

Circular C-RV-06/2025

Failures management procedure

BME CLEARING

29 September 2025

Segment: Equity

Date of entry into force: 6 October 2025

Replaces: C-RV-06/2023

Establishes the procedures related with the Settlement of instructions sent to the Settlement System by BME CLEARING and with the management of settlement failures. The initiation period for the buy-ins is modified.

This Circular implements section 14 of the Equity segment General Conditions.

1. SETTLEMENT PROCESS IN THE SETTLEMENT SYSTEM

The Positions registered at BME CLEARING will be settled in the corresponding Settlement System as stated in Circular “Trading Platforms and Settlement Systems” in accordance with its operating rules.

The Settlement Instructions (SI) generated by the CCP are sent to the Settlement System on the business day prior to their Intended Settlement Date (ISD), for full or partial Settlement in the different settlement periods provided by the Settlement System, in accordance with its procedures and its settlement optimisation processes.

Since BME CLEARING is a Central Counterparty of the Positions recorded which will be subject to Settlement, the Settlement System will make the relevant debits and credits of Securities and cash in the securities and cash accounts, held both by BME CLEARING and by the Settlement Participant which, in each case, must be responsible for Position Settlement on behalf of the BME CLEARING counterparty.

The Settlement System will notify BME CLEARING, and the latter will notify its Members, of the outcome of the settlement of the Settlement Instructions generated by the CCP. Following the settlement of the Settlement Instructions, the corresponding Positions registered at the CCP will be closed and the responsibilities of BME CLEARING and of its counterparty will cease with respect to those Positions.

Those instructions which are not settled or which are partially settled will remain in the Settlement System in recycling, for subsequent settlement.

BME CLEARING will apply the Failure Management mechanisms in Settlement as regulated in the following sections, applying the corresponding administrative costs, with respect to the Transactions pending settlement and the Sale Transactions held in the CCP at the end of the period of settlement against payment of the Intended Settlement Date (ISD) (Failed Transactions).

BME CLEARING may determine by Circular the rules that may be applicable in accordance with the applicable regulations regarding the collection and distribution of penalties applied to Failed Transactions, as appropriate.

2. SETTLEMENT INCIDENTS DUE TO A LACK OF CASH

In the event Settlement incidents arise due to a lack of cash on the ISD, BME CLEARING will substitute the Clearing Member in its cash payment obligations against the seller, receiving the Securities from the seller and settling the cash corresponding to the delivery instructions, leaving as unsettled the instructions for the receipt of Securities and the payment of cash of the Member causing the settlement incident.

If in the same or immediately following session the Settlement Incident persists due to a lack of cash, BME CLEARING may adopt as many measures as required to resolve it, including the sale of the Securities which had been delivered to it, the compensation of any expense which it may have incurred and the application of the related administrative costs, in accordance with what is established in the "Fees" Circular.

3. SETTLEMENT INCIDENTS DUE TO A LACK OF SECURITIES. GENERAL CONSIDERATIONS OF FAILS MANAGEMENT

When a sale instruction cannot be settled before the DvP cut-off of its ISD (Failed transaction), the Fails Management mechanisms will be initiated including allocation of the corresponding costs.

For this purposes, a failed transaction will be considered to be both a sale instruction that remains pending settlement, either fully or partially, at the end of its ISD, and the held sale trades in the CCP within the context of Held Trades Management and which were not released and settled before the end of the DvP settlement period on their ISD.

Failed Settlement Instructions will remain in recycling, as set out in section 4 below of this Circular, until the date they are settled or replaced in the Buy-in or Cash Settlement processes.

The general process of Incident Management in Settlement includes two procedures:

1. If the seller continues not to deliver the Securities on the afternoon of the fifth session following the Intended Settlement Date (ISD+5), the Buy-in will begin. This limit will be extended to ISD+8 for ETFs and Latibex securities.
2. On the eighth session following the ISD (ISD+8), if it was not possible to perform totally or partially the Buy-in, a Cash Settlement shall be made on the failed sell and the oldest purchase registered on that date at BME CLEARING records. This limit will be extended to FTL+10 for ETFs and Latibex securities.

Failed Buy and Sell Instructions in BME CLEARING are normally of different age since the settlement algorithm of the Settlement System can settle cross dates. When a seller has not yet delivered the securities on ISD+5 or on ISD+8 for ETFs and Latibex, and it is not feasible to perform the Buy-in, it will be necessary to carry out the Cash Settlement to the oldest purchase. This purchase may be cash settled since its ISD.

When the circumstances so require, BME CLEARING may use the above mechanisms with sufficient flexibility to optimize the Management of settlement Fails, even reconsidering either the timeline to commence the Buy-in and Cash Settlement or the number of days to carry out the Buy-in depending on the volume of the failed position. In those cases where the volume to be bought-in is greater than the 15% of the average daily volume, BME CLEARING shall inform the CNMV about its details.

Any exceptional amendment to the above mechanisms shall be made after consulting the competent authorities.

4. RECYCLING OF SETTLEMENT INSTRUCTIONS WITHIN THE SETTLEMENT SYSTEM

Those Instructions still unsettled at the end of their ISD will be kept in recycling and will be attempted to settle the following sessions after their ISD, up to the day they will be replaced on the Buy-in procedure.

Those failed sell Instructions and affected purchases will not return to BME CLEARING for a new compensation or netting but will remain in recycling within the Settlement System either until they settle or until they will be replaced on the Buy-in or Cash Settlement procedure.

In case the failed Instructions settle after their ISD due to the delivery of securities from the failed seller, the Settlement System will inform BME CLEARING which will update its records accordingly and will discontinue the appliance of the administrative costs.

If a sell Settlement Instruction is unsettled on ISD+5 or on ISD+8 for ETF and Latibex securities, it will be held, starting the Buy-in as stated in the below section.

5. BUY-IN AND ITS RELATED SETTLEMENT

BME CLEARING will notify the failed positions on a daily basis via a file, also providing information on the age of each failed position. If a failed position is four days old from its ISD and Securities are not delivered the next day, a Buy-in will be performed at the end of the following session (ISD+5 and ISD+8 for ETFs and Latibex), in accordance with the procedure described in this section.

The Buy-in will be applied to both failed and held sell transactions which have reached the date of the Buy-in.

Treatment for the Securities supplier

The order to buy the securities at the Stock Market will be given by BME CLEARING to a Securities provider on ISD+5 (ISD+8 for ETFs and Latibex) who will deliver them to BME CLEARING via one or more bilateral Buy-in trades ("bilateral Buy-in trades" or "Buy-in") executed on ISD+6 and ISD+9 for ETFs and Latibex Securities.

In case there are insufficient securities to cover the needs, BME CLEARING will decide which Settlement Instructions will be cash settled and/or bought-in, applying the following sequence:

3. failed sell transactions and
4. held transactions at BME CLEARING,

Within the same type, the priority criteria will be the days of late delivery so that the oldest Transactions are the first to be bought-in.

During the closing processes of ISD+7 BME CLEARING will register the book-entry of the Buy-in on its records and will issue the corresponding delivery Settlement Instruction from the securities account of the provider to BME CLEARING's account within the Settlement System, with value date ISD+8. For the ETF and Latibex securities, the registration of the buy-in will be made on ISD+10, with a value date of ISD+11.

Treatment for the failed seller

At the end of the ISD+5 session (ISD+8 for ETFs and Latibex) without the failed sell instruction having been settled, BME CLEARING will hold the failed instructions with the aim of preventing it from settling in the Settlement System, so that they do not continue to be recycled in the Settlement System. In the case of Sales Instructions that have already been held, they shall not be permitted to be released thereafter.

From the standpoint of the failed seller, when BME CLEARING has received the securities from the provider, it will cancel the failed sell instruction, and generate a new cash-only debit instruction or, at most, of zero cash, for the difference between the cash of the initial failed trade and the cash to be paid for the Buy-in.

As T2S does not support zero-volume and zero-cash instructions, if the new cash amount is zero, BME CLEARING will replace the failed Transaction by a new one for €0.01.

If there are various Buy-in Trades at different prices, the average price of all the Buy-ins will be used to calculate the cash instruction.

As many cash instructions will be generated as there are failed SIs. BME CLEARING will inform the member and the Settlement Participant of the substitution of the failed original instruction with the generation of the BME CLEARING "6" Trade type cash instruction.

Instructions issued by BME CLEARING

In the session ISD+7, BME CLEARING will issue the following instructions to be settled on ISD+8 during the night settlement cycle:

- Cash instruction, debiting the failed seller's account with the difference between the cash amount of the Buy-in and the initial cash fail.
- Delivery versus Payment Instruction to the Securities supplier, whereby BME CLEARING receives the Securities and delivers the cash to the Securities supplier at the stipulated price.

For ETFs and Latibex securities, BME CLEARING will issue Settlement Instructions on ISD+10, which will be settled on ISD+11.

Administrative costs of the failed seller

The failed seller will incur administrative costs due to management costs of the Buy-in process (stipulated in the "Fees" Circular) together with the difference between the cash amount of the Buy-in and the cash amount of the failed sell instruction.

6. CASH SETTLEMENT

If the securities provider is unable to buy the totality of the Securities on ISD+5 or ISD+8 for ETFs and Latibex securities or if the buy is made on the Stock Market but remains unsettled on the ISD), the Buy-in may not be performed in full or un part. In this case, positions will be settled in cash on ISD+8 or ISD+11 for ETFs and Latibex. This will ensure compliance with the pending obligations of the failed seller vis-à-vis BME CLEARING and BME CLEARING obligations to the affected buyer.

Cash settlement to the buyer will be made via a credit fir a cash amount calculated using the last available closing price of the Security. This cash settlement price may not be lower than the unitary price of the failed sale or of the affected purchase to be settled in cash, in line with the following formula:

Cash Settlement Price = Max. (last closing price, % price of the failed sell; price of the affected buy)

Being % = 20%

The cash amount which must be paid by the failed seller (Amount of the Failed Seller) will be the difference between the cash amount of the failed instruction and the cash amount calculated with the Cash Settlement Price. The cash amount which must be received by the affected buyer (Amount of the Affected Buyer) will be the difference between the cash amount of the affected instruction and the cash amount calculated with the Cash Settlement Price.

The cash amounts to be settled vis-à-vis the seller and the buyer will be settled on the following session (ISD+8 or ISD+11 for ETFs and Latibex Securities). BME CLEARING will generate two cash Settlement Instructions:

- A Settlement Instruction in cash, in which the failed seller is debited the Amount of the Failed Sell and BME CLEARING receives the cash amount.
- A Settlement Instruction in cash, in which BME CLEARING is debited the Amount of the Affected Buy and the affected buyer receives the cash amount.

In operative terms, the buy and sell instructions pending are considered by BME CLEARING as settled in cash.

Administrative costs to the failed seller

Administrative costs due to administrative management costs (stipulated in the “Fees” Circular) will be charged to the failed seller for each day between the Intended Settlement Date and the Effective Settlement Date.

7. MANAGEMENT OF FAILS RELATING TO SUBSCRIPTION RIGHTS

Trades involving Subscription Rights will be dealt with in the same way as Trades on any other type of Security. Their Buy-ins and Cash Settlements will be subject to the mechanisms and ordinary fails management periods.

However, as the end of the trading period approaches, it will be necessary to make exceptions to the rule since it will not be possible to perform the Buy-in when the Subscription Rights period has ended.

Any failed rights negotiated from T-6 in a two-day settlement cycle, being T the last trading day for such failed rights, since it is not possible to perform the Buy-in on the standard Buy-in date, will be settled in cash or subject to the “Buyer Protection” procedure. This procedure is described in the “Treatment of Corporate Actions” Circular.

8. TRANSACTIONS ON FINANCIAL INSTRUMENTS ADMITTED TO TRADING IN THE LATIN AMERICAN STOCK EXCHANGE (LATIBEX)

According to the applicable settlement rules of the main trading platforms for Financial Instruments admitted to trading on the Latin American Stock Exchange (Latibex) which have longer settlement periods higher than those set in the Spanish financial system, the specific rules on daily administrative costs will be applied to the failed seller as stated in the “Fees” Circular.

For each day which elapses between the third day after the Intended Settlement Date (inclusive) and the Effective Settlement Date, the failed seller of the Financial Instruments admitted to trading in the Latin American Stock Exchange (Latibex) will support daily administrative costs as stated in the “Fees” Circular. Thus, if after the DvP settlement period

of the third day after the Intended Settlement Date the settlement of transactions has not taken place, the corresponding daily administrative costs shall be applied as from this date onwards.

BME CLEARING will periodically monitor the impact that this new measure might have on the effective functioning of the settlement of Latibex in order to adjust it, if necessary. Additional administrative costs due to the management of the Buy-in and Cash settlement will be applied to the failed seller in accordance with the provisions specified in the "Fees" Circular.

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