing Member and calculated in accordance with these General Conditions and the relevant Circular on margins.

1.3.6. Price Alignment Interest (PAI):

The interest at Overnight Rate which BME CLEARING or the relevant Clearing Member pays or receives as calculated on the basis of the accrued amount of the Variation Margin received or delivered, as calculated in accordance with these General Conditions and the relevant Circular. BME CLEARING will publish by Circular which Overnight Type will be used at any given time.

1.3.7. Forward Rate Agreement (FRA):

Transaction in which the parties agree, in the event future interest rates are expected to vary for a given Nominal Amount and for a certain Duration Period, agree that if the Transaction Interest Rate is higher or lower than the Settlement Interest Rate, either the Buyer or Seller must pay the other party the Resulting Amount in accordance with the financial formula described in the Product valuation Circular.

1.3.8. Considerations and Additional Payments:

Payments that are agreed between the original parties to the Contract in addition to those corresponding to the Coupons deriving from trades.

1.3.9. Interest Rate Swap-Plain Vanilla:

Transaction in which the Parties agree to exchange with one other the amounts resulting from application of a Fixed Rate and a Floating Rate to a Nominal Amount for an agreed Duration Period.

1.3.10. Basis Swap:

Transaction in which the Parties agree to exchange with one other the amounts resulting from application of two Floating Rates, or with different frequencies, based on a Nominal Amount for an agreed Duration Period.

1.3.11. Zero Coupon Swap:

Interest rate swap where payments of amounts resulting from application of the fixed or variable rate or both are settled once upon maturity.

1.3.12. Overnight Indexed Swap ("OIS"):

Interest rate swap in which the Parties agree to exchange the payment of amounts resulting from applying a Fixed Rate and a Floating Rate to a Nominal Amount for an agreed Calculation Period, but in which the floating Rate is determined on the basis of the weighted average rate of overnight deposits in the Interbank Market (WAR) that are capitalized (CWAR) in accordance with the formula set out in the Valuation Circular.

1.3.13. Communication Systems:

Systems or services approved by BME CLEARING used to apply for registration by BME CLEARING of a Trade in the IR Segment. The BME CLEARING API is not considered a Communication System for these purposes.

1.3.14. NPV:

Net present value of each contract calculated directly by BME CLEARING in accordance with these General Conditions and with the relevant implementing Circular.

1.3.15. Default Management Committee:

Committee comprising representatives of Clearing Members and, as the case may be, employees of BME CLEARING, the function of which is to advise BME CLEARING on managing of a default in accordance with these General Conditions and the relevant implementing Circulars.

1.3.16. Contract:

Synonym of Transaction as defined in the Rule Book.

1.3.17. Contract Group:

Synonym of Segment as defined in the Rule Book.

1.3.18. Settlement Bank:

For the purposes of the IR Segment, the entity which, in compliance with the eligibility criteria established by BME CLEARING by means of a Circular, provides the accounts for the deposit of the cash Margins.

1.3.19. Settlement Bank Accounts:

For the purposes of the IR Segment, an account opened by BME CLEARING in a Settlement Bank for the posting of the cash Margins, which may be broken down into segregated sub-accounts, each of them being assigned to each Clearing Member that so requests.

1.4. TERMS AND CONDITIONS

The general terms for the IR Segment and the specific terms of each transaction type, and the definitions applicable to the same, will be set out in a Circular.

To the extent they do not contradict the Rule Book, these General Conditions or the Circulars implementing them, the definitions applicable to these general and specific terms shall be those agreed by the Parties and, as the case may be, the terms and definitions in the ISDA or CMOF Master Agreements to which they are subject.

1.5. TRANSACTIONS

The IR Segment comprises interest rate derivatives Trades traded on a market and OTC that meet the criteria detailed in Section 2 of these General Conditions.

1.6. BME CLEARING FUNCTIONS AND SERVICES

BME CLEARING will carry out the following functions for Trades in the IR Segment as allowed by its capacity as Central Counterparty, subject to the provisions of the BME CLEARING Rule Book, these General Conditions and the relevant Circulars:

- Registration.
- Counterparty.
- Clearing and Settlement.

2. OTC Interest-Rate derivative Contract Transaction

GENERAL CONDITIONS

Trades on Interest-Rate Derivatives

Interest Rates Segment

2.1. INTRODUCTION

Section 2 in these General Conditions set out the characteristics of interest rate derivatives Trades mentioned in section 2.3 below.

2.2. ADDITIONAL CONDITIONS APPLICABLE TO MEMBERS

Clearing Members of BME CLEARING will have access to the services of BME Clearing in relation to this Segment. The following additional requirements will apply, pursuant to Article 3.4 of the Rule Book:

- 2.2.1 Clearing Members must have the relevant arrangements with at least one of the Communication Systems approved by BME CLEARING.
- 2.2.2 Clearing Members must make a contribution to the IR Segment Default Fund, and meet specific requirements on minimum margin set out in the BME CLEARING regulation in relation to the activity of Clearing Members of the IR Segment.
- 2.2.3 Clearing Members must have posted a Minimum Individual Margin to be established in a Circular, pursuant to Article 29.3.B of the Rule Book.
- 2.2.4 Clearing Members must have minimum net capital of €40 million.

Clearing Members must provide to BME CLEARING any information on Trades in the IR Segment as necessary for BME to meet, in due and timely form, the information requirements of the CNMV or of the Competent Authority, and the reporting requirements for registration of transactions authorised or recognized by ESMA, as the case may be. Such information must include a complete copy of the contractual documentation.

2.3. TRANSACTIONS AND CONTRACT TYPES

The IR Segment comprises interest rate derivative Trades that meet the criteria detailed below:

(1) *Documentation of the contracts of the original trades*

The contractual basis of the original trades' contracts whose registration is sought, must be the ISDA Master Agreement of 1992 or 2002 or the Contrato Marco de Operaciones Financieras (CMOF) of 1997, 2009 y 2013.

(2) *Transaction types*

Transactions must be the following:

- (i) Interest Rate Swap, which includes (i) Fixed/Floating Interest Rate Swap (Plain Vanilla), (ii) Basis Swap or (iii) Zero Coupon Swap, all jointly referred to as “**IRS**”.
 - (ii) Overnight Indexed Swap (“**OIS**”).
 - (iii) Forward Rate Agreement (“**FRA**”).
- (3) *Transaction currencies*
- The currency must be the euro (EUR).
- (4) *Settlement of Transaction*
- Payments and collections required in each transaction type will be executed in accordance with the transactions' specifications and agreements between the parties.
- (5) *Maximum term*
- (i) IRS: 50 years.
 - (ii) OIS: 30 years.
 - FRA: 3 years.
- (6) *Minimum term*
- (i) IRS: 28 calendar days.
 - (ii) OIS: 7 calendar days.
 - (iii) FRA: 3 calendar days.
- (7) *Floating indices. Floating index substitution.*
- (i) For IRS and FRA: [EUR-EURIBOR-REUTERS].
 - (ii) For OIS: [EUR-EuroSTR-OIS-Compound].
- (8) *Term of Floating indices*
- (i) For IRS and FRA: 1 month, 3 months, 6 months and 12 months.
 - (ii) For OIS: 1 day.
- (9) *Fixed rate*
- The fixed rate for IRS, OIS and FRA may have any value and may be less than zero, zero or greater than zero.
- (10) *A Circular will establish additional criteria to be met by the Transactions of the IR Segment.*

2.4. TRADES REGISTRATION AND ACCOUNT STRUCTURE

TRADES REGISTRATION

They may be registered with BME CLEARING acting as a Central Counterparty:

- Market Transactions and
- Out of Market (OTC) Transactions

of interest rate derivatives that meet the criteria established in section 2.3 above.

Market Transactions

Market Transactions shall be understood as recorded in the BME CLEARING Operations Register, under article 20.1.A) of the Rule book once BME CLEARING has accepted the Communication for Registration made on behalf of a Member, by the corresponding Market, in accordance with the terms established in the agreement that BME CLEARING concludes with the Market for this purpose.

Out of Market (OTC) Transactions

OTC Transactions on interest rate derivatives will be reported to BME CLEARING for registration through one of the Communication Systems and published on the BME CLEARING website (www.bmeclearing.es), without prejudice to notification of Clearing Members through Notice whenever BME CLEARING approves a new Communication System.

Communication Systems will directly send Transactions to BME CLEARING, who must either accept or reject registration of the Transaction. Transactions shall be understood as entered in the Trades Register of BME CLEARING, pursuant to Article 20.1.B of the Rule Book, when BME CLEARING has accepted the application for registration submitted by the corresponding Communication System.

A Circular will determine the procedure for registration of Transactions, the verifications to be carried out by BME CLEARING to accept the Transactions and the conditions under which BME CLEARING may reject registration.

The registration timetable will be determined by BME CLEARING in a Circular, for both Market and OTC Transactions.

ACCOUNT STRUCTURE

Under articles 18.2.E), 21.5 and 22.3 of the Rule Book, the following special rules regarding the structure of the BME CLEARING's Trades Register for the IR Segment are set forth.

In the IR Segment, only the Central Register Accounts referred to in articles 21 and 22 of the Rule Book shall be kept.

In the IR Segment (under article 21.5 of the Rule Book and in relation to section A), only one Position Account will be kept for each of the Proprietary Accounts and Client Accounts provided for in Article 21 of the Rule Book.

This same rule (under article 22.3 of the Rule Book, section A.1) shall apply with respect to the indirect Clearing OSA Accounts, provided for in article 22 of the Rule Book, so that there is only one Position Account in respect of each indirect Clearing OSA Account.

2.5. TRADES NOVATION

BME CLEARING will act as counterparty for the Market Transactions that are communicated to BME CLEARING for Registration from the moment they are entered in the Central Registry in accordance with the provisions of article 28.1, section A) of the Rule Book

BME CLEARING will act as counterparty of out of Market Transactions once they have been entered in the Central Register pursuant to Article 28.1.B) of the Rule Book, as applicable.

Once a trade bilaterally negotiated between Members or their Clients (hereinafter, the “Original Trade”) has been registered under terms set out in these General Conditions, it will be automatically novated, and terminated. Two new Transactions will automatically arise, in which BME will assume vis-à-vis each of the parties to the Original Trade the position held by the counterparty, in terms identical to those agreed therein by each of them, without prejudice to additional rights and obligations arising in these General Conditions and any implementing Circulars.

If registration of the Trade is not accepted, it will not be novated. Consequently, the Original Trade will remain in effect under the terms agreed by the two counterparties of the Original Contract.

2.6. NETTING, COMPRESSION, MULTILATERAL COMPRESSION OF TRADES AND COUPON BLENDING

- (A) BME CLEARING and its Clearing Members may agree on netting of Trades registered with BME CLEARING provided that:
- (i) Its main economic terms are identical or meet criteria set by BME in a Circular;
 - (ii) They are registered in the name of the same Clearing Member or in the name of the same Client of a Clearing Member, and
 - (iii) The Clearing Member or the Client of the Clearing Member holds a contractual position with opposite Trades that will be netted.
- (B) Clearing Members may request from BME CLEARING the compression into a single contract of Trades registered with BME CLEARING whose main economic terms are similar and registered in the name of the same Clearing Member or in the name of

the same Client of a Clearing Member, and in which these have the same position (this process is called "Compression"). Aggregated or netted Trades will be novated by consolidation and the aggregate or net economic terms will be contained in a single new Trade.

- (C) BME CLEARING may, at its own discretion, allow the multilateral compression of Trades, as follows:
- (i) Multilateral compression at the request of a third party available for all or some Clearing Members, or
 - (ii) Multilateral compression at the request of two or more clearing members.
- (D) BME CLEARING may also execute coupon blending, which is a risk-mitigation technique through compression and reduction of the outstanding IR Transactions in an account. It is carried out through the netting of Transactions that match the coupons' settlement date, irrespective of the Transaction start date. The original Transactions are cancelled and replaced by a single one at an average level of rates and Nominal Amounts of the Transactions to be compressed.

A Circular will specify the economic terms and the procedure for clearing, compression and coupon blending of Trades.

2.7. SETTLEMENT

2.7.1 BME CLEARING may execute the following settlements of Trades in the IR Segment registered in Accounts:

- (a) Coupon payments.
- (b) Fees.
- (c) Variation Margin.
- (d) PAI.
- (e) Up-front payments.
- (f) Other settlements allowed under BME CLEARING rules.

2.7.2 BME CLEARING will pay the Clearing Member, and the latter will pay BME CLEARING, as the case may be, cash settlements for Trades registered in the Accounts of the Central Register of Clearing Members.

Clients and their corresponding Members – and vice-versa– will pay the cash settlements corresponding to Trades registered in their Accounts.

All such payments shall be made pursuant to the provisions of the BME CLEARING Rule Book, these General Conditions, in their implementing Circulars and in the Trades registered in BME CLEARING.

2.7.3 BME CLEARING fulfillment of its obligations with respect to cash settlements occurs when the cash is made available by BME CLEARING to the corresponding Clearing Member.

Members and Clients fulfillment of its obligations with respect to cash settlement occurs when the corresponding Clearing Member makes the cash available to BME CLEARING.

Cash settlement may be executed through multilateral netting of cash payables and receivables of each Clearing Member, including fees owed to BME. In the cases and in accordance with procedures to be set by BME CLEARING in a Circular, cash settlement may be bilateral.

2.7.4 Cash settlements will be executed by BME CLEARING on the basis of calculations it has made of coupon payments, Initial Margin, Floating Margin, PAI, Default Fund and of Up-front Payments.

2.8. SPECIFIC RULES APPLICABLE IN CASE OF DEFAULT

A declaration of default, its causes and the procedure of BME CLEARING in this connection are regulated in Chapter 9 of the BME CLEARING Rule Book.

Specifically, and without prejudice to any transfer of the Accounts of the Clearing Member to another Member, and pursuant to Articles 42 and 43 of the Rule Book, BME CLEARING may take one or more of the following steps when a default of a Member is declared:

2.8.1 Default Management Group

On the date of entry into force of these General Conditions, the Default Management Group will come into existence. Its procedures will be defined in a Circular. Members' Representatives in the Default Management Group may be elected by voluntary request of the Member or by objective designation.

2.8.2 Hedging trades

If possible, BME CLEARING may reduce the risk associated to the default of a Clearing Member by entering into one or more trades that hedge the effects of such default (hereinafter, Hedging Trades). If possible or advisable, BME CLEARING will execute Hedging Trades following consultation and in collaboration with the Default Management Group.

Such Hedging Transactions must be carried out prior to any auctions indicated in section 2.8.4 below.

2.8.3 Portfolio splitting

Following consultation with and in collaboration with the corresponding Default Management Group, and in order to carry out the auctions envisaged in section 2.8.4 below, may split the portfolio of IR Trades of the Clearing Member in default into one or

more individual portfolios [or even split a contract into several Trades and allocate them to different portfolios].

The criteria under which BME CLEARING, in collaboration with the Default Management Group, may decide to split an IR Contract portfolio [or split IR Trades themselves] will be set out in a Circular.

2.8.4 Closing positions through auctions

Following consultation with and in collaboration with the corresponding Default Management Group, BME CLEARING may execute one or more auctions in order to enter into new Trades that, as a whole, are equivalent to the Transactions in default or to the Hedging Trades.

In order to ensure the best possible state of preparedness for default of a Clearing Member, BME CLEARING may hold auction simulations. Such simulations will not be held less than once a year and not more than three times a year. Clearing Members are required to participate in them.

A Circular will set the rules applicable to auctions and auction simulations.

Lastly, a Circular will regulate the additional contribution to be made by Clearing Members that do not participate in the auction simulations, and their ranking in the use of the Default Fund of Clearing Members that have not participated in auctions and those of Clearing Members that have participated in auctions, according to whether their bid has won or not or, if the bid did not win, whether it was made at the same price as the winning bid of the auction.

2.8.5 Closing of positions and and cash settlement

BME CLEARING may apply, as a Default management measure, the measure of closing out positions and cash settlement (*Tear up in Default*), in those cases in which, after the Default of a Clearing Member, and the corresponding Default management measures have been adopted, it is impossible for BME CLEARING to carry out otherwise the orderly closing of the Positions of the Defaulting Member under market conditions, including the hedging Positions for the default management, provided that the adoption of this measure, due to the volume of the Positions to which it refers, does not compromise the financial soundness of the CCP, and in the opinion of BME CLEARING it is not possible to return to the matching of the Positions registered in its Central Registry.

The procedure for the closing out of positions and cash settlement (*Tear up in Default*) shall be the same as that applicable to the *Tear up in Recovery*, which shall be as described in the following section 2.9.1 of these General Conditions, *mutatis mutandis*, without it being necessary for the closing of positions and cash settlement as a Default management measure, the activation of BME CLEARING's Recovery Plan.

2.9. SPECIFIC RULES FOR THE RECOVERY AND RESOLUTION OF BME CLEARING

2.9.1 CLOSING OF POSITIONS AND CASH SETTLEMENT (*TEAR UP IN RECOVERY*)

BME CLEARING may adopt, as a recovery measure, the closing of Positions and cash settlement (*Tear-up in recovery*), in the cases in which a Default of a Clearing Member has occurred, and the corresponding Default management measures have been adopted, and it is not otherwise possible to close the Positions of the Defaulting Clearing Member, including hedging Positions for the default management, if any, when the volume of such Positions is so significant that it could jeopardize the financial stability of the CCP, and in the opinion of BME CLEARING it is not possible to return to the matching of the Positions registered in its Central Register.

This recovery measure will entail that the Positions of the Defaulting Clearing Member that could not otherwise be closed, including hedging Positions for default management, if any (Positions to be closed out) are allocated to the Non-Defaulting Clearing Members as to their respective Non-Defaulting Non-Clearing Members and Non-Defaulting Clients, whose net open Position is a Position opposite to that of the Defaulting Clearing Member (affected Members and Clients).

BME CLEARING will proceed to distribute the volume of the Positions to be closed out on a pro rata basis among the affected Members and Clients (with a Position opposite to the Position to be closed out) up to the maximum limit of their Position.

The volume of the Positions to be closed out that is allocated to each affected Member and Client shall be distributed among each of their respective Accounts of the Central Registry with an open Position. The allocation per Account will be made according to the registration type, gross or net, of each Position Account.

In the event that it is not possible to allocate the entire volume of the Positions among the affected Members and Clients, due to the indivisibility thereof, the volume of the positions to be closed shall be allocated in order to the Members or Accounts affected, which have most recently registered a transaction with the opposite sign to the Position to be closed.

One unit of volume will be assigned to each affected Account of the Central Register, with the maximum limit of its corresponding Position.

The *Tear-up in recovery* will be made at the price to be determined by BME CLEARING, according to the procedure and criteria to be established by Circular (*Tear-up Price*).

BME CLEARING may describe by Instruction the details of the procedure to be followed in the application of the *Tear-up in recovery*.

Once this recovery measure has been adopted, and the close out and cash settlement (*Tear-up in recovery*) has been agreed, the calculation of the Settlement of Profits and

Losses shall be carried out for the affected Members and Clients and the Defaulting Clearing Member.

The Profit and Loss Settlement for each affected Central Securities Register Account and for the Defaulting Clearing Member shall be calculated in accordance with the following formula:

$$\text{Profit and Loss settlement due to Tear-up} = \text{NPV}(t) - \text{NPV}(t-1)$$

Where:

NPV (t): Net present value after the Position close-out, calculated with the Tear-up price

NPV (t-1): Net present value corresponding to the preceding business session.

The settlement of Profit and Loss shall be effected on the first Business Day following the date on which the *Tear-up in recovery* is agreed.

Following the calculation of the Profit and Loss Settlement, the Final Net Balance of the Defaulting Clearing Member shall be determined in accordance with the provisions of Article 42.3 and Articles 43 and following of the Rule Book. In the event that the Final Net Balance is in debit, BME CLEARING shall proceed to carry out the default management actions indicated in article 45.8.c of the Rule Book.

2.9.2 CONTRIBUTION TO CONTINUITY OF THE SERVICE AND VOLUNTARY PAYMENTS

When following a Default BME CLEARING determines that the net debit balance of the Default will be greater than the resources to be obtained from the actions established in Sections 45.8.C.1 to 45.8.C.7 of the Rule Book, BME CLEARING may implement the "Contributions to Continuity of the Service" in the terms of this Section of the General Conditions.

The principle of these Contributions to Continuity of the Service is to secure a percentage of all the gains of the Positions in the Items Applicable during the Loss Distribution Period to cover the net debit balance outstanding on the default.

If, at the end of the Loss Distribution Period, the total Contributions to Continuity of the Service are insufficient to cover the net debit balance outstanding, BME CLEARING may request voluntary contributions from Clearing Members in accordance with Section B.8.5.5 of this Article of the General Conditions.

2.9.2.1 Definitions

The following terms will apply to this section of the General Conditions:

Day Preceding Default: the last day before the default on which the Margin requirements issued by BME CLEARING to the Clearing Members were met in full.

2. OTC Interest-Rate derivative Contract Transaction

Available Resources: in relation to any Loss Distribution Period, the amounts available to BME CLEARING to recover the net debit balance caused by the Default, obtained from the actions established in Sections 45.8.C.1 to 45.8.C.6 of the Rule Book and calculated on the Day Preceding Default.

Total Available Resources ("TAR"): on any day during the Loss Distribution Period, the sum of the Available Resources and any resources obtained from the action established in Section 45.8.C.7 of the Rule Book.

Loss Distribution Day: any business day during a Loss Distribution Period on which BME CLEARING, having previously consulted the Default Management Group, prior to the Margins and Settlements requirement that the CCP must issue in accordance with its regulations, determines that the CCP Loss Not Covered for that day is greater than zero.

Loss Distribution Period: the period as of, but not inclusive, the day on which Default is declared in relation to a Clearing Member, until the day stipulated in Section 3 of this Article of the General Conditions. The Loss Distribution Period may not exceed two months from declaration of the Default.

t: in relation to a formula calculated on a business day, that same business day.

t-1: in relation to a formula calculated on a business day, the business day immediately preceding that business day.

Costs Transferred to the CCP: the costs of BME CLEARING arising from transfer of positions, with their rights and obligations, to the Clearing Members winning the auctions, as established in Section B.8.4 of these General Conditions.

Cumulative Costs Transferred to the CCP ("CCT"): on any day during the Loss Distribution Period, the sum of the Costs Transferred to the CCP up to that day.

Items Applicable: the coupons, the PAI, the Variable Margin and the Additional Payments of any Account of a Non-Defaulting Clearing Member (NDCM) that will be taken into account to calculate the Contributions to Continuity of the Service.

Cash Payment: in relation to any day during the Loss Distribution Period, the net aggregate amount, for the total of Items Applicable, that BME CLEARING would pay to an NDCM for an Account (expressed as a positive amount), or that an NDCM would pay BME CLEARING for the Account (expressed as a negative amount).

Cash Payment with no Loss Distribution ("CPNLD"): in relation to any NDCM Account, the Cash Payment that would be made on any day during the Loss Distribution Period if a loss distribution were not carried out using the Contributions to Continuity of the Service.

Cumulative CPNLD Days and Account: in relation to a Non-Defaulting Clearing Member Account and any day during the Loss Distribution Period, the sum of Cash Payments with no Loss Distribution (CPNLD), from the day following the Day Preceding Default up to the day in the Loss Distribution Period.

Cumulative Cash Payments with no Loss Distribution of all NDCMs ("C-CPNLD"): in relation to any day during the Loss Distribution Period, the sum of Cumulative CPNLD Days and Account of all NDCMs.

Account with Gains: in relation to any day during the Loss Distribution Period, the account of a Non-Defaulting Clearing Member the Cumulative CPNLD Days and Account of which are greater than zero.

Account with Losses: in relation to any day during the Loss Distribution Period, the account of a Non-Defaulting Clearing Member the Cumulative CPNLD Days and Account of which are less than or equal to zero.

Cumulative Cash Gain: in relation to any Account with Gains and any day during the Loss Distribution Period, the positive sum of the Cumulative CPNLD Days and Account of that Account from the day following the Day Preceding Default up to the day in the Loss Distribution Period.

Total Cumulative Cash Gains ("TCCG"): the sum of Cumulative Cash Gains of all Accounts of all NDCMs for any day during the Loss Distribution Period.

CCP Loss Not Covered ("CCPLNC"): in relation to any day during the Loss Distribution Period, the amount calculated using the formula below:

$$CCPLNC(t) = \text{Max} (0; (C-CPNLD (t) + CCT(t) - TAR))$$

Where:

C-CPNLD (t): the Cumulative Cash Payments with no Loss Distribution of all NDCMs.

CCT(t): the Cumulative Costs Transferred to the CCP.

TAR: the Total Available Resources.

Loss Distribution Percentage ("LDP"): in relation to any Loss Distribution Day, the fraction determined by BME CLEARING using the formula below:

$$LDP(t) = \text{Max} (50%; CCPLNC (t) / TCCG(t))$$

Where:

CCPLNC(t): the CCP Loss Not Covered.

TCCG(t): the Total Cumulative Cash Gains.

Maximum Amount of the Contribution to Continuity of the Service: in relation to each Non-Defaulting Clearing Member, the amount stipulated in a Circular. If no Circular is published in this regard, for each Non-Defaulting Clearing Member the Maximum Amount will be 100% of the contribution to the Segment Default Fund of that Clearing Member.

All calculations stipulated in this section in connection with the Default Fund of Non-Defaulting Clearing Members will be made in due consideration of contributions to the Default Fund made on the Day Preceding Default.

2.9.2.2 Adjustments to payments for the Contribution to Continuity of the Service

A. Calculation of the Possible Adjustment to Accounts

The formula below will be calculated on each Loss Distribution Day for each NDCM Account:

$$\text{Cumulative Adjustment to Accounts (t)} = (\text{NPV (t)} - \text{NPV (Day Preceding Default)} + \text{Flows between the Day Preceding Default and t}) * \text{Loss Distribution Percentage (LDP)}$$

Where:

NPV: Net Present Value

Flows between the Day Preceding Default and t: the Items Applicable, less the Variable Margin, collected/paid from the day following the Day Preceding Default up to the Loss Distribution Day. Collections will be considered as positive, and payments will be considered as negative.

For the purposes of calculating the formula above, consideration will only be given to the Trades, and their Items Applicable, in the Accounts of the NDCMs on the Day Preceding Default.

B. Accounts with Gains on the Loss Distribution Day

On each Loss Distribution Day, for each NDCM Account considered to be an Account with Gains on that day, the Contribution to Continuity of the Service will be calculated using the formula below:

$$\text{Contribution to Continuity of the Service (t)} = \text{Cumulative Adjustment to Accounts (t)} - \text{Cumulative Adjustment to Accounts (t-1)}$$

The NDCM clearing this Account must pay BME CLEARING the "Contribution to Continuity of the Service" when it is positive, and BME CLEARING must pay the NDCM concerned the "Contribution to Continuity of the Service" when it is negative.

C. Accounts with Losses on the Loss Distribution Day

On each Loss Distribution Day, for each Account of each NDCM considered to be an Account with Losses on that day that was considered to be an Account with Gains on the previous business day, the Contribution to Continuity of the Service will be calculated using the formula below:

$$\text{Contribution to Continuity of the Service (t)} = - \text{Cumulative Adjustment to Accounts (t-1)}$$

BME CLEARING must pay the “Contribution to Continuity of the Service” to the NDCM clearing this Account.

Accounts of each NDCM considered to be Accounts with Losses on the Loss Distribution Day and on the previous business day will not have any “Contribution to Continuity of the Service”.

2.9.2.3 Expiry of the Loss Distribution Period

The Loss Distribution Period will expire on the day on which the first of the following events occurs:

- a) The day on which the following two conditions are met: i) all the Positions of the Defaulting Clearing Member have been transferred and all amounts arising from the transfer have been paid and ii) the Contributions to Continuity of the Service made are equal to the CCP Loss Not Covered and the loss cannot increase as a result of the Default.
- b) The day on which two calendar months have elapsed since the declaration of Default.

2.9.2.4 Limitations on Contributions to Continuity of the Service

BME CLEARING will use the Contributions to Continuity of the Service for the sole purpose of clearing the net debit balance caused by a Default.

The sum of Contributions to Continuity of the Service from all the Accounts cleared by a Non-Defaulting Clearing Member will not be greater than the Maximum Amount of the Contribution to Continuity of the Service.

The amounts paid by the Accounts of the Non-Defaulting Clearing Members as Contributions to Continuity of the Service will be considered final, and BME CLEARING will not be obliged to restore these amounts or pay interest on them.

If any amounts are recovered from the Defaulting Clearing Member, they will be allocated in accordance with the provisions of Section 45.8.D of the Rule Book.

2.9.2.5 Voluntary Contributions

When, following a Default by one or more Clearing Members, BME CLEARING determines that all the resources obtained from the actions established in Sections 45.8.C.1 to 45.8.C.7 of the Rule Book have been used, and a net debit balance still remains when these resources have been used, BME CLEARING may publish an Instruction informing all Non-Defaulting Clearing Members that it does not have sufficient resources to clear this net debit balance and that consequently it is likely to apply Section 45.8.C.10 of the Rule Book, which would lead to a cessation of activities by BME CLEARING with respect to the CCP Segment or Segments in which the Default occurred, and asking each Non-Defaulting Clearing Member to make a Voluntary Contribution, pursuant to Section 45.8.C.9 of the Rule Book, in a bid to cover the net debit balance.

No Clearing Member will be obliged to make a Voluntary Contribution. Any Voluntary Contributions must be made before the end of the business day following notification of the Instruction concerning the Voluntary Contribution. When the Voluntary Contribution has been made, the Clearing Member will not be entitled to ask for it to be returned. BME CLEARING will be entitled to take the decision to accept or refuse any Voluntary Contribution.

If the Voluntary Contributions are sufficient to cover the net debit balance and there are surpluses, the surpluses from the Voluntary Contributions by each Non-Defaulting Clearing Member will be calculated on a prorata basis as contributions towards the new Default Fund by these Clearing Members.

2.10. CALCULATION AND METHOD OF POSTING MARGINS

Calculation of Margins

The Initial Margin and the Variation Margin are both Position Margin under Article 29.2 of the Rule Book.

The Initial Margin will be calculated with a scenarios model that covers the potential exposures the CCP deems possible until positions are settled.

The Variation Margin will be calculated by updating the NPV of IRS Trades of each Account on a daily basis. Zero coupon yield curves will be used for this purpose.

The Variation Margin will be calculated intra-day and at the end of each day and must be paid by the Clearing member or by BME CLEARING in cash. Intra-day calculations are settled intra-day and day-end calculations at the start of the next session, as detailed in the relevant implementing Circular.

Cash transferred by the Clearing Member or by BME CLEARING, as the case may be, in fulfilment of Initial Margin or Variation Margin obligations will always be as a Margin and never as payment of obligations arising from IR Trades and, in particular, payment obligations arising from Coupons, Up-front Payments and PAI.

The purpose of PAI is to minimize the impact of Variation Margin cash payments on the price of IR Trades. The PAI will be calculated with the overnight rate.

The Initial Margin will be calculated for each of the Accounts, with no netting allowed between Accounts for such purposes. A circular will specify the model to be used and the parameters necessary for calculating the Initial Margin, Variation Margin, PAI and NPV.

Methods of posting Margins

The Financial Instruments specified by BME CLEARING in a Circular may be posted as Collateral.

Cash collateral may be provided in accordance with the provisions of the Circular:

- i) on BME CLEARING accounts on the TARGET2 platform for EUR currency
- ii) in the relevant BME CLEARING Settlement Bank Accounts provided by the Settlement Banks for all currencies accepted by BME CLEARING as Collateral.

2.11. POSITION LIMITS

BME CLEARING may limit by Circular the volume of the open position of a Clearing Member in a specific Transaction Type or term in order to prevent excessive concentration of risks in accordance with the provisions of the Rule Book.

The aforementioned Circular, if issued, will also implement a procedure for a Clearing Member to return to within the established limits if they are temporarily exceeded.

2.12. DISSEMINATION OF INFORMATION

All reports prepared by BME CLEARING will be communicated to Clearing Members solely through the BME CLEARING website, accessible by means of a password. Such reports will be considered final for the purposes of registration by BME CLEARING. BME CLEARING will not be responsible for the corruption or alteration of messages, or loss of day that may occur through Communication Systems.

BME must notify IRS Trades that have been noted to a trade repository authorised under Regulation (EU) 648/2012, of 4 July 2012, on OTC derivatives, central counterparties and trade repositories ("EMIR Regulation"). Clearing Members must report novated IRS Trades to such trade repositories. They may, pursuant to the provisions of Article 9 of the EMIR Regulation, delegate such reporting to a third party, including BME CLEARING.

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