

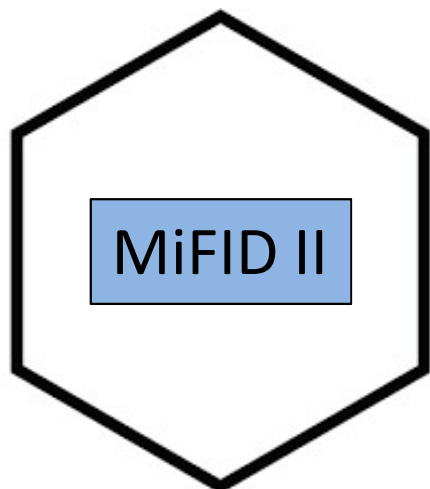
Fixed Income New Market Model

October 2017

BME Renta Fija

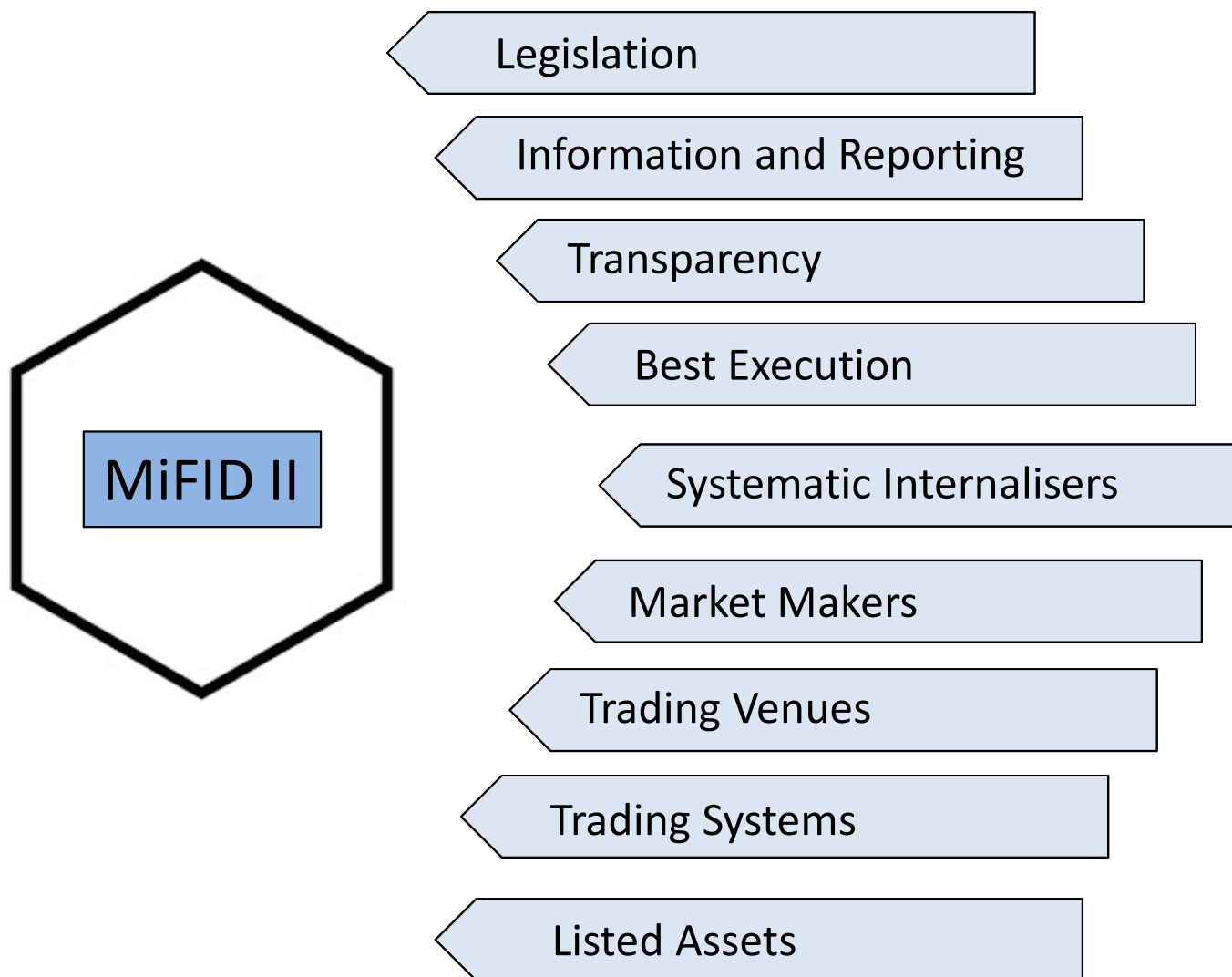
BME X

Main Implications for Fixed Income



- The Directive imposes new obligations and requirements on all market participants
- Aims to move OTC trades onto Trading Venues
- Greater obligations for Systematic Internalisers (SIs)
- Application of transparency criteria pre- and post-trade
- Regulation of algorithmic trading
- Improve the information and reporting systems to Supervisors

The Spanish Market is Adapting



Legislation



Directive and Delegated Regulations
New Securities Market Act

BME FI

New market regulation
Amendment to the MTSs regulations
Rights and obligations
 Market Members
 Intermediaries
Admission to trading
 At request of third parties
 Promoted by the Governing Company
Interruption and suspension of trading
New trading systems
Settlement and registration

Information and Reporting



Maintenance of the trades register
Transaction Reporting Greater requirements
Financial Instruments Reference Data System (FIRDS)
Significant events and corporate actions
Dissemination

BME FI

Order record keeping. New fields (client, decision maker, executor, timestamp, etc.)
Preparation of the TR for the Members that request it
Daily notification of trades to the Supervisor
Dissemination of market data (data feed)
Publication on the website
Price bulletin

Transparency (1/2)



Application of transparency criteria pre- and post-trade for FI Waivers
 LIS (*Large In Scale*) and SSTI (*Size Specific to the Instrument*)

	Pre Transparency		Post Transparency	
	Trading volume	Publication	Trading volume	Publication
Treasury Bonds	≤ 700,000	Real time	≤ 10,000,000	max. 15 min. *
	> 700,000 ≤ 6,000,000	Real time RFQ	> 10,000,000 ≤ 25,000,000	waiver
	> 6,000,000	exempt	> 25,000,000	waiver
Corporate Bonds	≤ 300,000	Real time	≤ 1,500,000	max. 15 min. *
	> 300,000 ≤ 1,000,000	Real time RFQ	> 1,500,000 ≤ 2,500,000	waiver
	> 1,000,000	exempt	> 2,500,000	waiver

* 5 minutes as of 2021

BME FI

- Full cover of pre and post transparency
- The best option for lower-quantity trades that require pre-transparency ($\leq 6,000,000$ for Treasury debt securities and $\leq 1,000,000$ for private debt) is to send them to the Market order book
- Pre-agreed bilateral trades can be notified to the Market to set the timestamp. Also, having been arranged through the Market, they are no longer OTC

Best Execution



Investment Firms and Financial Institutions must act in the best interest of their client

Taking into account the cost, price, speed, the likelihood of execution and settlement, the volume, the nature or any other relevant consideration for the execution of the order

BME FI

BME will be the reference trading venue for both Private Debt and Public Debt

Order book with narrow Treasury Debt spreads. Trading may take place from €1,000

Very reduced trading costs

Systematic Internalisers (1/2)



Investment Firms and Credit Institutions that trade OTC Frequent, systematic and substantial activity
Obligatory classification under certain circumstances

	Liquid bonds	Illiquid bonds
Frequent and systematic	2.5% of total EU trades in that instrument and at least one weekly trade	At least one weekly trade
Substantial	25% of the firm's total volume in that instrument	1% of the trading volume in that instrument in the EU

BME FI Pre-agreed trades, arranged in a trading venue according to its rules, are considered market and not OTC trades

**Systematic Internalisers' obligations:**

- Extension of the condition of SI to **all assets** of the same class of an issuer and **all the issuers** of the same group, regardless of whether the bond is liquid or not
- **Notify** the competent authority of its condition of SI
- Establish a set of **clear** and transparent rules on access to their prices and the **commercial policy** with their clients
- **Pre-trading:** obligation to make **firm quotes** regularly and continuously, allowing access to other participants
- Commitment to trade with **retail investors under equal conditions** to the rest.
- The purchase and sale prices published by SIs must allow them to comply with their **best execution** obligations with their clients
- **Post-trading:** publish trades and respond to information requests from the Supervisor. **Similar obligations** to those of an organised market
- **Incompatibility** of management between an SI and a SOC under the same legal personality

Market Makers



Delegated Regulation 2017/578

BME FI

Firm purchase and sale prices at competitive prices.

For at least 50% of the trading time.

Members must sign an agreement with the Market.

The cases of existing liquidity providers will be considered.

Fee rebates will be established.

Trading Venues

BME Fixed Income: Governing Company

RM Regulated Market

AIAF Fixed Income Market

Private and Public debt issues for institutional and retail investors.

MTF Multilateral Trading Facility

MARF

SENAF

Unregulated private debt market for institutional investors.

Public debt platform for institutional investors.

AIAF and MARF share the same SEND SMART technological platform.

Trading Systems

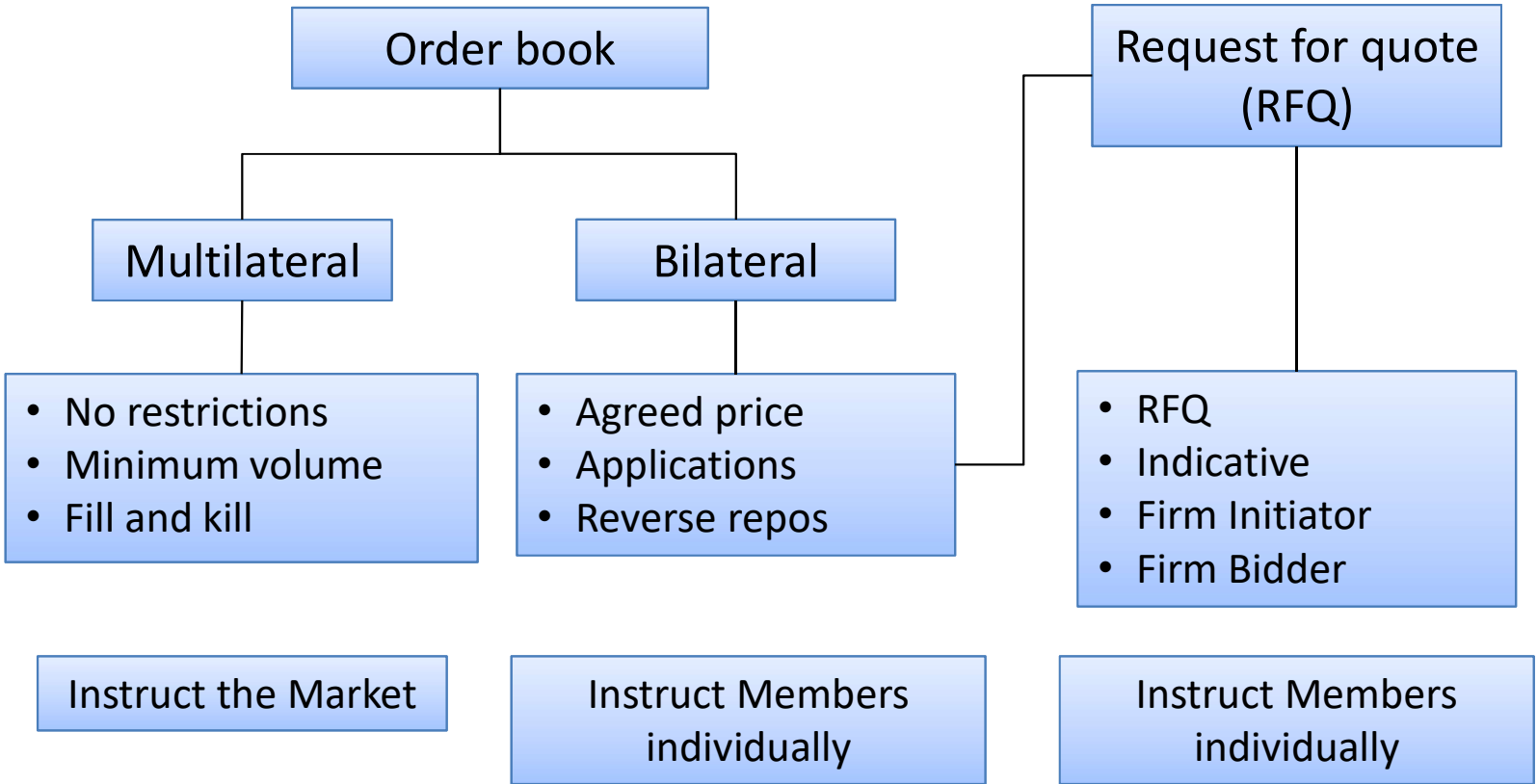
BME FI

Systems

Trading options

Types of trades

Settlement instructions



Listed Assets

BME FI

Traded securities

Private Debt

Public Debt

Foreign FI

Bonds
 Debentures
 Covered bonds
 Securitisation
 Promissory notes
 Convertible bonds

Treasury Bonds
 Government Debentures
 Bills
 Segregated debt
 Autonomous Regions debt
 Prom. notes A. Reg. & others
 Other Public Debt

Governments
 Germany
 Austria
 Holland
 Italy
 France
 Portugal
 Belgium

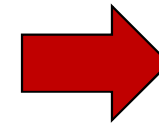
Corporates (*)

(*) Under study

As of January, AIAF will be the only Regulated Market in Spain that trades in Treasury Debt securities and Corporate Debt.

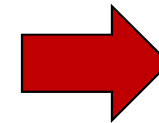
Operating Recommendations

For Treasury debt securities trades that require pre-transparency, equal to or less than 6 million nominal



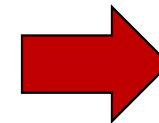
Multilateral order book

For private debt securities trades that require pre-transparency, equal to or less than 1 million nominal



Multilateral order book

Other trades



Bilateral notification

Example: How to Operate as a Non-Market Member

