

Circular C-GEN-04/2024

Posting of margins

BME CLEARING

4 March 2024

General Circular

Effective date: 11 March 2024

Replaces: C-GEN-07/2023

The permitted forms of margin posting and the procedures are detailed. It is amended to add eligible cash collateral in currencies other than the Euro. Specifically, USD cash collateral.

This Circular implements the provisions of Article 30 of the BME CLEARING Rule Book.

1. POSTING OF DEFAULT FUND CONTRIBUTIONS

Default Fund contributions shall be posted exclusively in cash in EUR by the Clearing Member or its Payment Agent to the BME CLEARING Account on TARGET- Bank of Spain platform.

2. POSTING OF INITIAL MARGINS AND INDIVIDUAL FUNDS

They can materialise:

- a) By means of cash in EUR posted by the Clearing Member or its Payment Agent into the BME CLEARING Account on TARGET- Bank of Spain platform.
- b) By means of cash in USD posted by the Clearing Member or its Payment Agent in BME CLEARING´s account at one of its eligible Settlement Banks in accordance with 'Authorized Settlement Banks' Instruction. Alternatively, BME CLEARING will facilitate direct debit to the Clearing Member´s account at the Settlement Bank as an option.
- c) By pledging securities in IBERCLEAR, CLEARSTREAM BANKING (LUXEMBOURG) S.A (hereinafter "CLEARSTREAM") or EUROCLEAR BANKING SA/NV (hereinafter "EUROCLEAR"), in accordance with the criteria established in the Circulars 'Margin collateral in the form of securities in IBERCLEAR', 'Margin collateral in the form of securities in CLEARSTREAM' and 'Margin collateral in the form of securities in EUROCLEAR', respectively, or in those that replace them.
- d) By transfer of ownership, through a transfer of the securities which are the object of the collateral, carried out by the Clearing Member, to the corresponding securities account of BME CLEARING in IBERCLEAR, CLEARSTREAM, EUROCLEAR or SIX SIS Ltd. (hereinafter "SIX SIS"), in accordance with the criteria established in the Circulars '*Margin collateral in the form of securities in IBERCLEAR*', '*Margin collateral in the form of securities in CLEARSTREAM*', '*Margin collateral in the form of securities in EUROCLEAR*' and '*Margin collateral in the form of securities in SIX SIS*', respectively, or in those that replace them.

- e) By any other additional method applicable for a given segment. To be governed by segment specific Circular.

3. INDIVIDUAL FUND POSTING DUE TO AN INTRADAY RISK LIMIT EXCESS

The Individual Funds in the event of an excess of the Intraday Risk Limit may be realised by means of:

- a) Direct debit in EUR to TARGET- Bank of Spain platform account of each Member concerned.
- b) Payment order in EUR to the BME CLEARING Account on TARGET- Bank of Spain platform.
- c) Payment order in USD to BME CLEARING Account opened in the Settlement Bank. BME CLEARING will facilitate direct debit to the Clearing Member's account at the Settlement Bank as an option.
- d) By electronic pledge of securities or by transfer of ownership in IBERCLEAR, EUROCLEAR BANK or CLEARSTREAM BANKING LUXEMBOURG or by transfer of ownership in SIX SIS.
- e) In the event of unavailability of TARGET- Bank of Spain for technical reasons, BME Clearing may allow the TARGET- Bank of Spain Contingency Module to be used, by following the steps below:
 - BME CLEARING informs the Bank of Spain of the list of entities that must make payments through the contingency module, and the respective amounts.
 - These entities shall provide their Central Bank with the necessary collateral to provide liquidity into the contingency module, and shall order the processing of a critical direct participant payment to be credited to BME CLEARING's account.
- f) In case of technical malfunction of one of its Settlement Bank, BME CLEARING will provide alternative account in other eligible Settlement Bank mentioned in 'Authorized Settlement Banks' Instruction for the payment orders in USD to be sent.
- g) In exceptional cases, any other form that BME CLEARING deems sufficient and expressly accepts, after prior notification to the CNMV.

4. POSTING OF EXTRAORDINARY MARGINS

The Extraordinary Margins required by BME CLEARING in the event that the maximum daily price fluctuation limits are exceeded, shall materialise as follows:

- a) Provided that TARGET- Bank of Spain is operational, by direct debit in EUR to the TARGET- Bank of Spain platform account of each Member concerned.
- b) In the event of technical malfunction or time unavailability of TARGET- Bank of Spain, BME CLEARING shall allow Clearing Members to provide the Extraordinary Collateral to be posted by means of USD cash, an electronic pledge of securities or by transfer of ownership in IBERCLEAR, EUROCLEAR BANK or CLEARSTREAM BANKING LUXEMBOURG or by transfer of ownership in SIX SIS.
- c) In the event of a technical malfunction of TARGET-Bank of Spain , BME CLEARING may also allow the TARGET-Bank of Spain Contingency Module to be used, by following the steps below:
 - BME CLEARING informs the Bank of Spain of the list of entities that must make payments through the contingency module, and the respective amounts.
 - These entities shall provide their Central Bank with the necessary collateral to provide liquidity into the contingency module, and shall order the processing of a critical direct participant payment to be credited to BME CLEARING's account.
- d) In exceptional cases, any other form that BME CLEARING deems sufficient and expressly accepts, after prior notification to the CNMV.

5. MARGINS PROVIDED BY MEANS OF SECURITIES AND CASH : VALUATION

For the purposes of this Circular, margins posted as securities and cash collateral in USD shall be valued in accordance with the criteria set out in the Circular '*Valuation of collateral posted as Margins*', or the one replacing it.

6. DAILY UPDATE OF MARGINS AND PROCEDURE FOR POSTING CASH MARGINS IN EUROS

At the end of the session, BME CLEARING shall notify the Members of the amount of Margins required and posted, broken down by Account, together with details of the posted securities provided through the procedures set out in this Circular, and valued in accordance with the provisions of Section 3 of this Circular.

The variation of the Initial Margin to be posted in cash in EUR as per the uncovered amount in BME CLEARING, on the next Business Day, is obtained using the following formula:

Initial Margin variation to be posted in cash in EUR on T+1

= Total Initial Margin to be posted on T+1

- Margins posted in Securities and Cash on T

If for a given Account the variation of the Initial Margin to be posted on T+1 is negative and the Account has Margins posted both in securities and in cash, EUR or USD, BME CLEARING shall pay to the Member for such Account at most the amount of Margins posted in cash on T in EUR.

The Initial Margin variation to be posted in cash in EUR by the Clearing Member will be the sum of the variation corresponding to its Accounts and to its Non-Clearing Members, plus any adjustment to Individual Funds and/or Extraordinary Margins, where applicable, so as to obtain the cash Margins to be posted in cash in T+1 by the Clearing Member.

This amount shall be added to the settlement in EUR of other items mentioned in the Circular '*Clearing and Multilateral Settlement. Timetable and Procedures*', and the total net amount shall be debited or credited to the relevant cash account in TARGET- Bank of Spain of the Clearing Member or of the Payment Agent appointed by such Clearing Member in the multilateral settlement of BME CLEARING.

In accordance with Article 39.6 of EMIR, a Client holding an Individual Segregated Client Account (ISA) with BME CLEARING may request the CCP, through its Member, to post cash collateral with BME CLEARING in excess of the margin required by the CCP for that Account. The same shall apply in the case of a Non-Clearing Member through its Clearing Member.

A Member may indicate to the CCP the amount of excess cash collateral to be debited in multilateral settlement on behalf of its client either by indicating a fixed amount of excess collateral or by indicating a percentage of the Initial Margin required by that Account.

7. WITHDRAWAL OF CASH AND NON-CASH COLLATERAL

The withdrawal of the excess of collateral posted either in cash or securities will be made within established time schedule depending on asset type:

- a) Cash in excess in EUR posted in Target Banco de España account will be automatically returned to the Clearing Member through the Multilateral Settlement movement.
- b) The Clearing Member may request the refund of all or part of cash posted in USD using the withdrawal window for value same day, 11 AM – 1 PM (CET), provided that it is excess of collateral and does not cover Clearing Member´s risk of any kind.

- c) The Clearing Member may request the recall of non-cash collateral in excess for value same day according to the time schedule and conditions determined by each CSD, no later than 7 PM (CET), as long as it is collateral in excess and is not covering Clearing Member's risk of any kind.

Should any of the recall backs requested by the Clearing Member not be excess of collateral, BME CLEARING will provide information to substitute such collateral for any type of materialization accepted in section 2 of this Circular.

8. INVESTMENT AND REMUNERATION POLICY OF CASH COLLATERAL

8.1 Investment Policy

The Collateral provided in cash shall be invested by BME CLEARING, unless the Member or Client communicates its wish not to be invested, only possible in the case of EUR, in which case (non-investment decision), it shall be deposited in the account of BME CLEARING in the Eurosystem.

In cases where, given the currency in which the Collateral is provided, BME CLEARING is obliged to invest the Collateral, as it is in the case of cash posted in USD, in compliance with the obligations set out in Delegated Regulation 153/2013, and the Member or Client may not, in these cases, request the non-investment of their Collateral in cash.

BME CLEARING will carry out its investment policy as approved by its Board of Directors in compliance with the high liquidity and minimum market and credit risk requirements of Article EMIR 47.1 as detailed in Annex II of RD (EU) No 153/2013.

BME CLEARING may invest the Margins posted in cash by means of re-purchase transactions (hereinafter "buy/sell back"), classic repos (reverse), or by direct purchase either through bilateral transactions or through BME CLEARING's participation in the investment platforms, under the following conditions:

- The collateral accepted as margin for the investment should be Sovereign Debt in the currency type accepted as margin in the Circulars Margin collateral in the form of securities in IBERCLEAR, Margin collateral in the form of securities in CLEARSTREAM, Margin collateral in the form of securities in EUROCLEAR and Margin collateral in the form of securities in SIX SIS or that which replace these. In addition, for repos executed on the CO:RE platform, the collateral accepted for the investment may be securities contained in the SNB GC - L1 basket according to the list of eligible collateral for SNB repos published by the Swiss National Bank (SNB). The SNB basket shall not be available in the case of outright purchases of securities, neither in bilateral repos, nor in bilateral buy/sell backs.

- The counterparties of the investment should have a solvency level between S1 and S7, according to the Circular '*Calculation of shareholders' equity and solvency*', or the one replacing it.
- BME CLEARING will establish credit limits in accordance with the SIX Group's investment policy according to the Solvency Ratio assigned to the counterparties and issuers. In the case of outright purchase transactions, the following concentration limits will also be considered:
 - The exposure of the investment to one issuer may not exceed 25% of the total invested by BME CLEARING.
 - The investment exposure may not exceed 10% of the outstanding balance of an issue.
- In the case of bilateral transactions, where there are no collateral or valuation adjustment mechanisms to cover changes in collateral prices, BME CLEARING will apply the valuation haircuts set out in the '*Valuation of securities posted as collateral*' Circular, or the one that replaces it, to the assets posted in the securities account of BME CLEARING in IBERCLEAR, CLEARSTREAM or EUROCLEAR or SIX SIS, received as a result of having invested part of the collateral posted in cash with a buy/sell-back or classic repo (reverse) carried out with the Clearing Member and/or counterparty. For those buy/sell-backs or classic reverse repos with a repurchase term longer than one day, a monitoring of the price evolution and collateral adjustment will be carried out in case of consumption of the applied valuation haircut.
- Where collateral or valuation adjustment mechanisms are in place, or in the case of outright purchase transactions, BME CLEARING will not apply valuation haircuts.

8.2 Remuneration Policy

All cash collateral of Members at the end of each session shall be remunerated at an interest rate that may be referenced to a market rate minus a spread. The applicable interest rate and its composition, in the event that it is referenced to a market rate minus a spread, shall be set out per eligible currency as cash collateral, in the '*Remuneration applicable to cash collateral*' Instruction, or any substituting instruction. The interest rate may be reviewed by BME CLEARING on a regular monthly basis, or immediately in the event of extraordinary interest rate variations.

When the Member or Client has communicated their wish for the cash in EUR not to be invested, BME CLEARING shall apply an additional spread to the remuneration of the cash. This spread shall be established in the same way in the above Instruction and may be reviewed on a monthly periodic basis, or immediately in the event of extraordinary interest rate variations replacing.

BME CLEARING shall settle this amount monthly on the second business day of the following month in the case of EUR through multilateral settlement in TARGET-Bank of Spain of the Clearing Member, or to its Agent. as per USD, it will take place the tenth business day of the following month, booked as cash posted in favour of the Member.

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BME
Plaza de la Lealtad,1
Palacio de la Bolsa
28014 Madrid

www.bolsasymercados.es

