

SMI Markets: Colombia

Date: 11 Jun 2014

CMIRR Markets: Colombia

CSDs: DECEVAL (Colombia)

BVC Publishes new Clearing and Settlement Model with Custodians

On 30 May 2014, the Colombia Stock Exchange (BVC) published the operational model agreed with the market to allow custodians to participate in the settlement and clearing of on-exchange transactions. In addition to the document, BVC also published detailed IT impacts to be implemented in the different systems involved in the clearing and settlement process.

The new model for custodians is aimed at facilitating foreign investors access to the Colombian market. It will also allow compliance of market agents with the stipulated in the Decree 1498 of 2013 under which Collective Investment Funds (FICs) must delegate custody, asset servicing, clearing and settlement activities to custodians.

With the new model custodians will directly execute the settlement instructions with the BVC and all the clearing and settlement systems, including those of the centralised securities depositories Deceval and DCV. It must be noted that registration of orders in BVC's trading platform will be still only accessible for brokers.

The new functionality will be available for transactions on fixed income securities and equities, and those executed through the Latin-American Integrated Market (MILA).

The implementation of the model will be phased in two stages. First deployment is expected in December 2014 whilst the second part should be in production by 1Q 2015. The main changes are explained below:

On Trading:

Fixed income transactions can now be split by buyers and sellers, subject to minimum value of the security in its prospect.

On Post-trading:

- **Cancellations:** Fixed income transactions can be cancelled at any time before settlement.
- **Packing or grouping of orders:** Brokers will be allowed to group in one single set or "package" different transaction that could result in equivalent positions with a client's initial order. The option will be allowed for orders are:
 - Already matched;
 - With an ISIN assigned to the operation (for fixed income instruments not standardised); and
 - With equal conditions in specific fields of the orders including settlement date, securities' BVC code, investor and CSD among others.
- **Transfer of Packages:** Brokers will transfer to custodians the correspondent packages which can be accepted, rejected or complemented by it, subject to restrictions in some fields in order to guarantee the correct execution of the settlement and clearing process. The transfer of packages can be done within the stipulated times between T+0 and settlement date.
- **Rolling of settlement:** spot transactions (T+3) on fixed income securities can be delayed until T+4.
- **Partial Settlement:**
 - Brokers and custodians will be able to select on T+2 the spot and/or repo transactions on equities not to be included in the first settlement batch sent to Deceval.
 - Custodians can only select transactions when acting as seller and buyer in the same transaction.
 - Settlement instructions must be sent manually by brokers/custodians on T+3.
 - BVC will calculate a partial balance of these transactions and send a cash debit (net cash balance) to the buyer's account.
 - BVC then will instruct Deceval to settle the equities and, at the same time, will credit buyer's cash accounts at the Central Bank.
 - Settlement of equities is expected to be extended until 6.00pm.
- **Collateral:** Custodians will be allowed to transfer, withdraw and substitute collateral by package or by transaction.

Market Information Impact

Colombia

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

Infrastructure Risk Ratings Impact

Colombia

Market Rating: A

Market Flash Impact: Positive

Impacted Risk Type: Liquidity Risk

Current Rating = A-

Flash Impact = Positive

The changes are designed to allow settlement on due date and therefore should positively impact Liquidity Risk.

CSD Risk Impact

DECEVAL (Colombia)

CSD Rating: A

CSD Flash Impact: Positive

Impacted Risk Type: Liquidity Risk

Current Rating = A-

Flash Impact = Negative

The changes are designed to allow settlement on due date and therefore should positively impact Liquidity Risk.

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