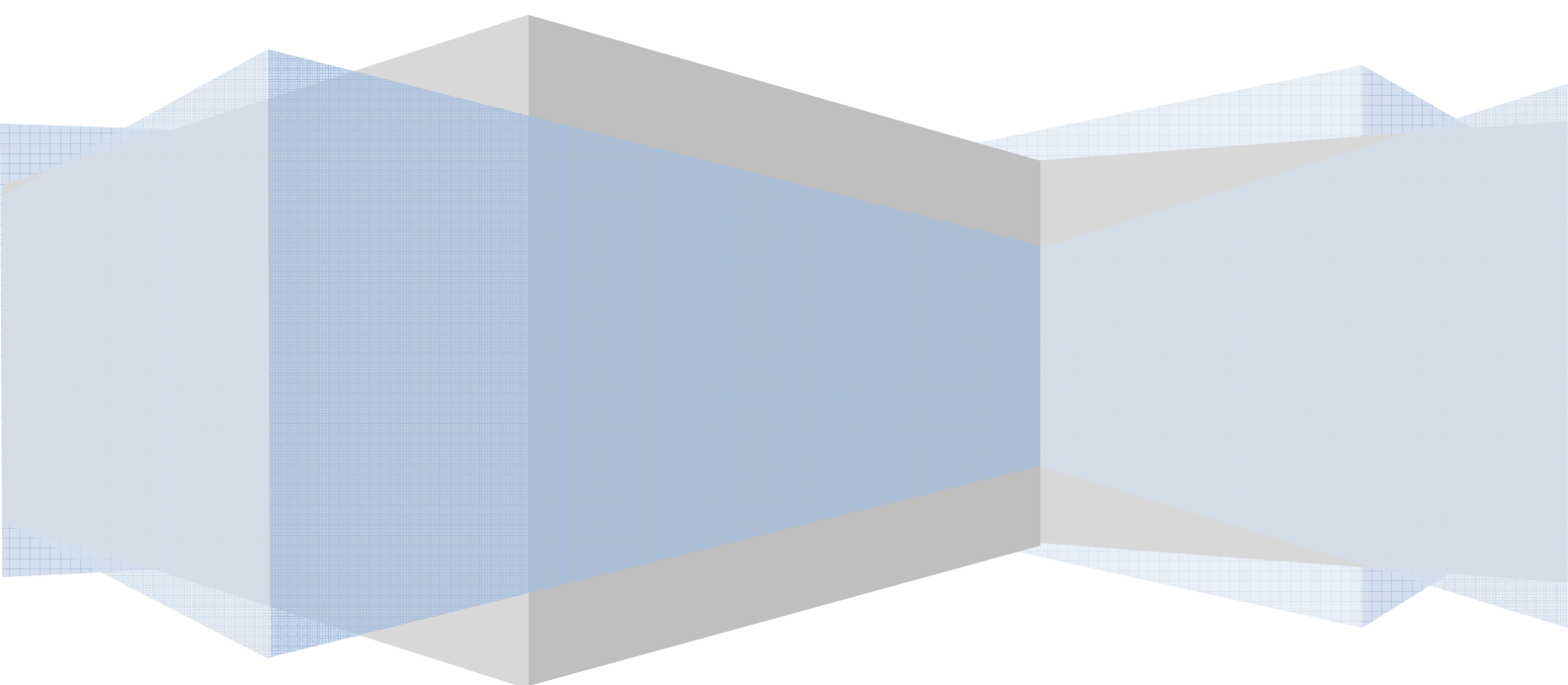


SENAF MTF model

Sell-Buyback and Treasury Bill Segment



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1. Introduction

SENAF MTF is an electronic trading Platform for the trading of financial instruments issued by the Spanish Public Treasury and by the Bank of Spain. Credit entities that meet the requirements for their admission in the system may participate on this platform as well as brokers which will act on behalf of Credit entities.

Negotiation is made in real time by electronic means, providing dealers with all the necessary means to carry out their book orders.

2. Market Model

2.1 Continuous Market

Trading takes place on a continuous way from 8:30 to 17:15 (CET), except for Overnight trading in the Sell-Buyback segment which ends at 14:00 (CET).

2.2 Blind Market and Name Give up Market

Market is blind in the sense that Participant Entities are not identified at any moment.

Positions and done transactions are visualized all the time.

Regarding Sell-Buyback Market (hereinafter S.B.M.), once a transaction is done the resulting trade may be a name give-up transaction depending on if the transaction has been done with CCP or without it. When there is no CCP the transaction will be name give-up. (see point 3). This means the publication of the names of the involved Entities and the possibility for them to reject the transaction due to counterparty risk. This information will only be distributed to the Participants.

*A Sell-Buyback is a negotiation where member1 sells securities (financed) to member2 in a **start date** and repurchases them at an interest rate time after, **end date**. The securities that can be given as collateral may be any Bond, Obligation, FRN or Bill issued by the Public Treasury and negotiated in the Public Debt Market.*

The pair start date- end date is called the term.

Negotiation on Bills Market (hereinafter B.M.) is always blind.

2.3 Real Time Market

The system informs all participant entities of everything is occurring on the market in real time. The spreading system provides participant entities with real time detailed information about everything is taking place on the market (transactions, orders...) providing of a total transparency to the market activity.

3. Trading Instruments

Instruments form groups, these groups are identified in the System through a numeric value. In the S.B.M. case, this group is defined by the type of Central Clearing Party which is going to be used.

Every instrument belonging to this group is identified by a code. In the B.M. case it will be assigned to the pair issue – settlement date.

Trading instrument groups in the system are as follows:

- BILLS (3)
- TREASURY MEFE REPO (4)
- TREASURY CNET REPO (5)
- TREASURY NCCP REPO (8)

Each group has its own trading characteristics that in some cases may be common.

3.1 Bills

Bills are quoted by interest rate with 3 decimal. The third decimal may be any number from 0 to 9.

The standard settlement date is D+2, nevertheless they may also be negotiated with different settlement dates such as D+3, D+4... Instruments with no standard settlement date will have a special mark. It could be possible that instruments with the same issue may be negotiated with different settlement dates in the same session.

A feature of these instruments is that they can be marked as benchmarks. This means they are reference instruments for the Public Treasury which will be modified over time according to the Public Treasury criteria. Currently there are benchmarks for the terms of 3, 6, 9 and 12 months.

3.2 General Repo Characteristics

Repo instruments are quoted by interest rate with 3 decimal. The third decimal may be 0 or 5.

All REPO instruments have two subgroups: General collateral and Specific collateral.

- General collateral.- Instruments in which the securities to be delivered are not specified. Every one of them has a predetermined term or standard term where the *start date* and the *end date* are known a priori.

Standard terms to be traded are:

- Overnight
- Tom-Next
- Spot-Next
- 1 week
- 2 weeks
- 3 weeks
- 1 month
- 2 months
- 3 months

- 6 months
- 9 months
- 12 months

Standard terms from 1 week on can be negotiated from the *start date* (D+1), (D+2) or (D+3).

End dates for the standard terms are the following:

- 1 week: 7 days
- 2 weeks: 14 days
- 3 weeks 21 days
- Rest of terms (month to 12 months): from date to date, except if the *end date* is a target day, Saturday or Sunday. In such case it will go forward to the next Labor Day.

There is also the flexibility to input quotes (bid and ask) to the system in instruments with a non standard term, provided that the Sell-buyback will not go beyond 385 days from the *start date* to the *end date*. These instruments are valid only during the day session.

Restrictions to securities to be delivered are as follows:

- BSB_GC_SPAIN: Any Treasury security admitted to negotiation can be delivered.
 - BSB_GC_SPAIN_NO_LETRAS: Any Treasury security admitted to negotiation can be delivered, except Bills.
 - BSB_GC_SPAIN_NO_STRIPS: Any Treasury security admitted to negotiation can be delivered, except Strips.
 - BSB_GC_SPAIN_NO_LETRAS_NO_STRIPS: Any Treasury security admitted to negotiation can be delivered, except Bills and Strips.
 - BSB_GC_SPAIN_SUB_10YR: Any Treasury security admitted to negotiation can be delivered provided their maturity is not over 10 years.
 - BSB_GC_SPAIN_SUB_10_NO_LETRAS: Any Treasury security admitted to negotiation can be delivered provided their maturity is not over 10 years and no Bills.
 - BSB_GC_SPAIN_SUB_10_NO_STRIPS: Any Treasury security admitted to negotiation can be delivered provided their maturity is not over 10 years and no Strips.
 - BSB_GC_SPAIN_SUB_10_NO_LETRAS_NO_STRIPS: Any Treasury security admitted to negotiation can be delivered provided their maturity is not over 10 years and no Bills, no Strips.
- Specific Collateral.- Instruments in which the securities to be delivered are specified. Every one of these instruments has a predetermined term or standard term, where the *start date* and the *end date* are already established (see General collateral.)

3.3 TREASURY MEFE REPO

Negotiation made on these instruments will be registered in BME Clearing. The participants must be members of this Central Clearing Party.

3.4 TREASURY CNET REPO (not available yet)

Negotiation made on these instruments will be registered in ClearNet. The participants must be members of this Central Clearing Party.

3.5 TREASURY NCCP REPO

Negotiation made on these instruments will not be registered at any Central Clearing Party, therefore it is a “name give-up” negotiation.

4 Method of transactions

4.1 Multilateral Negotiation

It is named a multilateral negotiation to that form of trading in which the trades are the result of the crossing of the different orders introduced by the negotiating members or by broker members on behalf of the negotiating members in the book of orders of the System.

The orders are entered indicating the desirable volume (nominal amount) and rate (ask, bid or both). The orders are placed in the System in accordance to a double principle of priority regarding the price and the input time. Negotiation of the positions takes place automatically based on these priority criteria. The orders are grouped by prices visualizing the sum of the nominal amount for each of the bid/ask rates.

All trades are placed in the System until they are cancelled by the member that has generated it or until the closing of the daily negotiation, provided that they have not produced a transaction.

4.2 Bilateral Negotiation (name give up)

Bilateral transactions may be rejected by any of the involved Members due to counterparty risk within one minute of time from the execution of the transaction, once elapsed the transaction is firm for any purpose.

4.3 Cross Trades

Broker Members can introduce *cross trades* in the System, that is to say, they may agree a transaction with two Members and input it later on the platform. It is only applicable for the Sell-Buyback segment.

4.4 Types of Negotiation

It will be negotiated depending on the characteristics of the instruments as it has been indicated in point 3.

5 Type of orders

All orders introduced are limited orders. Regarding the time they are remaining in the system the only choice permitted is “immediate or cancel”

Orders permitted by the System:

- Positions
 - Bid order
 - Ask order
 - Bid and Ask order
 - Market Making order (only bills)

- Executions
 - Buy order
 - Sell order

- Modifications and Cancellations
 - Single modification
 - Single cancellation
 - Massive cancellation
 - Total cancellation (panic)

6. Units of Negotiation

Negotiation is made in nominal amounts.

- Bills and Specific Collateral: The negotiation is in nominal amounts, the minimum volume of trading is € 1 million and multiples of this amount.

- General Collateral: The minimum nominal trading volume is 20 million Euros and multiples of €1 million.

If an order for a volume lower than the minimum remains in the system as a result of a transaction, the system will allow to operate the remainder provided that the input order is entered to the system for the minimum trading amount (20 million), bearing in mind that if the volume has increased when the order arrives to the system, the volume to be crossed would be that until completing the total amount of the order.

7. Interest Rates

Interest rates are expressed with 3 decimal, taking into account all restrictions of every single instrument detailed in point 3.

Negotiating prices both in percentage and yield have a gap between bid and ask during the negotiating session that may be amended by the Supervision Department in the case that it exceeds the bid or ask.

This gap is calculated on a daily basis at the market closing for the next day's negotiating session.

8. Registration and Settlement of Transactions

Transactions would be registered and settled in T2S. Once a transaction is executed, it is considered definitive and is communicated directly to T2S by the System being SENAF MTF the sole communicator of the transactions (one-to-one match). Bills will be settled and cleared in the settlement date of the transaction and on the *start date / end date* for the Sell-Buyback transactions.

In case of S.B.M. through a Central Clearing Party, SENAF MTF communicates the transaction to the corresponding Central Clearing Party for its approval and later registration.

Registration and settlement of the executed transactions is entered in the member's account (own account or custodian account).

In case of no settlement of any trade is produced on its value date, it will go into a recycling period that last six working days from the value date that was contracted or in case the instrument matures within the aforementioned recycling period the trade will be cancelled in the first case on the sixth day and in the second case the day before its amortization.

9. Categories of Members

There are two Members categories in the System. Both are regulated by their corresponding Circulars.

- Broker Members who are authorized to mediate in the System. These Members may not enter their own positions and act for and on behalf of Dealer Members, receiving orders and transmitting them to the system for execution.
- Dealer Members who are authorized to negotiate on the System, may conduct operations in the system acting at full capacity, directly or through Broker Members and will be bound to meet the requirements of the entity responsible for clearing and settlement of transactions in the system.

10. Control of Risk

SENAF MTF will do a daily adjustment at Market Price in the Bills market of each Bill based on the prices at Market close as detailed in the corresponding Circular.

The transactions published by SENAF MTF shall be final in nature and binding on the Members originating them.

11. Market incidences

According to the regulations in force of SENAF MTF, if there are operations generated by

typographical errors in price, these operations may be voidable by the Supervision Department. The aforementioned cancellation may be made if any one of the involved counterparties requests it by phone to the Supervision Department within the 15 minutes following the time of the execution of the operation, provided the counterparty agrees the cancellation of the trade or otherwise the price is out of range as specified in the Circular in force.

The transactions may also be modified by error in the name of the holder provided that these transactions have been introduced by a Broker Member and request to the Supervision Department within 15 minutes following the time of the execution of the operation.

12. Market Access

SENAF MTF offers two possibilities to access the market:

- Via physical Terminals: Terminals are a standardized GUI developed by the IT department, including all functionalities to access the market.
- Via A.P.I.: It would be the Entity or the Provider who would implement controls to order acceptance .