

CSDs: Iberclear (Spain)

Date: 14 May 2013

SMI Markets: Spain

CMIRR Markets: Spain

Spanish Clearing, Settlement and Registry System Reform - Update

In an update to our previous newsflash, the Spanish national securities commission, Comisión Nacional del Mercado de Valores (CNMV), has published a document about the reform of the clearing, settlement and registration system in the market with details on the consensus reached by the specialised working group dealing with the system reform since 2010. The publication of this document concludes the design phase of the new system and paves the way for the next stage of development.

The system reform will integrate the separate platforms for equities and fixed income into a single platform thus enabling its transition to the T2S platform in February 2017. The first phase of the reform is planned for Q2 2015 and will involve the implementation of the CCP structure for the equities market. The second phase will take place in Q1 2017 and will involve the integration of the fixed income and the equities platforms into a single platform.

The main changes are:

Trading

Changes in the communication details will be introduced to allow for the new CCP requirements, such as the existence of clearing members, account numbers at CCP level and other. Trading members will have to decide whether they will become individual clearing members (ICM) or use the services of a General Clearing Member (GCM).

Clearing

The major change is the introduction of a Central Counterparty (CCP). The document describes:

- The four different types of clearing members:
 - Ordinary Non-Clearing Member (Ordinary NCM);
 - Segregated Non-Clearing Member (Segregated NCM);
 - Individual Clearing Members (ICM);
 - General Clearing Members (GCM).
- NCMs will have to use a GCM, while ICMs would be able to clear proprietary trades and their clients' trades. Segregated NCMs will have their own account structure at the CCP level.
- The requirements for clearing membership;
- The different types of available accounts:
 - Daily Account, for the execution of intraday trades where a CCP account number is not indicated. As this account must be empty at the end of the day, any balances will be transferred to the clearing member's own account;
 - Own Account in which are recorded the operations of the Member.
 - Third Party Account, where transactions of several clients are recorded. This type of account can be further split into a Gross Third Party Account, where there will be a rough calculation of collateral and settlement instructions, or Net Third Party Account, where there will be a net calculation of collateral and settlement instructions.
 - Individual Account, where transactions of a single client will be recorded. This account shall be calculated net of guarantees and settlement instructions.
- Fail management procedures. The CCP will implement fail management procedures and relevant penalties in such a way as to minimise failed trades. In case of failures, an automatic borrow process will be in place to be carried out by the CCP. In addition, a buy-in procedure will be utilised four days after the initial settlement date for liquid shares. For illiquid shares, the buy-in will take place after six days and the buyer will be compensated in cash.

Settlement

- Finality will be moved from the trade date to the settlement date;
- It would be possible to keep segregated accounts at the CSD level;
- A special procedure for intermediaries that do not know the registration details at the time of the trade will be introduced. Those intermediaries that do not have the registration details between trade date (TD) and TD+1 will be allowed to trade and settle the net balances against the CCP in their own name and provide final registration details on settlement date. A specific settlement account for this activity must be opened at the CCP and CSD;
- The move to a T+2 settlement cycle.

Registration and Supervision

Communication between the market infrastructures and the trading, clearing and settlement agents will be managed by an ancillary system, the 'PTI', which will simplify the requirements and burdens on these entities and make it easier for the CNMV to trace trade details. Each participant will have to feed the PTI with the required information on a daily basis.

Corporate Events

There will be harmonisation in the management of corporate events and the utilisation of the standards defined by the Corporate Actions Joint Working Group such as the use of record date, ExDate and payment date.

The press release by CNMV can be accessed here: [CNMV Press Release](#)

The full document can be found at the following link: [Clearing, Settlement and Registration System Reform](#)

CSD Risk Impact

Iberclear (Spain)

CSD Rating: A+

CSD Flash Impact: Positive

Impacted Risk Type: Liquidity Risk

Current Rating = AA-

Flash Impact = Positive

Impacted Risk Type: Counterparty Risk

Current Rating = AA

Flash Impact = Positive

The measures included in the reform would improve the settlement process and reduce the risk of fails.

The introduction of a CCP structure in the equities market would facilitate a standardised post-trade processing and reduce exposure to counterparty risk. In addition, the implementation of a shorter settlement cycle could help reduce counterparty risk exposure. These developments have a cumulative 'Positive' impact on Counterparty Risk.

Moreover, Liquidity Risk could also be reduced with the improved registration process along with more stringent fails management procedures introduced by the new CCP in the market.

Market Information Impact

Spain

This information affects the data contained in the Settlement and Safekeeping/Post Settlement sections of the Securities Market Information Service.

Infrastructure Risk Ratings Impact

Spain

Market Rating: A+

Market Flash Impact: Positive

Impacted Risk Type: Liquidity Risk
Current Rating = A+
Flash Impact = Positive

Impacted Risk Type: Counterparty Risk
Current Rating = AA-
Flash Impact = Positive

The measures included in the reform would improve the settlement process and reduce the risk of fails.

The introduction of a CCP structure in the equities market would facilitate a standardised post-trade processing and reduce exposure to counterparty risk. In addition, the implementation of a shorter settlement cycle could help reduce counterparty risk exposure. These developments have a cumulative 'Positive' impact on Counterparty Risk.

Moreover, Liquidity Risk could also be reduced with the improved registration process along with more stringent fails management procedures introduced by the new CCP in the market.

Related Flash: [Spanish Clearing, Settlement and Registry System Reform - Update, 12/10/2011 \(click to view\)](#)

For further information contact:

Ana Giraldo - Americas and Eurasia
Barry Morales - Asia Pacific
Guillaume Viteau - Western Europe (incl. EU)
Sinang Chrea - Africa, Middle East

Tel. +44 (0)20 8600 2300 | Fax. +44 (0)20 8741 7468
Email: cmiqueries@thomasmurray.com

Whilst reasonable care has been taken in the compilation of this information, neither Thomas Murray, its affiliates or information contributors shall have any liability for any errors, omissions, delays or inadequacies in the information or for any loss or damage however occasioned (whether arising directly or indirectly), to any person or company relying on this information, or any decision made, action or inaction taken by any party in reliance upon this information (except to the extent permitted by law). Copyright © 2013 Thomas Murray Ratings. All rights reserved. No reproduction without prior authorisation.

