

**Organised Trading Facility**

**CIMD OTF**

## **Circular 3**

**FIXED INCOME 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 9, 2020, approved this Circular.

### **1. Trading facility**

Trading in the financial instruments included in this segment is carried out using the “voice” and the “periodic auction”.

In the case of “voice trading” 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, several or all of the other Participants so as to find a matching interest in order to execute the relevant operation.

In the case of “trading in periodic auctions”, participants will transmit their orders using the software indicated by the OTF Management Company. The participant will access this software through their own equipment.

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

All public fixed income instruments, represented via book entry, accepted or traded in any EU trading facility, may be traded.

In addition, private fixed income instruments represented via book entry and accepted for trading in other EU trading facilities may also be traded.

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

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

Instruments issued by the Treasury shall be included ex-officio by CIMD OTF (hereinafter also the OTF) once the characteristics of the issues have been published in the Official State Bulletin.

Regarding the rest of the financial instruments considered in point 2, the OTF Manager will proceed to their incorporation once the Participants indicate their interest or show indication of interest about them.

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

The OTF Manager shall temporarily suspend and 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 and from the Bank of Spain or at the request of the CNMV as the Venue's Supervisor.

## **5. Characteristics of trading “by voice”**

### **5.1. General characteristics of orders**

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 (CIMD, SV, SA) 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, several 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 for fixed income except for ETC and ETN<sup>11</sup>.

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.

The standard value date is D+2; however, trading is permitted with a value date other than the standard date. The systems used by the OTF to report orders and operations will show the specific date.

Staff at the OTF Manager will disseminate an order, or indication of interest (non-executable IOI), 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 indications of interest (non-executable IOIs), 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 bonds and obligations**

The price is traded ex-coupon, with a maximum of 4 decimals.

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<sup>1</sup> ETCs or exchange-traded commodities shall be understood to be a debt instrument in accordance with the definition included in table 2.4 of Annex III of the Commission Delegated Regulation (EU) 2017/583, dated 14 July 2016.

ETNs or exchange-traded notes shall be understood to be a debt instrument in accordance with the definition included in table 2.4 of Annex III of the Commission Delegated Regulation (EU) 2017/583, dated 14 July 2016.

### 5.1.2. Additional characteristics of orders for notes

The price is quoted in interest rate with a maximum of 4 decimal places.

### 5.2. Publication of Pre-trade of 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 venue that allows it to perform the execution in a satisfactory manner for the Participant.

#### 5.4. General characteristics of transactions

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, giving rise to a transaction. Said transaction will immediately be disclosed by the Venue, and may be viewed by all Participants.

The negotiation is characterized because it is “name give up”: the trading system is anonymous in the sense that the entities are not identified in the sides nor in the negotiations, 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.

Orders will be matched based on the following priorities:

- Firstly, the best price of those disclosed in the OTF
- 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 published in the OTF, 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 OTF.

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

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 publish the information on the trades according with Annex II of the Delegated Regulation (EU) 2017/583 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.
- Except in the case of sovereign debt, after four weeks it will be published the full details of all operations, before 9.00 local time of the next working day.

In respect of sovereign debt instruments, after four weeks, the following information will be published for an indefinite period of time, for each ISIN and on aggregated form, before 9:00 hours on the Tuesday of the fifth calendar week in which the operations were executed:

- a. the total number of operations;
- b. the total volume traded;
- c. the average weighted price.

This aggregation will only include the operations performed in the same calendar week that have not been previously published

## **5.6. Modality of transactions for the entire segment**

Transactions are on maturity and may be both spot and forward.

## **5.7. Liquidity agreements**

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

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

## **6. Characteristics of contracting in periodic auctions**

### **6.1. General characteristics**

- These are auctions aimed at OTF participants.
- The OTF Manager will notify its participants of the different auctions well in advance so that they can participate in them.
- For liquid instruments, the minimum volume of each individualized order per participant will coincide with the volume, which in application of Delegated Regulation (EU) 2017/583 (RTS 2), makes the order be considered as “large volume” (LIS or large in scale) of post trading for the kind of financial instrument that was auctioned. This criterion is not applicable to illiquid instruments.

- They are "blind" or anonymous, no participant will know who has covered their order. For these purposes, a duly authorized CIMD Group entity that is not a CIMD OTF Participant will be the settlement counterpart for each and every one of the transactions carried out in the auctions; however, a settlement agent may act on behalf of said CIMD Group entity in relation to the clearing and settlement of transactions.
- Auctions are managed by software whose algorithms assign and determine the operations.
- From the moment of the opening of the auction period, the participants will have 5 (five) minutes to impute their orders.
- Once the auction is closed, the resolution will be made public to the participants within 60 seconds of the resolution with a margin of error of  $\pm 30$  seconds.
- Participants whose orders have been matched in the auction will be provided as much information as is necessary to proceed to the settlement of the resulting transaction.
- The standard value date is D + 2; however, negotiation with a value date other than the standard one is allowed.

## 6.2. Auction Period

### 6.2.1. Definition

Period of time in which orders can be entered, modified and canceled, but during which no operations are executed. During this period, the System will show the indicative prices that would be set if, at that time, the auction ended.

### 6.2.2. Classes of orders

During the auction periods, the following types of orders will be accepted according to their price:

- 1st. Limited (Limit order): They will be those that are formulated at a maximum price for purchase or minimum for sale. Once the auction is resolved, pending orders are canceled.
- 2nd. Market order: They are introduced with no price limit, so they will be executed at the auction price. If a market order is partially traded or not traded in the auction, the pending order is deleted.

### 6.2.3. Additional features of orders

The price of the instruments will be quoted based on the auctioned instrument as follows:

- Bonds and obligations: the ex-coupon price is quoted, with 2 decimal places for securities with a residual term life equal to or greater than 5 years and with 3 decimal places for securities with a residual term of life less than 5 years.
- Letter auction: it is quoted in profitability with 3 decimals.
- Spread: both in the case of auctions between fixed-income and fixed-income instruments against the future admitted to trading on a trading center, it will be quoted in basis points or pips (bp) with 2 decimal places.

### 6.3. Types of auctions

#### 6.3.1. Auction at a price determined by the Management Company

The auctions will deal with:

- a) An instrument of public fixed income individually.
- b) As a spread between two financial instruments negotiated in the OTF.
- c) As a spread between a financial instrument negotiated in the OTF and a future listing contract whose underlying is a notional bond.

In any of the above cases, the OTF Management Company will set the price or spread at which the auction will be resolved, leaving it at the discretion of the participants to enter buy / sell orders determining the volume that they want to acquire or sell.

In the case of an auction of those described in letter c) above, the Manager will establish, in addition to the spread, a future level that will serve (i) as a reference to set the price of the financial instrument traded in the OTF and (ii) to record the corresponding operation in the future reference market. If at the time of the auction resolution the price of the future has not changed substantially<sup>2</sup>, the OTF Manager will proceed to register the applications associated with each of the individualized operations resulting from the auction in the reference regulated market for the corresponding future.

In the event that the price of the future has changed substantially, the auction will be considered canceled. Immediately after the resolution and, in any case, within 60 seconds after it, the system will inform the participants of the assigned position as a result of it.

#### 6.3.2. Variable price auction

The auctions will deal with:

- a) A public fixed income instrument individually.
- b) As a spread between two financial instruments traded in the OTF.

In any of the above cases, the participants will enter the purchase and or sale orders that they deem appropriate in accordance with the operating rules, indicating, where appropriate, the level (price or spread) and the volume. During the auction period, market participants only receive information on the auction price, if it exists, and the volume that would be traded at that time at said purchase and sale price; if there were no auction price, the best purchase and sale price would be shown with their associated volumes. The system will show at all times what would be the price at which the orders would be negotiated if the contracting started at that moment. The calculation is carried out in real time each time a buy or sell order enters the system. The rules that are applied to determine what the price would be at each moment are known by market participants and are the following:

- 1st. The price at which a greater number of titles is traded is chosen.
- 2nd. If there are two or more prices at which the same number of securities can be traded, the price will be the one that leaves the least imbalance. The imbalance is defined as the difference between the volume offered and the volume demanded that can be negotiated at the same price.
- 3rd. If the two previous conditions coincide, the price will be chosen from the side with the greatest volume (greatest weight).

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<sup>2</sup> It will be considered that it has not changed substantially as long as the reference market of the future allows registering the application (s) associated with each of the individualized operations resulting from the auction.



4th. If the three previous conditions coincide, the closest to the last negotiated price will be chosen as the auction price, as long as it is within the range of potential auction prices (higher and lower limit). If it is not within these limits, the auction will be considered void and will be canceled.

5th. If, at the end of the auction period, supply and demand did not coincide, the auction will be considered void and will be canceled.

### **6.3.3. Assignment of contracting units in the auction**

Once the auction price has been set, market orders will be assigned first, then those limited with prices better than the auction and, finally, the rest of the orders limited to the auction price, to the extent possible, according to the order in which they were introduced into the System.

### **6.4. Publication of pre-trade information**

The waivers applied by the Management Company for orders of this type of negotiation are:

- For liquid instruments, since the volume of each individualized order is equal to or greater than the post-negotiation LIS and, therefore, is above the pre-negotiation LIS (large in scale) set by ESMA with respect to the negotiated instrument, the quotation prices (purchase or sale) prior to the execution of orders.
- For instruments that do not have a liquid market: quotation prices (purchase or sale) prior to execution will not be published regardless of the volume of the order.

Consequently, the OTF will not make public any information about such orders.

### **6.5. Publication of post-trade information**

The OTF will make the information on the operations public, complying with the criteria for the corresponding deferral. For these purposes, the deferrals applied by the Management Company to this segment are the same as those reflected in the publication of post-trading information on the “by voice” contracting system.

### **6.6. Transaction mode**

Transactions are due; with a standard value date D + 2, being able to set a different date in the auction call.

## **7. 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 CIMD OTF. 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.

## **8. Post contracting and settlement of operations**

Members provide the OTF Manager with their settlement instructions for each instrument traded. These instructions may be changed prior to closure or immediately after closure provided the counterparty agrees.

The OTF will inform the buyer and seller of the instructions from their counterparty.

Participants are responsible for informing their respective settling entities of the operations they have executed via the OTF as well as of the settlement instructions from their counterparties for each of these operations, so that the settling entities may instruct accordingly.

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

In the auction system, in order to preserve anonymity, a duly authorized CIMD Group entity that is not a CIMD OTF Participant, will be the settlement counterpart for each and every one of the transactions carried out in the auctions; however, a settlement agent may act on behalf of said CIMD Group entity in relation to the clearing and settlement of transactions.

## **9. 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. In the event the operation is compensated in a CCP, it cannot be done outside the registration hours of the Clearing House in which the operation must be registered for its settlement.

The auctions will be held with the periodicity determined within the hours indicated in the previous paragraph.

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

### **10.1. Operations executed in the “live voice” system**

Transactions recorded as such by the OTF may only be modified or canceled, with prior authorization from the OTF Supervision Area, when an incident has been incurred or when the settlement of the transaction is not possible.

Two types of possible incidents in the negotiation are considered:

#### *a) Error in the participant's identification*

Due to an assignment error to the Participant in the transmission of an order entered by the authorized personnel of the Management Company, which will lead to a modification.

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, and the OTF's Supervision Area will be notified within 30 minutes of the operation's execution.

#### *b) Evident error in the price*

Due to obvious error in the crossing price of a transaction, which will lead to the cancellation of the same.

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 OTF. 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) In the case of bonds and obligations, based on the result obtained, the 30% spread between demand and supply will be calculated and will be deducted from the demand and added to the supply, obtaining a new demand and supply price.
- 5) In the case of letters on the result obtained, 50% of the spread between the demand and supply will be calculated and subtracted from the demand and added to the offer obtaining a new demand and supply price.
- 6) 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.
- 7) 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.

## **10.2. Operations executed in auctions**

The operations derived from the resolution of the auctions may only be modified or canceled, with prior authorization from the OTF Supervision Area, when:

- An assignment error has been made to the Participant, which will lead to a modification with the consequent cancellation and correct reassignment; or
- when the settlement of the transaction is not possible.

**11. 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.

**12. Entry into force**

This Circular shall be delivered to all Participants and shall enter into force 30 days after its publication.