## 14. Spain

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### A. List of Primary Dealers

<table>
<thead>
<tr>
<th>FIRM</th>
<th>Bonos &amp; Obligaciones del Estado (Government bonds)</th>
<th>Letras del Tesoro (T-bills)</th>
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</thead>
<tbody>
<tr>
<td>Banco Cooperativo Español</td>
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<td>Bankinter</td>
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<td>BNP Paribas</td>
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<tr>
<td>Caixa Bank</td>
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<td>Cecabank</td>
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<td>Citigroup</td>
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<td>Goldman Sachs</td>
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<td>Nomura</td>
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<td>Royal Bank of Scotland</td>
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<tr>
<td>Santander</td>
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<tr>
<td>Société Générale</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>

| TOTAL in each group                     | 21                                               | 21                         |

| Total Primary Dealers                   | 22                                               |                            |

**KEY:**
- AFME/Primary Dealer Members
- AFME Members
- Non-AFME Members

1. List of Primary Dealer Agreements for 2014
B. Credit Rating

Spanish debt is currently rated as follows:²

- Standard and Poor’s: BBB
- Moody’s: Baa2
- Fitch Ratings: BBB+
- DBRS: AL

C. Debt Instruments

i. Spanish Government Bonds: Bonos y Obligaciones del Estado

Bonos and Obligaciones del Estado are Treasury Securities with maturities above two years. Bonos and Obligaciones have exactly the same features, except for their maturity. Maturities of Bonos range from two to five years, while Obligaciones have maturities of more than five years.

The issuance of Bonos and Obligaciones del Estado is mainly made through competitive auctions. Bids must be made for at least €1,000, or a multiple of this minimum amount.

Government Bonds are interest-bearing securities, with annual coupons, as opposed to Letras which pay all interest at maturity. Coupons are paid on a yearly basis and reflect the "nominal" interest on the security.

The Treasury currently issues Government Bonds with the following maturities:

- 3-year Bonos
- 5-year Bonos
- 10-year Obligaciones
- 15-year Obligaciones
- 30-year Obligaciones

ii. Spanish Treasury Bills: Letras del Tesoro

Letras del Tesoro are short-term fixed income instruments which exist only in book-entry form. They were created in June 1987, when the book-entry system was established.

Letras are issued at auctions. Bids must be made for at least €1,000, or a multiple of this minimum amount.

These instruments are issued at a discount, which means that the purchase price is lower than the amount which will be rendered at redemption. The difference between the price rendered by the Treasury at maturity (€1,000) and the purchase price will be the return of the Letra.

Treasury currently issues Letras del Tesoro with the following terms:

- 3-month Letras del Tesoro
- 6-month Letras del Tesoro
- 9-month Letras del Tesoro
- 12-month Letras del Tesoro

Given that these are short-term securities, price fluctuations in the secondary market tend to be quite small. Therefore, the risk incurred by investors who intend to sell Letras del Tesoro prior to maturity is usually low.

² Credit rating correct as of September 2014
D. Privileges and Obligations of Primary Dealers

i. Rights of a Primary Dealer³

a. Participation in Treasury auctions
Primary dealers have an additional half-hour in which to present their bids after the general deadline for submitting bids at each Bonos and Obligaciones del Estado⁴ and Letras del Tesoro auction.

b. Access to Second Rounds
After the bidding has closed for each auction of Bonos and Obligaciones del Estado and Letras del Tesoro, a second round is opened for the exclusive benefit of Primary Dealers. The Treasury can issue a maximum amount of each bond or Letra in this second round corresponding to 24% of the nominal value allotted in competitive bidding. Primary Dealers meeting at least one of the following conditions are entitled to submit bids. The maximum they can apply for is determined by their share of allocations at the last two auctions of the same bond or Letra, as applied to the following tranches:

- 24%, that the General Secretariat for the Treasury and Financial Policy may grant to those Primary Dealers for Bonos and Obligaciones and Letras which the General Secretariat judges to have complied, in the evaluation period prior to the auction, with the minimum quoting standards determined by the General Secretariat, and which have been among the most active Primary Dealers in the months previous to the auction.
- 20%, which the General Secretariat for the Treasury and Financial Policy may grant to those Primary Dealers for Bonos and Obligaciones and Letras which the General Secretariat judges to have complied, in the evaluation period prior to the auction, with the minimum quoting standards determined by the General Secretariat, but which have not been among the most active Primary Dealers in the months previous to the auction.
- 4%, which the General Secretariat for the Treasury and Financial Policy may grant to those Primary Dealers for Bonos and Obligaciones and Letras which the General Secretariat judges have been among the most active Primary Dealers in the months previous to the auction, but which have not complied, in the evaluation period prior to the auction, with the minimum quoting standards determined by the General Secretariat.
- 0%, that the General Secretariat for the Treasury and Financial Policy may grant to those Primary Dealers for Bonos and Obligaciones and Letras which the General Secretariat judges not to have complied, in the evaluation period prior to the auction, with the minimum quoting standards determined by the General Secretariat, and which have not been among the most active Primary Dealers in the months previous to the auction.

c. Stripping and Reconstitution of Government Debt Securities
Bonos and Obligaciones Primary Dealers are the only entities authorised to strip and reconstitute strippable Government Debt securities.

d. Other Debt Management Operations
Primary Dealer status is awarded by the General Secretariat of the Treasury and Financial Policy when choosing its counterparties for other financial operations such as swaps or foreign currency issues.

⁴ Bonos and Obligaciones del Estado are Spanish Government bonds.
• The receipt of timely updates on the Treasury’s financing policy.
• Participation in the setting of issuance targets for short, medium- and long-term Government Debt instruments
• Representation on the Public Market Advisory committee.

ii. Obligations of a Primary Dealer

a. Participation in Auctions

Each Primary Dealer must submit bids for a minimum nominal value of 3% of the amount allotted by the General Secretariat of the Treasury and Financial Policy of each Bono and Obligación auctioned, at no lower than the auction's marginal price minus 5 cents for three-year Bonos del Estado; 10 cents for five-year Bonos del Estado; 15 cents for ten-year Obligaciones del Estado, and 30 cents for Obligaciones del Estado dated longer than ten years. For Letras del Tesoro, Each Primary Dealer must enter bids at each auction for a minimum nominal value of 3% of the amount the Treasury allots of each type of Letra, at a yields no higher than those given by the marginal rate plus two basis points of yield.

Auctions where either of the following two conditions is present will not compute for the above purposes:

• When the yield corresponding to the auction's marginal price is two or more basis points lower than the yield provided by secondary-market offer prices five minutes before the auction is held; the reference being the price posted on the regulated market or multilateral trading system recording the highest Bono and Obligación or Letra turnover in the previous month.
• When 40% of the issuance volume has gone to a single entity.

The General Secretariat of the Treasury and Financial Policy will give timely notification to Primary Dealers of auctions where either of these conditions applies.

b. Guarantee Secondary Market Liquidity

The General Secretariat of the Treasury and Financial Policy will decide which Bonos and Obligaciones and Letras will act as benchmarks in accordance with the group of Primary Dealers.

Primary Dealers of Bonos and Obligaciones will be divided into three homogeneous groups, each of which must quote all benchmark Bonos and Obligaciones plus an additional PO strips basket.

c. Other Obligations

• Respect the rules on time, maximum bid-offer spreads and minimum trading volumes.

• Provide any information requested by the General Secretariat of the Treasury and Financial Policy concerning the public debt market in general and their market-making activities in particular. Specifically, Primary Dealers must report monthly on their own-account and third-party trades, the kind of entities their customers are and their geographical reach.

• Ensure the proper functioning of the market, and respect the trading rules laid down.
E. Primary Market

1. Issuance and Auction Procedure

a. Auction Calendar

At the start of each year, the Treasury publishes a calendar in the Boletín Oficial del Estado setting out the auction dates for Government debt instruments, with dates for the presentation of bids and the settlement and issuance of securities.

The calendar published may be modified as the year goes on, depending on the needs and opportunities arising for the Treasury of the market itself. Special auctions may be called for example, for the launch of new public debt instrument. The Treasury can also cancel a scheduled auction included in the calendar.

Bonos and Obligaciones issuance follows one of the following procedures or a combination:

- By competitive auction;
- By means of a competitive process involving a restricted number of authorised institutions, who agree to underwrite the issue or act as counterparty in the secondary market. In such cases, the Treasury may formalise the arrangements and contracts that it deems appropriate with the institutions chosen, setting out allocation procedures where these differ from the terms of the auction system, and the form in which the issues will be placed. The selection of agent institutions may prioritise financial criteria, commercial capacity or Debt market performance.
- Letras del Tesoro issuance is by competitive auction.

Typically, the Treasury uses the auction as the procedure of issuance of Public Debt instruments denominated in national currency (the Euro, since 1 January 1999).

b. Calling of Auctions

Auctions are called by Resolution of the General Secretariat of the Treasury and Financial Policy, specifying the following details:

- Issue and redemption dates of the Debt securities in question;
- Date and latest time for lodging bids with the Bank of Spain;
- Allocation date;
- Settlement date;
- Date and latest time for payment of the securities allocated;
- Nominal amount offered (discretionary);
- Minimum nominal amount of bids (where appropriate);
- Annual nominal interest rate and coupon payment dates (in the case of Bonos and Obligaciones);
- The ‘special’ nature of the auction (where appropriate);
- Any additional conditions applying.

In Bonos and Obligaciones auctions, the technique used is aggregation, or issuance by tranche, whereby the issue of a determined security is kept open over several consecutive auctions. The securities allocated at such auctions are fungible, by virtue of sharing the same nominal coupon and the same interest payment and redemption dates.

Also in the case of Bonos and Obligaciones, a series of placement objectives are set for auctions in consultation with Primary Dealers, thereby helping to stabilise financing flows. These objectives are set on the Monday prior to each auction. Objectives refer both to the amount targeted and the maximum amount to be issued.
c. Presentation of Bids

Any individual or legal entity, resident or non-resident, may bid for and subscribe to Treasury securities. Bids can be submitted at any branch of the Bank of Spain, following the Bank’s own procedures and within the date and time limits established in the Resolution calling the auction.

Investors other than Account Holders in the Book-Entry System can enter their bids directly or through a Management Institution or a placement agent authorised by the General Secretariat of the Treasury and Financial Policy.

Management Institutions and Account Holders in the Book-Entry System must lodge their bids with the Bank of Spain between 8.30 a.m. and 10.00 a.m. on the day of the auction via their computer terminals with the Bank of Spain Settlement Service, or by calling them in via the Money Market Telephone Service. In the case of Primary Dealers, the deadline is extended to 10.30 a.m.

Individuals going directly through the Bank of Spain must submit their bids two days before, specifying the Management Institution which will act as a depository for their securities.

Bids are considered firm orders for the purchase of the Debt instrument applied for, subject to the terms of the issue, and failure to pay in full on the payment date set will give rise to the corresponding liability or, as the case may be, loss of the deposit made previously as a guarantee (comprising 2% of the nominal amount bid for).

Bids may be of two types:

**Competitive bids**

**Bonos and Obligaciones**

Bidders indicate their best price for the Debt instrument in question. Bid prices must be expressed as a percentage of the nominal value, with two decimal places for Bonos and Obligaciones del Estado (the last decimal place freely selected from 0 to 9 inclusive). Notwithstanding this, the Treasury may modify these formulae if circumstances so advise. Competitive bids that do not specify a price will be deemed null and void. The General Secretariat of the Treasury and Financial Policy may limit the number and maximum amount of competitive bids that each auction participant can submit, and set a minimum or stop-out price.

**Letras del Tesoro**

Bidders indicate their nominal rate for the Letra del Tesoro in question. Bid must be expressed as nominal rate in percent with three decimal (the last decimal place freely selected from 0 to 9 inclusive). Competitive bids that do not specify a nominal rate will be deemed null and void. The General Secretariat of the Treasury and Financial Policy may limit the number and maximum amount of competitive bids that each auction participant can submit, and set a minimum or stop-out price.

**Non-competitive bids**

**Bonos and Obligaciones**

Bonos and obligaciones buyers do not specify a bid price, but accept the weighted average price resulting from the auction. The overall nominal amount of non-competitive bids per bidder generally may not exceed €5 million.

**Letras del Tesoro**

Letras del Tesoro buyers do not specify a bid nominal rate, but accept the weighted average rate resulting from the auction. The overall nominal amount of non-competitive bids per bidder generally may not exceed €5 million.
Bids for Bonos and Obligaciones and Letras del Tesoro must amount to at least €1,000 for both competitive and non-competitive bids. As for these minimum amounts, the bids submitted must be multiples of €1,000.

Investors other than Account Holders in the Book-Entry System presenting their bids directly in the Bank of Spain must make a prior deposit – in cash or by cheque – of 2% of the nominal amount bid for, in guarantee of payment. The deposit may be made in cash, by debit order in the current account held at the Bank of Spain branch where the bid has been lodged, or by bank or current account cheque made out to the Treasury or the Bank of Spain. The deposit will be part of the payment if the bid is successful. If the bid fails, or the auction is declared void, the Bank of Spain will return the deposit to the bidder, ordering such repayment on the first business day following the resolution of the auction, and the institutions concerned will return the money in the shortest possible time.

d. The Auction

Auctions are generally run on a modified Dutch auction basis, combining elements of the latter (single price) with elements of standard auctions (multiple prices).

The Bonos and Obligaciones bids submitted are classified by descending order of price and for Letras del Tesoro in ascending order of rate.

The General Secretariat of the Treasury, at the proposal of a committee made up of two representatives from the Bank of Spain and two from the General Secretariat of the Treasury and Financial Policy, decides the nominal amount to be issued and, on the basis of the last bid admitted, the stop-out price/rate, on which the marginal interest rate is calculated.

All bids, at or above this minimum, are accepted, unless the pro-rata formula is being used (affecting only bids made at the marginal price). Non-competitive bids are accepted in their entirety.

The allocation price/rate of securities is calculated as follows: bids made at the marginal price/marginal rate are accepted at the same price/rate; bids falling between the marginal and rounded-up weighted average price/rate also pay the price/rate actually bid; and bids higher than the rounded-up weighted average price/rate and non-competitive bids pay the rounded-up weighted average price/rate.

e. Publication of Results

Auction results are made known by procedures that guarantee the most equal distribution of information to all operators. Specifically, they are published on the day of the auction on the Treasury’s website http://www.tesoro.es, Reuters (TESORESP 07 for Bonos and Obligaciones and TESORESP 08 for Letras), Bloomberg (TESOS5 for Bonos and Obligaciones and TESO6 for Letras). They are also printed in the Boletín Oficial del Estado pursuant to the Resolution of the General Secretariat of the Treasury and Financial Policy.

The information published includes:

- Nominal amount bid;
- Nominal amount allocated;
- Stop-out price/rate;
- Rounded-off weighted average price/rate of accepted bids;
- Price or prices/rates payable on the debt allocated;
- Internal rate of return corresponding to the weighted average price and stop-out price of Bonos and Obligaciones auctions.
f. Second Round

Since 1991, the possibility has existed for Government Debt auctions to go to a second round. The rules applying to this second-round option stand as follows:

- After Bonos and Obligaciones/Letras bids have been entered and resolved in the auction, and between the auction date and 12 p.m. of the day before the security’s issuance.

- A maximum of 24% of the nominal amount of each bond/Letra allocated at auction will be issued in this second round. Primary Dealers (that fulfill at least one of two conditions: complying with the minimum quoting obligations and being the most active) may obtain at most in the second round, its participation in the last two auctions of that particular bond/Letra multiplied by the following two tranches:
  - 24%, that the General Secretariat for the Treasury and Financial Policy may grant to those Primary Dealers for Bonos and Obligaciones and Letras which the General Secretariat judges to have complied, in the evaluation period prior to the auction, with the minimum quoting standards determined by the General Secretariat, and which have been among the most active Primary Dealers in the months previous to the auction.
  - 20%, which the General Secretariat for the Treasury and Financial Policy may grant to those Primary Dealers for Bonos and Obligaciones and Letras which the General Secretariat judges to have complied, in the evaluation period prior to the auction, with the minimum quoting standards determined by the General Secretariat, but which have not been among the most active Primary Dealers in the months previous to the auction.
  - 4%, which the General Secretariat for the Treasury and Financial Policy may grant to those Primary Dealers for Bonos and Obligaciones and Letras which the General Secretariat judges have been among the most active Primary Dealers in the months previous to the auction, but which have not complied, in the evaluation period prior to the auction, with the minimum quoting standards determined by the General Secretariat.
  - 0%, that the General Secretariat for the Treasury and Financial Policy may grant to those Primary Dealers for Bonos and Obligaciones and Letras which the General Secretariat judges not to have complied, in the evaluation period prior to the auction, with the minimum quoting standards determined by the General Secretariat, and which have not been among the most active Primary Dealers in the months previous to the auction.

All bids will be met at the rounded-up weighted average price arising from the auction phase.

g. Payment of the Nominal Value Allocated at Auction

In the case of bids entered directly at the Bank of Spain, the nominal amount allocated shall be paid by crediting the difference between the subscription price and the deposit made in the Treasury’s account at the central bank. Payment can be by the same means as those described for the 2% deposit, and should be made prior to the date and time limits set in the auction call.

In the case of bidders submitting through a Management Institution (Entidad Gestora), the corresponding amounts will be duly debited on the payment date in the current accounts specified for billing. Alternatively, the Management Institution may deposit at the Treasury the amount corresponding to its own and third-party subscriptions. And finally, the Management Institution must furnish the subscribers whose bids they channelled with a certificate setting out the nominal amount subscribed and the cash sum to be deposited in the Treasury’s account.

Likewise, the Bank of Spain must provide subscribers whose bids it received directly, with a certificate accrediting the nominal amount subscribed and the cash amount.
to be paid to the Treasury, and make the entries corresponding to the Debt allocated in the third-party accounts of the Management Institution stipulated by the bids’ presenter.

**h. Distribution of the Securities**

The balances arising from the Treasury securities’ subscription shall be credited in their holders’ accounts on the day of issuance. From this date onwards, these balances may be mobilised by Account Holders for secondary market transactions or securities transfers.

The balances of individuals subscribing through a Management Institution shall likewise be credited in the latter’s account on the day of issuance.

In the case of individuals subscribing through a placement agent other than the Management Institution specified as domicile or who operate through a Bank of Spain branch giving a domiciliation other than that of a Bank of Spain Direct Account, the credit entry in the domiciling Management Institution shall be recorded at a later date, once the Book-Entry System has informed each entity affected of the amounts and the identifying data of the subscribers of each institution.

**ii. Buy-Backs, Early Redemptions and Exchanges**

Government Debt, early redemptions and buy backs are discretionary operations used by the Treasury to withdraw from the market certain securities, replacing them with others.

These are used to smooth out the profile of Debt redemptions and facilitate cash management by reducing the volatility of Tesoro Público’s current account at Banco de España. Buy-backs are also liquidity-enhancing in both the primary market (redemptions are financed by means of new sales) and the secondary market (new on-the-run bonds tend to be more keenly traded than the bonds withdrawn). Tesoro Público has been applying this policy since 1997.

**iii. Syndication**

Every year the Minister for the Economy and Finance issues an Order through which the creation of Central Government Debt is disposed for the current year, and which delegates certain functions onto the General Secretariat of the Treasury and Financial Policy. Article 5 stipulates that issuance of debt shall be carried out either through competitive auctions, or

“...through any other technique that is considered adequate, depending on the type of operation in question. In particular [the Treasury] may cede part or the entirety of an issue, at a convened price, to one or several financial institutions to ensure its placement”.

Syndication is, of course, a practice that is used among other established Treasuries.
F. Secondary Market

i. Interdealer Market

a. Platforms Selection Procedure

The regulated markets or multilateral trading facilities shall be determined by the Secretariat-General of the Treasury and Financial Policy, after consultation with the Primary Dealers group, on the basis of the following criteria:

• The regulated markets or multilateral trading facilities must be recognised as such by a European Union country as specified in Securities Market Law 24/1988 of 28 July.

• A sufficient number of Primary Dealers must undertake to quote and trade Spanish Public Debt securities on these regulated markets or multilateral trading facilities, thereby promoting the liquidity of the Debt.

• The regulated markets or multilateral trading facilities must undertake to provide the Secretariat-General of the Treasury and Financial Policy with all such information as it may require to assess the performance of Primary Dealers. In the event of failure to comply with this undertaking, the Secretariat-General may disqualify the non-compliant regulated market or multilateral trading facility from consideration as an appropriate venue for Primary Dealers to satisfy their liquidity commitments vis-à-vis Government Debt.

• Insofar as the Management Company of the Securities Registration, Clearing and Settlement Systems (Iberclear) does not operate links with other settlement systems that can ensure the efficient and economical settlement of transactions, in the judgement of the supervisors of the Public Debt Book-Entry Market and in accordance with Article 44 quinquies of Securities Market Law 24/1988 of 28 July, trades closed between Primary Dealers should be settled on Iberclear.

Procedure

The Secretariat-General of the Treasury and Financial Policy issues a consultation to the Primary Dealers structured in terms of five simple multiple-choice questions related to: the change in number of eligible platforms; minimum number of dealers that should quote on a single platform; the preferred platform from the options listed and which would be their second preferred platform. On the basis of the results, the General Secretariat decides which are the eligible platforms for the fulfilment of Primary Dealers’ trading obligations.

The Spanish Government Bond market is currently open to two regulated market or multilateral trading systems: SENAF and MTS Spain. However, the Spanish Treasury is considering the possibility of opening the market to further platforms and therefore will examine any platforms candidature (provided that it meets minimum criteria such as volume capacity etc).

b. Authorised Regulated Market or Multilateral Trading System, and Market Making Obligations

The Spanish Government Bond market is currently opened to two regulated market or multilateral trading system:

SENAF
Senaf at present does not impose any quoting obligations to the participants.

MTS Spain Market Making Obligations
MTS at present imposes quoting obligations to Market makers not registered as Primary Dealers with the Treasury.

c. Quoting Obligations

Bonos, obligaciones and strips

Quotation requirements are focused on the benchmark issues (Bonds from three to five years and Obligaciones from 10 to 30 years) and in the quotation of three PO strips per each Creador de Mercado.

It will be compulsory to quote the benchmark issues for at least 5 hours from 8.30 a.m. to 5.15 p.m. with the volumes and differentials quoted below.

It will be compulsory to quote three Principal-Only strips for at least four hours from 9.00 a.m. to 5.15 p.m. with the volumes and maximum bid/offer spreads agreed by the Spanish Treasury and the group of Primary Dealers.

In order to quote the strips, the Creadores de Mercado will be split into three groups for the purpose of quoting principal-only strips.

A Strips basket will be assigned to a group of Primary Dealers. In order to create the strips baskets; the Spanish Treasury will take into consideration the advice of the Primary Dealers, and also will take into account the issues maturity. The assigned baskets will be modified regularly.

Points will be granted for the quotation of strips on the following conditions:

- The quotation of more issues (no matter if they are principals or coupons) with the time, volumes and maximum bid/offer spread agreed by the Spanish Treasury and the group of Primary Dealers.

Letras del Tesoro

Quotation commitments in Letras del Tesoro will be deemed to be met when prices are quoted, with the maximum spreads and minimum volumes set by the General Secretariat of the Treasury and Financial Policy, on each of the business days figuring in the calendar approved by the General Secretariat of the Treasury and Financial Policy, on the screens of the regulated markets or multilateral trading facilities determined by the General Secretariat, for at least five hours between 8.30 and 17.15 on each of the above business days.

The General Secretariat of the Treasury and Financial Policy may modify these quotation conditions after consultation with Primary Dealers.

The General Secretariat of the Treasury and Financial Policy will specify the Letras stocks which each Primary Dealer is obliged to quote. It will also define the stocks to be considered benchmarks, after consultation with Primary Dealers, and establish the maximum spreads and minimum volumes they must quote.

- In relation to non-benchmark issues, there will not be quotation obligation, but the Spanish Treasury will only grant points for the issues quotation for at least 5 hours from 8.30 a.m. to 5.15 p.m. in the conditions equal or better than those established below by the Spanish Treasury.
### Bonos y Obligaciones Quoting Obligations

<table>
<thead>
<tr>
<th>Benchmarks</th>
<th>Maximum Spreads (cents)</th>
<th>Minimum Volume (mn euros)</th>
<th>Minimum Time</th>
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<tbody>
<tr>
<td>3y</td>
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<td>30y</td>
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<td>5</td>
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<tr>
<td>Off-the-run bonds</td>
<td>Maximum Spread (cents)</td>
<td>Minimum Volume (mn euros)</td>
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### Letras Quoting Obligations

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Each Primary Dealer can quote part of the securities on one platform and part on the other, but in order to consider that a Primary Dealer fulfils its quoting obligations regarding one specific security, it has to comply with its quoting obligations (in time, volume and spread) on one platform. If it has quoted half of the compulsory time of a security on one platform and half in another, the Treasury will not consider it as not having fulfilled its quoting obligations.

If it has quoted the compulsory time of the same security on both platforms, only one will be taken into account. However the quoting of some references on one platform and some on the other platform is allowed and will be taken into account. For example, a Primary Dealer can quote its long benchmarks on Senaf and the short on MTS.
ii. Dealer to Customer Market

a. Trading Systems

Secondary market trades are conducted through three systems (the first two reserved exclusively for market members):

- Through blind brokers (the blind market), also known as the “first tier” in which only Public Debt members can participate.

Trading is electronically conducted without knowledge of the identity of the counterparty (hence the term “blind”). This is the core of the Public Debt market, as participating agents undertake to quote bid and offer prices at relatively narrow spreads, thereby guaranteeing the market’s overall liquidity. Profits and losses are settled daily by marking to market, and the corresponding adjustments made on the operations Value date.

- The bilateral trading system, direct or via broker, also known as the “second tier”, channels all remaining operations between Account Holders.

The support for this market is provided by Iberclear. In this segment, participants can operate to maturity (in spot or forward, double or repo transactions). Operations can be entity-to-entity or through a broker. In the second case, the broker matches the operation and notifies each party of its counterparty (who is identified under this system). Both parties then notify Iberclear of the terms of the transaction to enable its subsequent clearance and settlement.

- The third and last trading system comprises transactions between Management Institutions and their clients.

b. Type of Operations

Several types of operations may be conducted.

Single transactions

Here, the transaction is one way only. Securities are sold along with all the rights attached: coupon payment, redemption value, etc. Debt is considered transferred to maturity, allowing the new owner to transact in it freely on the secondary market under any authorised format. Single operations can be:

- **Spot transactions**: settlement takes place within the five business days following the transaction date.

- **Forward transactions**: settlement takes place after the fifth business day following the transaction.

Double or Buy-Back Transactions

These are when contracting parties simultaneously agree two single transactions, a buy and a sell, one spot and the other forward or both forward. The buyer in the first transaction will be the seller in the second and vice versa. These are firm transactions, with the sale and repurchase price previously agreed at a given date. This buy-back arrangement entitles the holder of the asset to collect coupon payments at maturity. Double operations can be divided into:

- **Ordinary repos or “simultáneas”**: both buying and selling transactions refer to the same type of instrument and are for the same nominal value. The buyer can transact freely with the securities purchased, regardless of the buy-back date set.

- **Blocked or “Spanish” repos**: the difference vs. ordinary repos is that the securities are not transferred to all effects and, as such, buy-back transactions can only take place up to the date set for their return. However, the buyer is entitled to collect coupon payments falling due in the interim.
Stripping and Reconstitution

Linked to Bonos del Estado and Obligaciones del Estado strips: stripping and reconstitution transactions can only be processed by strippable debt Market Makers. Strip and reconstitution orders must be for a minimum nominal amount of €500,000, while additional amounts must be multiples of €100,000.

iii. Book Entry System

Iberclear is the result of the merger between the Securities Clearing and Settlement System (SCLV) – which was operative for the Stock exchanges- and the Book-Entry System (CADE) – operative for public Debt. It was created in April 2003. Iberclear is therefore the Spanish Central Securities Depository which is responsible for the registry, clearing, and settlement of Public Debt market operations.

The main duties of this company are:

- Management of the Book-Entry System
- Clearing and settlement of the securities traded at the Stock Exchange or at the Book-entry System.
- Technical and operational support related to registration, settlement and clearing.

Registry

All securities admitted to the Public Debt Market are represented in book entry form and denominated in Euro. The Securities Register System is structured in two levels: the Central Registry managed by Iberclear and a detailed registry in charge of the participants.

In the Central Register, the following accounts are opened for each participant and security code – an account for securities registered in their own name and a “third parties account” or “clients account”, where securities are registered globally.

Participants must at all times keep a “Third Parties Registry” updated, reflecting each transaction made between the entity and its clients or by order of its clients, affecting the ownership or availability of securities.

Those entities executing forward or back-to-back trades with clients have to maintain a "Register of forward trades with third parties" in which the trades will be booked on a trade date. These transactions will be booked in the Third parties Register at the value date agreed for each forward or back-to-back trades.

Clearing and Settlement

The settlement of trades takes place on the working date agreed by the participants on the trade date.

CADE platform runs two daily settlement cycles; one taking place at the beginning of the day and one at the end of the day. In between, CADE settles trades delivery versus payment and free of payment in real time.

The first settlement cycle, includes all trades communicated to CADE until 6.00 p.m. on S-1, and these transactions are final at 7.00 a.m. of settlement day (S), provided enough securities and funds are available in the corresponding accounts.

The real time settlement takes place between 7.00 a.m. and 4.00 p.m. of the settlement day. The system firstly checks to see if there is a sufficient balance of securities available. Where the balance is sufficient, but the buyer of securities does not have sufficient funds, the instruction of settlement is rejected and sent back to CADE, where the instruction is sent to a database of pending orders. Further attempts are made periodically until there are enough balances in the corresponding securities and cash accounts to settle the pending instructions. If the seller does not
have enough securities, the instruction is sent to the pending orders database. When the securities account is credited, the system checks if the pending instructions can be settled.

At the end of the day, the system tries to settle all pending transactions that could not be settled during the first cycle or in the real time period. The end of day cycle takes place at 5.00 p.m of S.

If the seller account has enough securities, the system immediately checks that the buyer has enough funds available, that is, neither securities nor funds are blocked. Once the transfer of securities and funds are affected, the transaction is considered final.
G. Appraisal of the Activity of the Primary Dealers

Primary Dealer activity is evaluated on a monthly basis with reference to their performance in the following areas:

- Subscription at auctions of Letras, Bonos and Obligaciones at auction.
- Participation in exchange and buy-back operations carried out by the Treasury.
- Involvement in the debt management and promotion initiatives organised by this General Secretariat.
- Quotation of Letras, Bonos and Obligaciones in the regulated market or multilateral trading system specified by the General Secretariat of the Treasury and Financial Policy.
- Participation in the overall monthly turnover of Letras, Bonos and Obligaciones in the regulated market or multilateral trading system specified by the General Secretariat of the Treasury and Financial Policy.
- Participation in monthly Letras, Bono and Obligación trading between members of the Spanish public debt market.
- Participation in Primary Dealer trading with entities which are not account holders in the Spanish public debt market.
- Stripping and reconstitution of strippable bonds and trading in these instruments.
- Any other activity reflecting their engagement with the Spanish public debt market. Qualitative considerations such as their involvement in campaigns to promote Government Debt inside and outside Spain, the extent of their Government Debt distribution in strategic national or regional markets, as inferred from the monthly reports sent to the Secretariat-General of the Treasury and Financial Policy, the regularity of their market-making, and any other activity which reflects their commitment to the Spanish Public Debt Market.

Penalty factors will include failing to provide the information or guidance requested by the Secretariat-General of the Treasury and Financial Policy, failing to attend the Secretariat-General’s meetings with Primary Dealers, entering bids at auction that deviate substantially from the secondary market price or yield on display five minutes before the auction was held, or engaging in acts that could impair the orderly functioning of the market or whose sole and ultimate purpose is to improve the Primary Dealer’s rating in the evaluations made by the Secretariat-General of the Treasury and Financial Policy. Engaging in such acts can also lead to the loss of Primary Dealer status. The General Secretariat of the Treasury and Financial Policy evaluates Primary Dealer operations in Bonos and Obligaciones del Estado by reference to their market-making component. It focuses on the electronic trading and quotation activity is specifically targeted. Specifically, a greater term to maturity of the securities traded or auctioned will be valued.
H. Contacts

i. Debt Management Office

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ii. Primary Dealers Contact Details

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</tr>
</thead>
</table>
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<tr>
<th>Bank</th>
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<th>Contact Person</th>
<th>Role</th>
<th>Phone Number</th>
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<tr>
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<td>Antonio Torralba</td>
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<td>+44 (0)20 7986 8950</td>
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<td>David Riggs</td>
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<td>CREDIT AGRICOLE</td>
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<td><a href="mailto:sven.grossmann@db.com">sven.grossmann@db.com</a></td>
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<td>JP MORGAN</td>
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<tr>
<td>MORGAN STANLEY</td>
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<tr>
<td>NATIXIS</td>
<td>47, quai d’Austerlitz, 75648 Paris, Cedex 13</td>
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<tr>
<td>NOMURA</td>
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<tr>
<td></td>
<td></td>
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### SANTANDER

<table>
<thead>
<tr>
<th>Address</th>
<th>Contact Information</th>
</tr>
</thead>
</table>
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### SOCIETE GENERALE

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<thead>
<tr>
<th>Address</th>
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</table>
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### iii. Central Bank

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<table>
<thead>
<tr>
<th>Address</th>
<th>Contact Information</th>
</tr>
</thead>
</table>
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Secretariat General Operations, Markets and Payment Systems |
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I. Spanish Market Appendices

Legal Framework

The issuance of Public Debt must be authorised by law.

The General Budgetary Law provides the Government with a fairly free hand in public debt management, with the sole limitation that it must observe the restrictions imposed in each year’s State Budget Law or in other legislation in force.

Specifically, each year’s State Budget Law sets out the main guidelines governing public debt issuance in the corresponding year and establishes an issuance ceiling. This is a global limit which makes no distinction between types of public debt (domestic or foreign currency issues, particular instruments, etc.). Thus, the government, and by its delegation, the Minister of Economy and Finance (who in turn delegates most of his powers to the General Secretariat of the Treasury and Financial Policy), can freely choose any kind of debt instrument, its characteristics and the issuance procedure to apply. It can likewise vary the total amount of outstanding debt by means of additional issues, early redemptions and exchanges. All these aspects are regulated by Royal Decree and a Ministerial Order approved and published at the start of each year. Finally, the Resolutions of the General Secretariat of the Treasury and Financial Policy lay down more specific details for the conduct of debt issuance through the year, such as the calendar for ordinary auctions or equivalence tables of prices and yields.

Meanwhile, the Bank of Spain acts as the State’s financial agent. This remit is perfectly compatible with the limitations established in the Maastricht Treaty and transposed in Law 13/1994, of 1 June, on the Bank of Spain’s Independence, as regards the prohibition on the monetising and privileged financing of the public deficit. For this reason, rules also emanate to a significant extent from the Bank of Spain Circulars.