

# Circular C-GEN-07/2024

Requirements to act as Settlement Bank for BME  
CLEARING

**BME CLEARING**

4 March 2024

**Segment: General**

**Effective Date: 11 March 2024**

**Replaces: -**

**This Circular sets the definition and requirements to accept an entity to act as Settlement Bank for BME CLEARING.**

This Circular specifies the definition and the technical, liquidity and solvency requirements for the acceptance of an entity in order to act as Settlement Bank for BME CLEARING to facilitate the posting of cash collateral in currencies other than Euros, accepted in the *'Posting of Margins'* Circular.

The updated list of accepted Settlement Banks is available in the *'Authorized Settlement Banks'* Instruction.

## **1. DEFINITION AND REQUIREMENTS TO ACT AS SETTLEMENT BANK FOR BME CLEARING**

A Settlement Bank is considered as an entity that, complying with the eligibility criteria established by BME CLEARING through this Circular, participates in a cash payment mechanism and facilitates the Settlements between BME CLEARING and the Clearing Members; and the deposit of the cash margins posted in currencies other than Euros.

Every bank or credit institution -or infrastructure- acting as Settlement Bank for BME CLEARING, must have the capability to operate in the currencies requested in one or multiple time zones, offer a sufficient technical infrastructure, and fulfil the minimum liquidity and solvency levels required by BME CLEARING in this Circular.

Once the documents supporting the requirements detailed in the following sections have been provided, the applications will be assessed. The designation as Settlement Bank is subject to approval by BME CLEARING.

### **Technical Requirements:**

Banks or credit institutions -or infrastructure- willing to be designated by BME CLEARING as Settlement Banks must fulfil the following technical requirements:

- To have an interface with Swift to send and receive instructions.
- To be available to operate on all days which the CCP is open, including international currency holidays.

- To have contingency processes to guarantee the generation and receipt of instructions through and alternative mechanism.
- To have an environment for testing.To provide customer support services.
- Availability of in-house debits 23/7 will be considered positively.
- To provide payment services to other CCPs will be considered positively.

### **Liquidity and Solvency Requirements:**

The applicant Settlement Banks must be regulated banks or credit institutions -or infrastructure-, subject to prudential supervision. Applicants will have to provide the last Annual Report or audited Financial Statements both at individual and consolidated level.

The solvency considered by BME CLEARING will be established as described in the '*Calculation of shareholders' equity and solvency*' Circular (or the one that replaces it).

As a result of this, BME CLEARING will grant a solvency level to the Settlement Bank out of a scale of 9 levels: S1, S2, S3, S4, S5, S6, S7, S8 and S9, being S1 the maximum solvency and S9 the minimum solvency. A minimum of S7 will be required to act as Settlement Bank for BME CLEARING.

The revision to the solvency of a Settlement Bank is made immediately once BME CLEARING is aware of any significant improvement or worsening of any of the indicators mentioned above and will be notified to the concerned entity.

If an accepted Settlement Bank is aware of any deterioration of its solvency, it is obliged to notify to BME CLEARING immediately.

Notwithstanding the foregoing, in the event of worsening in the solvency of the Settlement Bank, BME CLEARING may reduce its exposure limit to such bank by transferring part of the deposits to another Settlement Bank from the list detailed in the '*Authorized Settlement Banks*' Instruction.

### **Other requirements:**

It will be considered that the Settlement Bank may facilitate the investment of the cash deposited in the Settlement Bank Accounts, as well as the possibility of facilitating its liquidity of the collateralized investment .

BME CLEARING will undertake mandatory annual due diligence of the Settlement Banks and conduct contingency tests over the backup settlement mechanisms.

## 2. ACCOUNTS USED IN SETTLEMENT BANKS

BME CLEARING shall open a Settlement Account in its name for each eligible currency with at least two entities listed in the '*Authorized Settlement Banks*' Instruction.

In addition, BME CLEARING may open sub-accounts under such accounts within each Settlement Bank to manage the segregation of its flows and cash deposited as collateral.

A Clearing Member in BME CLEARING that directly, or through another entity of its corporate group, acts as Settlement Bank will need to deposit its cash collateral in currencies other than Euros in another alternative Settlement Bank authorized by BME CLEARING.

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