



5TH MEETING OF THE CLEARING, SETTLEMENT AND REGISTRATION GROUP (CLR GROUP)

8 November 2023, 09h30-14h00.

Face-to-face meeting at the offices of the CNMV, C/ Edison 24, Madrid

1. Introduction

1. The Chairman of the CLR Group welcomed the attendees and thanked them for their participation, highlighting the importance of the matters included in the agenda. The Chairman was particularly grateful for the attendance of Inverco as it does not usually attend these meetings.

2. T+1 settlement

a) Developments in Europe since the last meeting of the CLR Group

2. Regarding T+1 settlement, the CNMV presented the developments in the European scope since the last meeting of the CLR Group, on 16 November 2022, highlighting the possible obligation by ESMA to send the Commission periodic reports on the appropriateness of shortening the settlement cycle in the EU and, in this sense, the launch in the industry last 5 October of a Call for Evidence (CFE), in which it requires information from this in order to draft what would be the first report to the Commission, towards the end of 2024. The CNMV indicated the interest in receiving the reply of Spanish entities to the CFE before 15 December this year. Specifically, ESMA requests information on the following:
 - The impact of the reduction in the settlement cycle (T+1 and T+0) of securities transactions by market participants;
 - Benefits and costs of a shorter securities settlement cycle;
 - If the conclusion is reached that a shorter settlement cycle must be made compulsory, where and when this could be implemented;
 - Possible repercussions in the EU capital markets of the international development regarding the securities settlement.

b) Implications for the collective investment industry

3. Afterwards, the CNMV summarised the main impacts that, according to that indicated by European collective investment associations in different ESMA forums, the coexistence of settlement cycles with different durations in Europe and mainly the US will have on this sector. This analysis was later completed by representatives of Inverco, in the case of Spanish collective investment and pension funds, who indicated that the shortening was perceived as an inevitable process, pointing out certain impacts and challenges involved.
4. Interventions subsequent to the presentations highlighted the absence of substantive evidence that remaining in T+2 means a competitive disadvantage for

Europe and the need to learn from the conclusions of the process in the US and Switzerland (which will take place in May 2024) and for the movement to be simultaneous in EU UK and Switzerland. Regarding the concentration on few technological providers, mostly non-European, that the shortening of the settlement may entail, the interventions that took place prove the importance of this aspect, which should be a basic criterion to be considered by the EU when setting rules, not only in this particular case but in general.

5. Furthermore, the participant commented in a general manner that, during the cycle shortening process, the European regulator should consider the temporary suspension of the penalisation regime.
6. With regard to securities lending by the CIS, the CNMV withdrew its favourable position to allowing the activity that it presented and will present it once again at the appropriate bodies when the opportunity arises.

3. Settlement efficiency

a) Development of the settlement efficiency in Iberclear

7. Iberclear presented its development in comparison with T2S without distinguishing between Equity and Fixed Income, in the section dedicated to settlement efficiency. The general conclusion is that Iberclear presents efficiency ratios, both regarding transaction volumes and effective amounts, in line with the T2S average and the comparable Central Securities Depositories (CSDs).
8. In the case of the development in ARCO (no longer compared with T2S) the improvement of the Equity statistics since the Settlement Discipline Regime (SDR) came into force. This improvement is particularly significant in the bilateral transactions segment.
9. Finally, Iberclear reported on the measures implemented to favour such improvement, indicating daily controls of the efficiency levels, monthly reports for the significant entities and those requesting so, the incidence on development in User Committee meetings, technical groups and special tracking with participating entities showing negative figures that gave rise to the implementation of measures that have improved their statistics.

b) Main causes for settlement failures and possible improvements

10. The CNMV presented the conclusions regarding the causes that caused settlement failures and the possible measures to avoid these resulting from the respective meetings held at ESMA with sector representatives and a report published by AFME, in October 2023.
11. The failures, causes and measures, can be grouped into two categories according to whether they correspond to process phases before or after ceasing operations in the CSD. In the first category, the main causes for settlement failure are due to:
 - A lack of procedures that allow for an automated treatment of the breakdown and confirmation of trading between clients and financial intermediaries;
 - A lack of sources of data that ensure its quality and update from which to correctly generate the instructions for settlement and procedures for automated generation from the breakdowns; and

- The methods for early detection of incidents, information on those existing throughout the chain of entities involved and timely resolution.
12. The measures for resolving these causes mainly concern the implementation of tools that allow STP (straight-through processing) throughout all these processes.
 13. For its part, the main reason for failures once the transactions have been matched in the CSD is the lack of securities from the counterparty that is to deliver them. The importance of the use of settlement and partial release tools, their use by participating entities being maximised and these also encouraging their clients to do so, is highlighted.
 14. The last point dealt with the effects of the penalties imposed by the SDR. Their positive impact is indicated in the case of Equity (without clear conclusions regarding Fixed Income) together with the need to reform the current regime to avoid the negative consequences, in opposition to that sought, that may arise in certain cases.
 15. Later interventions stressed several aspects: the need not to establish efficiency as an absolute objective at the cost of worsening the operation markets in general and of worsening the competitive position with regard to other markets. The CNMV indicated that it was aware of this aspect; in addition, insistence was placed on the importance of avoiding giving the message of there being a settlement efficiency problem in European markets which, in the opinion of the participants, fails to reflect the real situation.

4. Iberclear regulation, PTI disconnection timetable

16. Iberclear presented the state of the modification to its regulation in order to adapt it to the disappearance of the PTI (preliminary version presented at the CNMV awaiting the definitive one determined by the publication of Royal Decree 814/2023, of 8 November, on financial instruments, admission to trading, tradable security registration and market infrastructure).
17. The CSD explained the modification of the PTI disconnection timetable due to the delay, from April to November 2024, of the entry into operation of the Eurosystem ECMS project. Once the possible alternatives are assessed and the dependencies between this initiative and the project for adaptation to the PTI disappearance (mainly the need for the PTI tests to be performed in an environment that considers the state of the system after the entry into operation of the ECMS) are analysed and always as long as the ECMS suffers no further delays, the implementation of the PTI disappearance project will take place in March 2025 and still within the legal timeframe.

5. Other matters. Requests and questions

18. Regarding the disappearance of the PTI, the representative of Spanish Issuers informed on the comments received, from issuers and proxy advisors, concerning the possible impact on the identification of shareholders and the need to hold meetings with Iberclear with regard to this aspect. The CNMV indicated that Spanish issuers will have exactly the same rights as European ones (for being a matter regulated by a EU directive), without having a system like the PTI and the

existence of procedures both for the identification of shareholders and of final beneficiaries. In any case, the CNMV reiterated that all parties will be perfectly informed on the progress of the process by Iberclear.

MEMBERS OF THE CLEARING, SETTLEMENT AND REGISTRATION GROUP
(CLR GROUP)

The CNMV
The Bank of Spain
The Spanish Banking Association
BBVA
Banco Santander
BNP Paribas
BME Clearing
Spanish Stock Exchanges and Markets (BME)
CACEIS-Santander Sec. Services
Cecabank
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UBS
Deutsche Bank
Spanish Issuers (Emisores Españoles)
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