

**Organised Trading Facility**

**CIMD OTF**

## **Circular 4**

**OTHER DERIVATIVES SEGMENT**

**TRADING CHARACTERISTICS**



## **CHARACTERISTICS OF TRADING IN THE SEGMENT**

The Board of Directors of CIMD, SV, SA (hereinafter, the CIMDBD), in an agreement adopted at its meeting held on December the 12<sup>th</sup>, 2017, approved this Circular.

### **1. Trading facility**

Trading in the financial instruments included in this segment is exclusively by “voice”.

The Participants (clients of CIMD, SV, SA) will transmit their orders either by telephone or via chat channels enabling them to be recorded, to the OTF Manager (CIMD, SV, SA), which will convey them to one, various or all of the other Participants so as to find a matching interest and execute the relevant operation.

### **2. Marketable financial instruments**

Financial instruments belonging to the following categories may be traded:

- *Interest rate derivatives*, understood to be all contracts in accordance with the definition in Annex I, section C, point 4, of Directive 2014/65/EU whose ultimate underlying is an interest rate, portfolio or index including an interest rate, or any other product representing the performance of an interest rate, and which, in accordance with the definitions included in table 5.1 of Annex III of Commission Delegated Regulation (EU) 2017/583, dated 14 July 2016, corresponds to the following asset classes:
  - Interest rate futures and FRAs.
  - Interest rate options.
  - Swaptions.
  - Fixed-to-float “multi- currency swaps” or “cross-currency swaps” and futures/forwards on fixed-to-float “multi-currency swaps” or “cross-currency swaps”.
  - Float-to-float “multi- currency swaps” or “cross-currency swaps” and futures/forwards on fixed-to-float “multi-currency swaps” or “cross-currency swaps”.
  - Fixed-to-Fixed ‘multi-currency swaps’ or ‘cross-currency swaps’ and futures/forwards on Fixed-to-Fixed ‘multi-currency swaps’ or ‘cross-currency swaps’.
  - Overnight index swap (OIS) “multi-currency swaps” or “cross-currency swaps” and futures/forwards on OIS “multi- currency swaps” or “cross-currency swaps”.
  - Inflation “multi- currency swaps” or “cross-currency swaps” and futures/forwards on Inflation “multi- currency swaps” or “cross-currency swaps”.
  - Fixed-to-Float ‘single currency swaps’ and futures/forwards on Fixed-to-Float ‘single currency swaps’.

- Float-to-Float ‘single currency swaps’ and futures/forwards on Float-to-Float ‘single currency swaps’
  - Fixed-to-fixed “single currency swaps” and futures/forwards on fixed-to-fixed “single currency swaps”.
  - OIS “single currency swaps” and futures/forwards on OIS “single currency swaps”.
  - Inflation “single currency swaps” and futures/forwards on inflation “single currency swaps”.
  - Other interest rate derivatives.
- *Credit derivatives*, understood to mean all financial instruments corresponding, in accordance with the definitions included in table 9.1 of Annex III of Commission Delegated Regulation (EU) 2017/583, dated 14 July 2016, to the following asset classes:
- Index credit default swap (CDS).
  - Single name credit default swap (CDS).
  - CDS index options.
  - Single name CDS options.
- *Currency derivatives*, understood to mean all financial instruments relating to currencies included in Annex I, section C, point 4, of Directive 2014/65/EU.
- Currency forwards (FX forwards) only includes those considered to be financial instruments, and therefore, will not be considered payment means.
- *Derivatives whose underlying is an equity or fixed income product.*

### **3. Inclusion of financial instruments**

Financial instruments shall be included pursuant to the provisions of article 9 of the OTF Rulebook.

The OTF Manager will proceed to include corporate the instruments referred to in section 2 once the participants indicate their interest or show indications of interest about them.

### **4. Suspension and exclusion of financial instruments**

The OTF Manager shall temporarily suspend and, in the event, exclude from trading financial instruments in accordance with Chapter II of Title IV of the Rulebook and based on notifications from issuers of instruments in this segment or at the request of the CNMV as the Venue's Supervisor.

## **5. Characteristics of trading**

### **5.1. General characteristics of orders for the entire segment**

The Participants transmit their orders either by telephone or via chat channels enabling them to be recorded, to the authorised personnel at the OTF Manager, and these, in a totally discretionary manner, but in any case seeking to obtain the best conditions for the execution and respecting the indications of the client, shall convey them to one, various or all of the other Participants so as to find a matching interest and execute the corresponding operation.

The volume of orders for each class of marketable securities shall have a nominal value equal to or greater than those listed as the pre-trade size specific to the financial instrument (pre-trade SSTI) in the tables in force at the time of trading published by the ESMA for the purpose of compliance with the pre-trade and post-trade disclosure obligations.

The provisions in the previous paragraph shall only apply to references that, under the ESMA criteria, are considered to be financial instruments with a liquid market.

Operations do not have a standard effective date. The systems used by the OTF to report orders and operations will show the date in a specific way.

Staff at the OTF Manager will disseminate an order, or indication of interest (IOI) non-executable, from a client on an entirely discretionary basis, transmitting it to one, several or all participant clients in order to find matching interest executing the relevant operation.

Since the trading system is by “voice” no operating codes are assigned to any of the clients and neither operating accounts.

This segment of the OTF operates using indication of interest (IOI) non-executable, so the executable order itself is obtained at the moment immediately before the execution. In this segment there are no predefined order types, pre-established terms or criteria for the modification or cancellation of orders.

Once the operation has concluded, each client acting as counterparty in the operation is provided with the name of its counterparty.

#### **5.1.1. Additional characteristics of orders for Interest Rate Derivatives**

These products generally trade in interest rates and the “voice” dissemination of prices tends only to refer to decimals, taking for granted that the whole is known by participants. Within the trading curve, the bases used are: *Money Market bases (act/360)* up to two years and from two years onwards *Bond bases (30/360)* are used.

However, the participant's request may specify another structure, which will be duly transmitted by the operators to the participants to whom it is addressed.

### 5.1.2. Additional characteristics of orders for Currency Derivatives

In this segment, the product negotiated is the Forward or FX SWAP; this instrument represents the difference in interest rates between two currencies, at two specific dates, and with an exchange rate established at the time of the operation. The main pairs of currencies traded are those belonging to the G10 + the Mexican peso (MXN). However, the Venue is prepared to trade in any other variation requested by the client.

Prices are in whole numbers and decimals.

### 5.2. Publication of Pre-trade information

For those operations which due to their characteristics are subject to compliance with pre-trade transparency obligations and the disclosure waivers authorised by the CNMV to the OTF are not applicable, the system will publish, in real time, the demands and offers and volumes corresponding to each participant which, if accepted, would give rise to an operation in accordance with the Venue's rules.

This information shall be accessible in real time for all Participants and for those third parties to whom the OTF has granted access in reasonable and non-discriminatory commercial conditions. Nevertheless, this information will be available to the public free of charge 15 minutes after its publication in the Venue.

For operations that due to their characteristics are subject to the application of the disclosure waivers authorised by the CNMV, the OTF will publish the information in compliance with the criteria agreed in said waiver. In this connection, the waivers applied by the OTF Manager are:

- For liquid instruments:
  - i. for orders whose volume exceeds the pre-negotiation LIS (large in scale) set by ESMA with respect to the negotiated instrument, the quoted prices (purchase or sale) prior to the execution of the orders will not be published.
  - ii. for orders whose volume exceeds the pre-trade SSTI (size specific to the instrument) and is below the LIS set by ESMA with respect to the negotiated instrument, a simple average of the purchase or sale prices of the respective orders will be published as the indicative price
- For instruments without a liquid market: trade prices (sale or purchase) will not be published prior to execution regardless of the volume of the order.

### 5.3. Discretionary capacity

In the event of the circumstances described in article 18 of the CIMD OTF Rulebook, the personnel from the OTF Manager authorised to manage Participants' orders may, always seeking to obtain the best conditions for execution and in accordance with the client's instructions, decide:

- transmit the orders or interests to one, several or all the other Participants
- match two or more orders within the OTF;

- group the orders of several Participants;
- when to do the operation and by which amount

Likewise, an order can be extracted from the OTF in order to manage it in another trading facility that allows it to perform the execution in a satisfactory manner for the Participant.

#### **5.4. General characteristics of transactions for the entire segment**

Unless any of the discretion options indicated in section 5.3 apply, orders on the same reference, at the same price and in opposite directions will be executed automatically, giving rise to a transaction. Said transaction will immediately be disclosed by the Venue, and may be viewed by all Participants.

Trading characteristics are:

- “Name give up”: the trading system is anonymous in the sense that the entities are not identified in the sides nor in the negotiations are, and if the trade goes through successfully each entity involved will be notified of the name of its counterparty and, in the event, any necessary settlement instructions.
- Since the trading system is by “voice” no operating codes are assigned to any of the clients and neither operating accounts.

Orders will be matched, provided there is no restriction on credit risk by the Participants involved, based on the following priorities:

- Firstly, the best price of those disclosed in the Venue.
- Given the same prices, the oldest order will be exercised first.
- In the case of inverse orders (demand and supply), which have not yet been disclosed in the Venue, whose prices are matched (purchase price higher than the sale price) and that will generate a transaction, this will be executed at the order price first recorded in the Venue.

The transactions published by the OTF shall be binding for Participants originating them, once they have been recorded in the OTF's electronic system.

#### **5.5. Publication of Post-trade information**

The Venue will present the information on the price and volume of the transactions executed in this segment of the OTF that, due to their characteristics, do not apply the deferrals of publication authorized to the OTF.

This information shall be accessible in real time for all Participants and for those third parties to whom the OTF has granted access in reasonable and non-discriminatory commercial conditions. Nevertheless, this information will be available to the public free of charge 15 minutes after its publication in the Venue.

For operations that, due to their characteristics, the deferrals of publication authorized apply, the OTF will publish the information in compliance with the criteria agreed in the relevant deferral. In this connection, the deferrals applied by the OTF Manager are:

- Before 19:00 hours of D+2, D being execution day, the information on the trades according with Annex II of the Delegated Regulation (EU) 2017/583, except volume, will be published in the following cases:
  - a. Operations on instruments with a liquid market considered to be large, in other words, whose volume is greater or equal to the post-trade LIS (large in scale) size established by the ESMA in respect of the traded instrument.
  - b. Operations on instruments without a liquid market, in other words, illiquid instruments, regardless of their volume.
  - c. Operations whose size exceeds the size specific to the instrument, or the category of the instruments, in other words the post-trade SSTI set by the ESMA in respect to the traded instrument, when the participants deal on its own account.
- From the fourth week after the operation date (D), before 9:00 hours (local time) on the next business day, the individual detail of the operations executed on D day will be published.

## **5.6. Liquidity agreements**

CIMD OTF does not have plans for market making in this segment.

In accordance with the provisions of section 4 of article 14 of the OTF Rulebook, the OTF Manager monitors Participants' actions to determine whether or not they should enter into a market-making agreement.

## **6. Record of operations**

All the transactions executed in this segment of the OTF will be entered in the records set up for this purpose by the OTF Manager. The record shall include transactions conducted in, at least, the last five (5) years in which the OTF has been operating and shall be maintained for at least five (5) years after the OTF ceases to operate.

## **7. Settlement of operations**

### **7.1. Interest rate derivatives**

Participants will agree which is the Clearing House in which the operation will be settled (LCH, Chicago, EUREX, BME, etc.). The OTF Manager will include this information along with the rest of the details of the order in the confirmation of Markitwire (electronic capture and confirmation platform) sent to the Participants, who must approve it; immediately after being accepted by the counterparties, the execution will be considered done and, through Markitwire, all the necessary information to match the operation until settlement will be automatically provided to the Clearing House agreed by both clients, with the risk being limited by the Clearing House.

## **7.2. Currency derivatives**

The OTF will inform the buyer and seller in regard to the instructions from their counterparty.

Settlement instructions will be sent by the participants or members of the OTF to their respective settlement entity, with which they have settlement agreements, providing them with all the relevant data for the operation to be settled.

Standard settlement shall be two days after execution (D+2), but other settlement periods may be agreed prior to an operation's closure.

### **7.2.1. Settlement in Clearing House.**

Used mainly in forward transactions.

Participants or members will agree, through the OTF, the Clearing House in which the executed operations will be settled, this liquidation being governed by the regulations of said Clearing House.

### **7.2.2. Settlement outside a Clearing House**

Used mainly for deposit operations and for overnight FX derivatives.

It is governed by the rules of the ISDA framework agreement signed between the counterparties by which payments are agreed directly between the settlement banks of both counterparties.

## **8. Trading hours**

Trading is continuous throughout usual business hours, from 8:00 hours to 18:00 hours on business days; however, depending on market and client requirements, trading may take place outside usual business hours, but in the event of settlement through a clearing house, it cannot be conducted outside the hours for registration therein.

## **9. Cancellation of operations and incidents during the trading**

Transactions recorded as such by the OTF may only be modified or cancelled with the prior authorisation of the OTF's Supervision Area, when an incident has occurred, or when the settlement of the operation is not possible, or when its registration in the corresponding central counterparty entity has been rejected

Two kinds of trading incidents are envisaged:

- An error of assignment to the Participant in the transmission of an order entered by the authorized personnel of the OTF Manager, leading to a modification.
- An evident error in the match price of a transaction, leading to the cancellation of it.



## 9.1. Modification or cancellation of operations

### a) Error in the orderer's identification

This error refers to the Participant executing the order that is entered by the staff at the OTF Manager. In this case, the affected Participants will be modified, provided the OTF Manager notifies the OTF's Supervision Director within 30 minutes of the operation's execution.

### b) Evident error in the price

In order for an operation to be cancelled due to an evident error in the price, the OTF Manager's Supervision Area must be notified within 30 minutes of executing the operation in the Venue, by any Participant involved in the operation.

After receiving the cancellation request, staff at the OTF Manager will inform the counterparty/counterparties that the operation is under review. If the other counterparty immediately confirms that it agrees with the aforementioned cancellation, then the operation will be cancelled.

In case the counterparties do not agree to cancellation of the operation, the following procedure will be implemented: The Director of the Supervision Area must verify that the operation in question was conducted at a price outside the market when it was executed in the Venue. For the price to be outside the market, it must exceed by more than 30% the demand-supply spread of the market price of the instrument for which the cancellation of execution has been requested.

The OTF's Supervision Director shall proceed as follows to calculate whether the execution price exceeds the 30% of the demand-supply spread of the market price:

- 1) Three (3) OTF Participants (excluding the counterparties involved) will be asked to provide a supply and demand price for the instrument when it comes to execute the operation.
- 2) These three Participants will notify their market demand and supply price as soon as possible.
- 3) Having obtained the three prices, the arithmetic mean of demand and supply will be calculated.
- 4) Based on the result obtained, the 30% spread between demand and supply will be calculated and will be added to demand and deducted from supply, obtaining a new demand and supply price.
- 5) The operation will be considered to be "outside the market" if its price is below the new demand price or above the new supply price.
- 6) The decision of the Supervision Area Director of the OTF will be notified to the counterparties by telephone and by e-mail as quickly as possible, but never later than 60 minutes after the time of the operation match, unless exceptional circumstances require more time.

In the event that clients do not obtain prices in this connection the Supervision Area will use the procedure to generate the acceptable price interval based on its theoretical price curve.

In all cases, the OTF will use all available means to ensure that the incidents described in this section are resolved as quickly as possible. In case of compensated transactions in CCP, the corresponding clearing member shall be informed immediately.

### **10. Interruption of trading**

The Supervision Area of the OTF may decide the total or partial interruption of trading in accordance with Chapter II of Title IV of the Rulebook in cases of force majeure that may affect the normal working of the Venue and in order to protect the Participants, who will be notified as quickly as possible.

### **11. Entry into force**

This Circular shall be delivered to all Participants and shall enter into force on January 03, 2018.