

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 November the 29th, 2021, 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, several or all of the other Participants so as to find a matching interest in order to execute the relevant operation.

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

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 (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 ETN¹.

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 3 decimals. The third decimal can only be a 0 or a 5.

5.1.2. Additional characteristics of orders for notes

The price is traded in interest rate, with 3 decimals. The third decimal can be any number from 0 to 9.

¹ 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.

5.2. 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 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, 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, 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 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 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. Characteristics of trading in periodic auctions

6.1. General characteristics

- These are auctions directed for the OTF participants.

- The OTF manager will communicate all auctions to its participants enough in advance so that they can take part in them. The OTF manager will specify in each one the necessary terms and details, such as opening and closing times, instruments, size,...
- For liquid instruments, minimum size for each individual order (from each participant) will be the same as the size considered as "large size" (LIS or "Large In Scale") for post-trading for each instrument size, applying EU Regulation 2017/583 (RTS 2).
- Auctions will be managed through a software whose algorithms execute and match orders.
- Participants can introduce, modify or cancel orders from the auction opening time until auction close.
- Once the auction is close, its resolution will be published so that all participants can clearly see it within the next 60 seconds, with an error margin of 30 seconds.
- If the order of any participant has been matched in these auctions, , the OTF manager will have to facilitate all information necessary in order to proceed with the settlement of the resulting trade.
- The standard settlement date is T+2, however, the OTF manager will be able to launch auctions with a date different from the standard.

6.2 Types of auctions

6.2.1. Auctions at a fixed price, determined by the OTF manager

Auctions that are set at a given fixed price (hereinafter, FPA) will pivot on:

- (a) a government debt instrument on a stand-alone basis;
- (b) as a spread between two financial instruments traded on the OTF; or
- (c) as a spread between a financial instrument traded on the OTF and a listed futures contract whose underlying is a notional bond.

In the announcement of a FPA the OTF Manager shall establish the instrument or spread traded, the minimum size and, if applicable, multiples thereof and the fixed auction price without the Participants being able to change it. At any time before the start of a FPA the OTF Manager may, by notifying all Participants, cancel such Periodic Auction.

During a FPA, the order book contains all orders entered into the System by the Participants. Voice orders may be entered by the operators of the SOC's Management Company in the FPA on behalf of customers at their request. A FPA operates on the

basis that no Participant knows the orders of the other Participants. When in a FPA there are two or more orders of opposite direction (buy vs sell) the price will be highlighted to indicate that there is a matching, matching priority will follow the criterion "time of entry into the system". Simultaneously, the matched part of the corresponding order is removed from the live order book and the unmatched part of the order is kept. The volume of the matching remains unknown to the market. Orders that do not match will be cancelled at the end of the Auction.

If during the term of a FPA, at the discretion of the OTF Manager, the price set becomes obsolete or any circumstance occurs that could adversely affect the performance of the FPA, the OTF Manager may cancel the auction. All live orders at that time, for the instrument concerned, are immediately cancelled.

The OTF Manager's team of traders shall be authorised to cancel unmatched orders on behalf of a participant.

The operators of the OTF Manager shall make all reasonable efforts to complete the request in a responsible and timely manner; however, the operators of the OTF Manager cannot be held liable for delays in the completion of a request by the Participant even if this results in an order not being withdrawn in time and resulting in a transaction or an order not being entered and a transaction being lost.

6.2.1.1. Order types

In FPA, Participants may only enter orders indicating direction and volume. Orders are not cumulative in any case.

6.2.1.2. Allocation of Fill in the Auctions

During the period in which the FPA is in effect, trades shall be allocated and communicated to the relevant Participant as they cross.

6.2.2. Variable Price Auctions

The auctions will concern:

- (a) a government debt instrument on a stand-alone basis; or
- (b) as a spread between two financial instruments traded on the OTF.

In any of the above cases the Participants shall enter the buy and sell orders they deem appropriate in accordance with the operating rules, indicating, where appropriate, the level (price or spread) and the size. During the auction period, the Participants in the OTF only receive information on the auction price if it exists and the volume that would be traded at that time and at that price; if there is no auction price, the best bid and ask price and its associated volumes are displayed. The system will show at each moment the price at which orders would be traded if trading were to start at that moment. The calculation is performed 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 any given moment are known to the Participants of the OTF and are as follows:

- 1st. The price at which the largest size of the instrument 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 traded at the same price.
- 3rd. If the two previous conditions are met, the price of the side with the greater volume (greater weight) will be chosen.
- 4th. If the three conditions above are met, the auction price chosen shall be the price closest to the last price traded, provided it is within the range of potential auction prices (higher and lower limits). If it is not within these limits, the auction shall be considered deserted and shall be cancelled.
- 5th. If, at the end of the auction period, supply and demand do not match, the auction shall be considered deserted and shall be cancelled.

6.2.2.1. Types of orders

During the auction periods, the following types of orders shall be admitted according to their price:

- 1st. Limit orders: These shall be those placed at a maximum price for purchase or minimum price for sale. Once the auction has been resolved, pending orders shall be cancelled.
- 2nd. Market orders: These are entered without a price limit, so they shall be executed at the auction price. If a market order is partially traded or is not traded in the auction, the pending order is eliminated.

6.2.2.2. Additional features of orders

The price of instruments shall be quoted according to the instrument being auctioned as follows:

- Bonds: the price is quoted ex-coupon, to two decimal places for securities with a residual maturity of five years or more and to three decimal places for securities with a residual maturity of less than five years.
- T-Bills: quoted at yield to three decimal places.
- Spreads: both in the case of auctions between debt instruments and in the case of bond versus futures (admitted in our OTF), they shall be quoted in basis points or pips (bp) to two decimal places.

6.2.2.3. Allocation of trading units in the tender operation

At the end of the auction, once the auction price has been set, market orders shall be allocated first, followed by limit orders with prices better than the auction price and, finally, the rest of the limit orders shall be allocated at the auction price, as far as possible, according to the order in which they were entered into the System.

6.3. Publication of pre-trade information

The waivers applied by the OTF Manager for orders in this type of trading are as follows:

- For liquid instruments given that the volume of each individual order is equal to or greater than the post-trade LIS and, therefore, is above the pre-trade LIS (large in scale) set by ESMA with respect to the instrument traded, the quoted prices (buy or sell) prior to the execution of the orders will not be published.
- For instruments that do not have a liquid market: pre-execution quote (bid or ask) prices shall not be published irrespectively of the size of the order.

Accordingly, the OTF shall not make public any information on such orders.

6.4. Publication of post-trade information

The OTF shall make public information on trades complying with the criteria of the relevant deferral. For these purposes, the deferrals applied by the Management

Company to this segment are the same as those reflected in the publication of the post-trade information in the trading system "viva voce".

6.5. Modality of transactions

Transactions are at maturity; with a standard value date of D+2, with the possibility of setting a different date in the auction notice.

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. 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.

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.

10. 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.

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.

10.1. Modification or cancellation of operations

a) Error in the participant'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, and the OTF's Supervision Area will be notified 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 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) 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) 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.

10.2. Modification or cancellation of operations on notes

In connection with operations on notes, the provisions of point 9.1 will apply, except that prices will be given as interest rates, so the 50% of the spread will be added to demand and deducted from supply.

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 on January 3, 2018.