

Circular C-VRF-03/2025

Netting and Aggregation. Generation of settlement
Instructions

BME CLEARING

23 January 2025

Segment: Fixed Income Securities

Effective Date: 10 March 2025

Replace: C-VRF-09/2018

Regulates netting and aggregation by Position account types (in gross or in net) and the generation of the Settlement Instructions.

This modification is due to the elimination of the Financial Intermediary model, in response to regulatory changes from the applicable regulations.

This Circular implements section 11 of the Fixed Income Segment General Conditions.

1. GENERAL CONSIDERATIONS

The Netting, Aggregation and subsequent creation of the Settlement Instructions (SI) will take place in the end of day processes of the business day preceding the Intended Settlement Date (ISD).

Regardless of the Account type in which the Settlement instructions are registered, those that correspond to the initial Transactions, or the initial leg, of the buy/sell-back transactions registered on their Intended Settlement Date (ISD), will be sent to be settled individually and in Gross Amount, without in BME CLEARING are subject of any Netting or Aggregation process.

BME CLEARING will implement the Netting or Aggregation of registered transactions into the same Account based on the Position Account type (hereinafter Account), differentiating between Net Registration Accounts and Gross Registration Accounts.

Netting

BME CLEARING will net the Transactions registered in the Net Registration Accounts, that is to say, from the Client Segregated General Net Registration Account, Individual Segregated Account, Client Account with Individual Segregation and Proprietary Account.

The Transactions with the following in common will be netted (Transaction-Date Netting model):

- Intended Settlement Date.
- ISIN
- BME CLEARING's Position Clearing Account (which has an associated Settlement Participant and Settlement Account in the Settlement System).

The netting of Transactions will comprise both as the Market Transactions and as the Out of Market Transactions, communicated to BME CLEARING and registered according to the Circulars about Registration of Transactions about Fixed Income Securities traded on SENAF platform, and Registration of Transactions communicated through IBERCLEAR, respectively.

Failed Transactions from previous sessions and the held sell Transactions from different dates held at BME CLEARING will not be netted. Buy-in Transactions generated by BME CLEARING in Fails Management will not be netted either.

Aggregation

BME CLEARING will aggregate the Transactions registered in the Gross Registration Accounts, that is to say, in Gross Third Party General Account.

All the buy Transactions and separately all the sell Transactions will be aggregated, provided they coincide with the Intended Settlement Date and ISIN registered in the same Position Account at BME CLEARING.

Failed Transactions from previous sessions and the held sell Transactions from different dates held at BME CLEARING will not be aggregated. Buy-in Transactions generated by BME CLEARING in Fails Management will not be aggregated either.

Settlement Instructions

Once BME CLEARING has created the Settlement Instructions, the original Transactions will be closed and substituted by the Settlement Instruction in BME CLEARING's registers. The entities will be exclusively liable for compliance with the resulting cash payment and Securities delivery obligations.

2. CREATION OF SETTLEMENT INSTRUCTIONS IN NET ACCOUNTS

In the process of netting cash and Securities via net Accounts, BME CLEARING will generate a Settlement Instruction for each Account and ISIN. Based on the volume of buys and sells allocated to the Account and its cash, the result of netting will be any sign combination of cash and Securities:

- With respect to Securities, netting will give rise to net buyer, seller or null instructions.
- With respect to cash, netting will give rise to instructions with payments (receiving or delivering cash) or without payments.

In accordance with the “Hold and release of sell trades” Circular, BME CLEARING will take into account the sell Transactions which the Settlement Participant (SP) of the Settlement System held in each account. Accordingly, the Settlement Instruction will be reduced by the number of Securities of each held Transaction (up to the limit of the account's net seller balance) and the cash to be reduced will be calculated based on the price of each held Transaction.

The Settlement Instructions which are generated and sent to the Settlement System may be of the following types:

- Delivery versus payment
- Receipt versus payment

- Delivery with payment
- Receipt with payment
- Delivery Free of Payment
- Receipt Free of Payment
- Payment free of delivery
- Collection free of delivery

The zero-cash payment instructions that may result from the netting process will not be sent to the Settlement System, being recorded in the ECC as settled.

3. CREATION OF SETTLEMENT INSTRUCTIONS IN GROSS ACCOUNTS

For the gross accounts, BME CLEARING will create two Settlement Instructions for each account, taking into account the sell Transactions which have been held:

- Aggregate of all buy Transactions of the account by ISIN and Intended Settlement Date.
- Aggregate of all sell Transactions of the account by ISIN and Intended Settlement Date which have not been held.

In accordance with the "Hold and release of sell trades" Circular, BME CLEARING will take into account the sell Transactions which the Settlement Participant (SP) of the Settlement System held in each account. Accordingly, the Settlement Instruction will be reduced by the number of Securities of each held Transaction (up to the limit of the account's net seller balance) and the cash to be reduced will be calculated based on the price of each held Transaction.

As two Settlement Instructions per account are created with the purchase aggregates on one hand and the sell aggregates on the other, the Settlement Instructions which are generated in the gross accounts and sent to the Settlement System may only be of the following types:

- Delivery versus payment
- Receipt versus payment

4. SENDING THE SETTLEMENT INSTRUCTIONS FOR SETTLEMENT

The previous day to Intended Settlement Day (ISD -1) BME CLEARING will send the following Settlement Instructions (SI), per ISIN, to the Settlement System to be included in the Night Settlement Cycle for its ISD.

- The SI corresponding to the buy Transactions of the Gross Amount, resulting from the Aggregation of Transactions.
- The SI corresponding to the sell Transactions of the Gross Amount and which the

Settlement Participant has not held.

- The SI of the net balances corresponding to the Transactions allocated to Net Accounts:
 - If the account has a buyer balance, the instruction will be sent for the resulting net volume.
 - If the account has a seller balance, the instruction will be sent for the net sales volume which is not held.

The Settlement Instructions that have not settled in the Night Settlement Cycle, will try to be settled, on the ISD, in the Real Time Settlement Period and up to the end of the DvP Settlement period.

BME CLEARING will generate and send in real time to the Settlement System all the Settlement Instructions related to the initial Transactions or to the initial leg of the buy/sell-back transactions registered on their Intended Settlement Date. It will take place from the start of day in Fixed Income Segment of BME CLEARING, within the period established by the Settlement System to the settlement in Real Time Settlement Period, and up to the end of the Delivery versus Payment Settlement Period established by the Settlement System.

The failed instructions of previous sessions will be recycled in the Settlement System; accordingly, they will not be sent by BME CLEARING in the following sessions.

The instructions to be sent to the Settlement System relating to fails management or to Corporate Actions are regulated in the corresponding Circulars.

BME CLEARING will identify the Settlement Instructions in a unique manner and it will notify the link between each Settlement Instruction and the Transactions which form part of it.

5. RELEASING OF HELD TRANSACTIONS AND GENERATION AND SENDING OF SETTLEMENT INSTRUCTIONS TO THE SETTLEMENT SYSTEM

The process of Hold and Release of held transactions and the generation of Settlement Instructions and its sending to the Settlement System, is regulated in "Hold and Release of sell Trades" Circular.

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