SOCIEDAD DE BOLSAS

SISTEMA DE INTERCONEXIÓN BURSÁTIL

BME

BOLSAS Y MERCADOS ESPAÑOLES

Interconnection Trading System (S.I.B.)

MARKET MODEL

Equities, Rights and Latibex market

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CONTENTS

1. INTRODUCTION

1.1. Background

The current organisation of the Spanish stock market is the result of the reforms to the enactment of Stock Market Law 24/1988, aimed at adapting the market's traditional structure to an increasingly dynamic and competitive environment.

Prior to the reforms, the stock market was characterised as being highly fragmented: trading in shares was isolated and unconnected among the four stock exchanges (the Madrid exchange was founded in 1831, Barcelona in 1915, Bilbao in 1890 and Valencia in 1970). The only market members authorised to trade were brokers.

The first electronic trading platform used in Spain connecting the four stock exchanges in the so-called Interconnection Trading System (S.I.B. hereinafter) was the CATS (Computer Assisted Trading System), imported from the Toronto Stock Exchange and in operation since 1989. On November 2, 1995, this system was definitively substituted by the Spanish Stock Exchange Interconnection System (SIBE hereinafter), which is currently the platform that supports the function of equity shares managed by S.I.B.

In recent years, as the number of traded products has increased, the technical need for developing specific segments within S.I.B. for products other than equity shares has grown. Some of these different products have their own market models. This specific market model refers exclusively to the official market of equity shares managed by S.I.B. and the Latibex market for Latin American company shares.

1.2. Institutional composition of the market

S.I.B.E is the current trading platform that communicates the four Spanish stock exchanges (Madrid, Barcelona, Bilbao and Valencia), ensuring a single point of liquidity per share and facilitating direct, real time communication among the stock exchanges, allowing for a single price and order book per share. This interconnection has boosted market liquidity and depth.

S.I.B. is managed by *Sociedad de Bolsas*, a limited company that is owned equally by the four Spanish Stock Markets' Governing Bodies. The market members can be broker-dealers, brokers and financial institutions. The main difference between these is that *brokers* may only trade on behalf of third parties, whereas *broker-dealers* and financial institutions can trade both on behalf of third parties and on their own account.

Broker-dealers, dealers and financial institutions are subject to supervision, inspection and monitoring by the CNMV, the Spanish Securities Market Commission, in all issues relating to their operations on shares markets. The CNMV is a state-owned enterprise with its own legal status whose purpose includes the regulation, supervision and inspection of the shares market and the activities of all individuals and legal entities on the same.

1.3. Market model structure

This document describes the main strategic lines of the Spanish, which is an order-driven market, with liquidity providers (specialists) for certain shares. The market features real time information on its screens and automatic relaying of trading information, thus transparency is fully guaranteed.

Most shares listed on the S.I.B. form part of the *Main Trading market*, which is an order-driven continuous market with an opening auction at the session's beginning and a closing auction at the end. In addition, some of these shares have *specialists* who are basically in charge of providing liquidity for the stocks and have acquired certain commitments with the stock exchanges.

There is also a specific type of trading (*trading of shares on the fixing market)* whereby the listed stocks are auctioned throughout the session, with two periods for allocation of the shares. This facilitates efficient price formation and reduces volatility.

In addition, there are different market segments, with specific trading mechanisms adapted to the characteristics of the stocks within each market. There is a segment for Latibex (made up of Latin American stocks that trade in euros). This allows for diversity in a market that relies on a common electronic trading system.

In addition there is a market for large volume transactions carried out during the market's open trading session, known as the Block Market.

Lastly, there is the *Special Operations Market* for after-hours trading, whereby authorised or transmitted transactions that fulfil certain cash or price requirements are communicated.

2. TRADING PHASES

2.1. Start of the session (Opening Auction)

The session begins with the Opening Auction, during which the order book is partially visible[1]. During this time, orders can be entered, altered and cancelled, but no trades can be executed. All previous days' orders remaining in the order book and entered during the Opening Auction participate.

This period (for the Main Trading segment) lasts for 30 minutes[2], with a 30-second random end period to prevent prices from being manipulated. After the random end, the allocation period begins, during which the shares included in orders subject to execution at the fixed auction price are traded. During the allocation period, orders cannot be entered, altered or cancelled. On special occasions, the opening auction may be extended[3].

Once the shares are allocated, members receive information on the total or partial execution of their orders. All non-executed orders in the allocation period remain on the order book. The market is informed of the opening price, trading volume, time of each trade and the identity of the trading members. After this the market is open.

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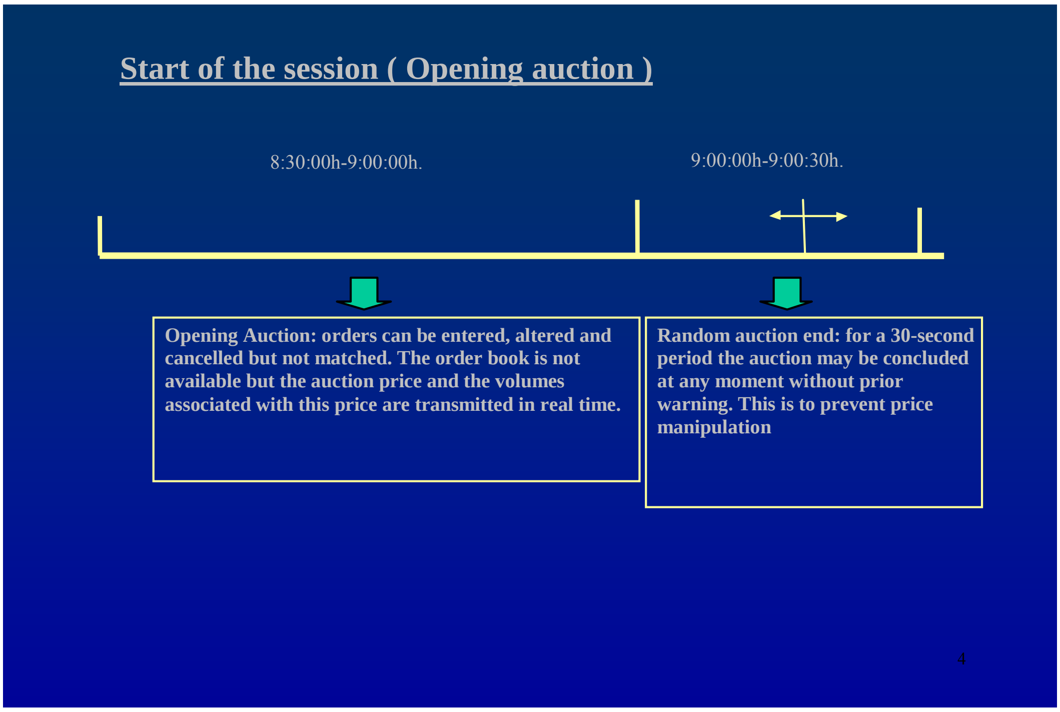
[1] Only the equilibrium auction price and the bid and ask volumes subject to trading at said price, along with the number of corresponding orders at said volumes are shown. If there is no auction price, the best bid and ask prices are shown, along with the accompanying volumes (and number of orders).

[2] For the Latibex segment, the opening auction lasts for 3 hours (from 8:30am to 11:30am).

[3] See section 9.5.

Diagram of Main Trading Opening Auction



2.2. Open Market

During this period, orders can be entered, altered or cancelled, with trading taking place at the price fixed according to the open market's matching rules[4], generally in accordance with the priority established by price and time of order entry criteria. Trading hours for main trading are from 9am to 5.30pm. For Latibex[5] trading hours are from 11:30am to 5:30pm.

The order book is open and available to all market members (buying and selling member codes are shown).

While the market is open, trades are made. However, this period can temporarily be interrupted if a Volatility Auction[6] arises.

[4] See section 8.2.

[5] Latin American shares listed in euros.

[6] See section 9.

2.3. End of the session (Closing Auction)

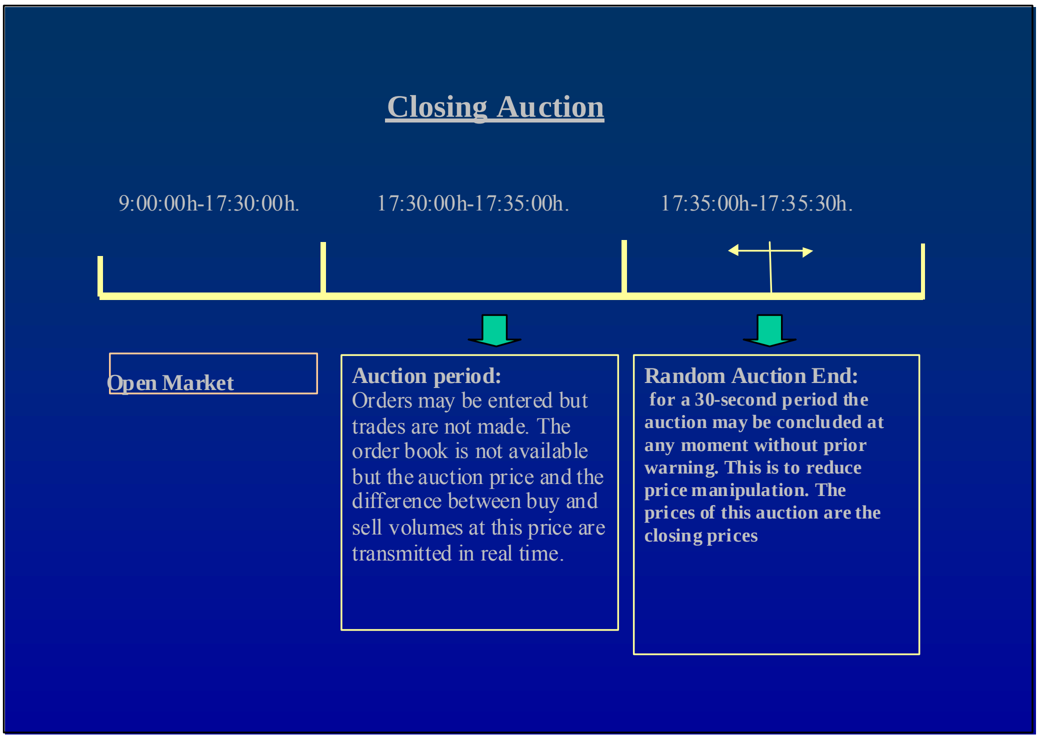
For main trading, the session ends with a 5-minute auction, between 5:30pm and 5:35pm, with the same characteristics as the opening auction and a 30-second random end period. The price resulting from this auction shall be the closing price of the session. If there is no auction price or if fewer than 500 shares are traded during the auction, the closing price shall be the price of the last 500 traded units closest to the weighted average. If two prices have the same difference with respect to this weighted-average price, the price will be the last executed.

If 500 trading units have not been traded, the closing price will be the reference price of the session.

However, on special occasions the closing auction may be extended[7].

The Closing Auction was included on 1 June 2000 to establish a more efficient system of fixing closing prices.

Diagram of Main Trading Closing Auction



[7] See section 9.5.

For the Latibex segment, having specialists and liquidity providers, the session will end without a closing auction at 5:30, with the closing price being the midpoint between the best buy and sell prices, rounded up. If at the close either the buy or sell price is missing, or the resulting closing price is outside the static range, or the instrument is suspended, the closing price will be that of the last traded price of the session. In the case of a failure to meet all of the previous criteria, the closing price will be the reference price of the session.

2.4. Trading of shares on the fixing market

The **Fixing Market** is reserved for certain shares[8], with a system based on auctions. Specifically, there are two auctions:

First auction: From the beginning of the Main Trading opening auction (8:30am) until 12:00pm (with a random 30-second end period).

Second auction: From the end of the allocation period of the first auction until 4:00pm (with a random 30-second end period).

Auctions in this market segment are not extended.

Market to limit orders that do not trade in auctions will remain in the order book as limited orders at the resulting auction price.

The same information as in the Main Trading auctions is transmitted. During this period, orders can be entered, altered and cancelled. Market members receive information on the auction price and, if available, on associated buy and sell volumes (and number of orders) at that price. If there is no auction price, the best buy and sell prices are shown, along with the accompanying volumes (and number of orders). In this type of trading, the size of the order book is not made public.

In any event, these auctions are governed by the same price fixing rules generally applied in all auctions[9].

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[8] Periodically Sociedad de Bolsas, S.A. publish, by an Operating Instruction, the shares which compose the Fixing Market.

The price resulting from the second auction shall be the closing price of the session. If there is no auction price or if fewer than 200 shares are traded during the auction, the closing price shall be the price of the last 200 traded units closest to the weighted-average price. If two prices have the same difference with respect to this weighted-average price, the price will be the last executed.

If 200 units have not been traded, the closing price will be the reference price of the session.

2.5. Block Market

This market is designed to allow members to apply cross opposite-side orders or carry out trades, provided that they meet the volume and price requirements established for gaining access to block trading conditions.

All stocks that trade on the S.I.B. can be traded in the Block Market as well. Trading hours for this market are from 9:00am to 5:30pm[10], and there are two types of blocks:
Agreed Blocks: A +/-1% fluctuation from the mid point of the range between the best buy and sell positions in main trading. The turnover amount of the trade must meet the following conditions in function of the average daily traded turnover of the given stock in the last complete, calendar year:

AVERAGE DAILY TRADED TURNOVER:	MINIMUM AMOUNT:
ADTT < 500.000 €	50.000 €
500.000 € ≤ ADTT < 1.000.000 €	100.000 €
1.000.000 € ≤ ADTT < 25.000.000 €	250.000 €
25.000.000 € ≤ ADTT < 50.000.000 €	400.000 €
ADTT ≥ 50.000.000 €	500.000 €

- *Parametrised Blocks:* Trades are permitted with a maximum divergence from the static price of the share of 15% and with a turnover volume exceeding a minimum of

[9] See section 8.1.

[10] It should be noted that when a share is in a Volatility Auction, no block orders can be executed.

500,000 euro and represents at least 5% of the average daily turnover traded of the stock in question.

2.6. Special Operations Market

This is a market for *Authorised* or *Communicated* operations that must fulfil certain cash and price requirements. The special operations market is open from 5:40pm to 8:00pm. Operations involving the exercise or expiration of futures and options contracts are also entered on this market.

2.7. Trading hours

Though similar, trading hours are not the same for the different markets or trading segments. The following diagram shows full trading hours at present.

3. TYPES OF ORDER

3.1. Basic types of order

- **Market orders:** are orders entered without a specific price limit and which are traded at the best opposite-side price at the time of entry. If the order is not fully executed against the first opposite-side order, it will continue to be executed at as many opposite-side prices as are necessary until it is completed[11].

  These orders can be introduced both in auctions and on the open market. If a market order is not traded during the auction, it remains in the book as a market order.
  If no opposite-side price exists for a market order this is placed on the order book awaiting counterparty.

- **Market to limit orders:** are orders without a price which are limited to the best opposite-side price on the order book. If the share is on the open market and there is no order on the opposite side of the order book, the order is rejected.

  These orders can be introduced during auctions as well. If the market to limit order is not executed or is not fully executed at the end of an auction, it will be limited to the auction price.

  If a market to limit order is introduced when there are only market orders in the opposite side, they will trade at the price of the last trade. If the stock has not traded that session or if this price is outside the static range, the order will take the static price.

  Market to limit orders cannot activate volatility auctions[12].

  Both market and market to limit orders have priority over limit orders.

[11] In case of being in an auction, the order will remain positioned to the best price respecting the time priority of orders.

[12] See section 9 about Volatility auctions.

- **Limit orders** are orders to be executed at their limit price or better. Buy orders are executed at this price or at a lower price on the opposite side of the order book. Sell orders are executed at the limit price or at a higher price on the opposite side of the order book.

  These orders allow:
  - The wish to trade up to/ from a certain price to be expressed.
  - The execution of an order against existing market orders at a price no lower than the limit price with the rest being left on the market at the limit price.

  These orders can be entered both on the open market and during auctions.

  Limit orders are executed at the best opposite-side price on the order book (as long as this price is equal to or better than the price of the limit order being entered). Once on the order book, the limit order is always executed at its limit price (unless it is included in an auction and the auction price is better than the limit price).

  It is not permitted to introduce orders with prices that are above the upper limit of the static range for buy orders, or below the lower limit of the static range for sell orders. On the other hand, it is allowed to introduce orders with prices that are below the upper limit of the static range for buy orders, or above the lower limit of the static range for sell orders.

3.2. Conditions of order execution in Open Market.

Limit, market to limit and market orders can have the following execution conditions:

- **Execute or Eliminate:** this order is executed immediately for the amount possible and the system rejects the rest of the order volume.
- **Minimum volume:** this order, when entered on the market, should execute a specified minimum volume. If this minimum amount is not executed, the order is rejected by the system.

- **Fill or Kill:** this order should be fully executed when entered or be rejected before it is traded. This is a special type of minimum volume order for which this minimum volume is equal to the total volume of the order.

These are immediate execution conditions and cannot be entered at auctions.

Orders with Execute or Eliminate and Fill or Kill conditions cannot activate volatility auctions and will be rejected by the system in such a case. Minimum volume orders can activate volatility auctions if the minimum volume established in the order has been executed before the trigger price at which trading is interrupted due to volatility has been reached.

3.3. Iceberg orders

These allow market participants to enter orders without revealing the full volume to the market. This possibility is especially interesting for large orders. In this way traders can avoid adverse price movements.

When the order is entered, the trader must display part of the order volume (displayed volume unit) which will be a minimum of 250 shares. This displayed volume is included in the order book with the time of entry.

The entry of new displayed volumes of an iceberg order only has priority in terms of price and not in terms of time of entry. Once the displayed volume unit has been traded, another displayed volume unit will appear on the market (see diagram).

If there are a number of different iceberg orders on a share's order book, the displayed volumes are entered on the order book in accordance with price-time of entry priority.

In addition, it is important to point out that iceberg orders take part in auctions at their total volume. Iceberg orders can have the following execution conditions: Execute or Eliminate, Fill or Kill or Minimum Volume.

Diagram showing how the iceberg order works.

In our example, the order book is as follows:

BUY		SELL		
VOLUME	PRICE	PRICE	VOLUME	HIDDEN VOL.
1000	12	**12.5**	**250**	**400**
5000	11.9	12.5	100	

There is an iceberg sell order for 650 shares for which the displayed volume unit has been fixed at 250 shares when entered. This takes first place in the order book because of its time of entry priority (in other words, it was entered before the existing sell order for 100 shares at 12.5). If prices are equal, the order entered previously takes first place.

A buy order for 200 shares at 12.5 is entered (becoming the first-placed buy order).This order appears in red in the order book, so that it can be seen better in the example:

BUY		SELL		
VOLUME	PRICE	PRICE	VOLUME	HIDDEN VOL.
200	**12,5**	**12.5**	**250**	**400**
1000	12	12.5	100	
5000	11.9			

200 shares are matched at 12.5, and the order book will then be as follows:

BUY		SELL		
VOLUME	PRICE	PRICE	VOLUME	HIDDEN VOL.
1000	12	12.5	50	400
5000	11.9	12.5	100	

Only 50 shares are shown because no more shares are displayed until the whole of the displayed volume has been traded (no other displayed volume unit will appear on the market).

Then a buy order for 50 shares at 12.5 is entered (becoming the first-placed buy order). This order appears in red in the order book so that it can be seen better in the example:

BUY		SELL		
VOLUME	PRICE	PRICE	VOLUME	HIDDEN VOL.
50	**12,5**	12.5	50	400
1000	12	12.5	100	
5000	11.9			

50 shares are matched at 12.5, (trading is immediate so it is not possible for the previous

window to be observed in the system) the order book will then appear as follows:

BUY		SELL		
VOLUME	PRICE	PRICE	VOLUME	HIDDEN VOL
1000	12	12.5	100	
5000	11.9	12.5	250	150

A further 250 shares are then displayed (new displayed volume unit), with only 150 remaining hidden, however, the order has lost its time of entry priority as this new displayed volume unit appears on the market taking last place in the order book for 12.5.

A buy order for 350 shares at 12.5 is entered (becoming the first-placed buy order). This order appears in red in the order book so that it can be seen better in the example:

BUY		SELL		
VOLUME	PRICE	PRICE	VOLUME	HIDDEN VOL.
350	12,5	12.5	100	
1000	12	12.5	250	150
5000	11.9			

350 shares are executed at 12.5, the order book will then appear as follows:

BUY		SELL		
VOLUME	PRICE	PRICE	VOLUME	HIDDEN VOL.
1000	12	12.5	150	0
5000	11.9			

A further 150 shares (the rest) have been displayed, leaving no hidden shares.

3.4. Validity of orders according to the stage of the market in which they are entered

The following table shows the orders that can be entered in the market depending on the trading phase.

	OPEN MARKET	AUCTION
TYPE OF ORDER		
Market Order	YES	YES
Market to limit Order	YES	YES
Limit Order	YES	YES
EXECUTION		
Execute or Eliminate	YES	NO
Minimum Volume	YES	NO
Fill or Kill	YES	NO
Iceberg Orders	YES	YES

3.5. Combination of order types

The following table shows the possible combinations of the different types of order which can be entered:

	Market Order	Market to limit Order	Limit Order	Execute or Eliminate	Minimum Volume	Fill or Kill	Iceberg Orders
Market Order	-	NO	NO	YES	YES	YES	YES
Market to limit Order	NO	-	NO	YES	YES	YES	YES
Limit Order	NO	NO	-	YES	YES	YES	YES
Execute or Eliminate	YES	YES	YES	-	NO	NO	YES
Minimum Volume	YES	YES	YES	NO	-	NO	YES
Fill or Kill	YES	YES	YES	NO	NO	-	YES
Iceberg Orders	YES	YES	YES	YES	YES	YES	-

4. ORDER VALIDITY PERIODS

Orders may be valid for the following periods of time:

- Valid for one day: these orders are valid until the end of the session in progress. If not excuted during the session the order or that part of it which has not been executed is automatically eliminated.

- Valid until a specific date: the operator enters a specific date for these orders (at most 90 calendar days). At the close of the session on the date entered by the operator the order or that part of it which has not been executed is automatically eliminated.

- Valid until cancelled: these orders are valid for 90 calendar days after which the order or that part of it which has not been executed is automatically eliminated.

Orders with a validity of more than one day maintain their priority in the System in accordance with their price and time of entry with respect to orders generated during the course of the session.

5. ORDERS MODIFICATION

When an order is introduced, the system will assign it a number of order, which remains invariable during the whole life of it. To every order modification a new number of history will be generated (consecutively to be able to follow the evolution of the order). If the modification of an order has an impact on its priority, a new number of priority will be generated.

6. TICKS SIZES

Trading is carried out in euros with up to four decimal places. Minimum price for a given stock is 0,01 euros.

Tick size on order book applicable to each stock will be determined by the Trading and Surveillance Commission according to market price and liquidity- in the interest of an efficient price formation process - from the options described in the following table:

# Decimal places	Tick Type	Tick size description
1	1	0,1
1	2	P < 50€: 0,1| P >= 50€: 0,5
1	3	0,5
1	4	P <10€:0,1 | 10€ <= P< 50€: 0,5 | 50€ <= P<100€: 1,0 | P>=100€: 5,0
2	1	0,01
2	2	P < 50€: 0,01| P >= 50€: 0,05
2	3	0,05
2	4	P <10€:0,01 | 10€ <= P< 50€: 0,05 | 50€ <= P<100€: 0,1 | P>=100€: 0,5
3	1	0,001
3	2	P < 50€: 0,001| P >= 50€: 0,005
3	3	0,005
3	4	P <10€:0,001 | 10€ <= P< 50€: 0,005 | 50€ <= P<100€: 0,01 | P>=100€: 0,05

Tick size on order book applicable to each stock will be communicated to the market by means of an Operating Instruction.

In Block market and Special Operations trading, any price is admitted (expressed in four whole numbers and four decimal places).

7. MARKET MEMBERS' EXECUTION CAPABILITY

As regards market members' execution capability, we can distinguish between third party and proprietary orders.

- Third party orders.
- Proprietary orders.

In all cases, the market member who entered the order is responsible for this.

8. BASIC TRADING RULES

8.1. Auctions. General rules for fixing the auction price

There are four rules for fixing the auction price:

1) The price at which the largest volume of shares is executed.

2) If there are two or more prices at which the same number of shares can be executed, the auction price shall be that which leaves the smallest surplus. The surplus is the difference between bid and ask volumes susceptible of being negotiated at the same price.

3) If the two conditions stipulated above are the same, the price of the side with the larger volume (larger weight) shall be taken.

4) If the three conditions stipulated above are the same, the price which is closest to the last executed price shall be taken. If this price is within the range of potential auction prices (upper and lower limit), the last executed price is taken. If there is no last executed price or this is outside the range of static range prices, the price shall be the last static price (see section on Volatility Auctions and Price Ranges).

8.2. Open Market. Basic Trading Rules

Several basic criteria govern open market trading:

- *Price-time priority of orders:* orders with the best price (highest buy and lowest sell) have priority in the book. When prices are the same, those orders entered first have priority.

- *Best opposite side price:* orders entered on the system are executed at the best opposite side price. In other words, a buy order which can be executed will be executed at the price/s of the first order/s on the sell side of the order book. Equally, a sell order entered in the system which can be executed at that moment will be executed at the price/s of the first order/s on the buy side of the order book.

Orders may be fully executed (in one or several executions), partly executed or not executed. Accordingly, each new order can generate several trades.

We outline below the specific open market trading rules and examples of their application (trades made):

Rule 1.

If a limit or market order entered in the system finds an opposite-side limit order, the order which is in the book determines the trading price. The non-executed part is executed at the price of the next limit order.

Rule 2.

If a market order is entered and on the opposite side there are only market orders, the trade will take place at the price of the last execution. If there is no last price or this is outside the static price range the last price will be the static price.

If the order is not fully executed, the non-executed part will be placed in the book as a market order.

Example 1:

The diagram shows the state of the book and the characteristics of an order which has been entered.

Last Price: 100.00

BUY		SELL	
VOLUME	PRICE	PRICE	VOLUME
1000	MO		

Market Order for 500 securities

In this case, 500 shares are traded at a price of 100.00€, and the resulting order book is:

BUY		SELL	
VOLUME	PRICE	PRICE	VOLUME
500	MO		

Example 2:

The diagram shows the state of the order book and the characteristics of an order which has been entered

Last Price: 100.00

BUY		SELL	
VOLUME	PRICE	PRICE	VOLUME
1000	MO		

Market Order for 1,500 securities

1,000 shares are traded at a price of 100.00€, and the order book is as follows:

BUY		SELL	
VOLUME	PRICE	PRICE	VOLUME
		MO	500

Rule 3.

-If a market order is entered and on the opposite side of the book there are market and limit orders, the trade will take place at the last price or at the best limit order price.

Example 1:

The diagram shows the state of the order book and the characteristics of an order which has been entered.

Last Price: 100.00

BUY		SELL	
VOLUME	PRICE	PRICE	VOLUME
1000	MO	Market Order for 1,600 securities	
500	101,00		
200	99,00		

In this example, the following trades are made:

-1,000 shares at 101.00€

-500 shares at 101.00€

-100 shares at 99.00€

And the order book after the trades would be:

BUY		SELL	
VOLUME	PRICE	PRICE	VOLUME
100	99,00		

If a limit order is entered and on the other side of the book there are only market orders the trade will take place at the last price or at the limit order price if this is better.

Example 2:

The diagram shows the state of the order book and the characteristics of an order which has been entered.

Last Price 100,00

BUY		SELL	
VOLUME	PRICE	PRICE	VOLUME
1000	MO		

Limit Order for 100 securities at 99.00

100 shares are executed at €100.00, and the order book will then be as follows:

BUY		SELL	
VOLUME	PRICE	PRICE	VOLUME
900	MO		

Example 3:

The diagram shows the state of the order book and the characteristics of an order which has been entered.

Last Price 100,00

BUY		SELL	
VOLUME	PRICE	PRICE	VOLUME
1000	MO		

Limit Order for 100 Securities at 103.00

100 shares are executed at €103.00, and the order book will then be as follows:

BUY		**SELL**	
VOLUME	**PRICE**	**PRICE**	**VOLUME**
900	MO		

- If a limit order is entered and on the other side of the book there are market and limit orders the trade will take place at the last price or at the best limit order price for the volume available at this price. The rest will be traded at the next best price.

Example 4:

The diagram shows the state of the order book and the characteristics of an order which has been entered.

Last Price 100,00

BUY		**SELL**	
VOLUME	**PRICE**	**PRICE**	**VOLUME**
1000	MO		
500	101,00		
200	99,00		

Limit Order for 1,600 securities at 99.00

In this example, the following trades are made:

-1,000 shares at €101.00.

-500 shares at €101.00.

-100 shares at €99.00.

And the order book is as follows:

BUY		**SELL**	
VOLUME	**PRICE**	**PRICE**	**VOLUME**
100	99,00		

Example 4.B

The diagram shows the state of the order book and the characteristics of an order which has been entered.

Last Price 100,00

BUY		SELL	
VOLUME	PRICE	PRICE	VOLUME
1000	MO		
500	99,00		
200	98,00		

Limited order for 1600 securities at 99,00

In this example, the following trades are made:

-1,000 shares at €100.00.

-500 shares at €99.00.

And the order book is as follows:

BUY		SELL	
VOLUME	PRICE	PRICE	VOLUME
200	98,00	99,00	100

In the three cases envisaged by rule 3, if there is no last executed price or this is outside the range of static range prices, the last price shall be the static price.

Rule 4:

- If a market to limit order is introduced and on the other side of the book there are market and limit orders, the introduced order will take either the price of the best opposite-side limit order, or the last traded price, whichever is better.

Example 1:

The diagram shows the state of the order book and the characteristics of an order which has been entered.

Last Price 100,00

BUY		SELL	
VOLUME	PRICE	PRICE	VOLUME
1000	MO		
500	101,00		
200	99,00		

Market to Limit Order for 1,600 securities

In this example, the following trades are made:

-1,000 shares at €101.00.

-500 shares at €101.00.

And the order book is as follows:

BUY		SELL	
VOLUME	PRICE	PRICE	VOLUME
200	99,00	101,00	100

9. VOLATILITY AUCTIONS AND PRICE RANGES

9.1. Volatility Auctions

Volatility Auctions last five minutes, plus a 30-second random end, during which the auction may close at any moment without prior warning and the shares allocation process begin (trades made at the resulting auction price). It should be stressed that Volatility Auctions are *never* extended; the only auctions that may be extended are opening and closing auctions[14].

Volatility Auctions take place when the static or the dynamic price range is breached.

[14] It is however possible for a share to remain under auction once the Volatility Auction is over (i.e. if the Opening Auction has been extended). This is the case if, at the time of the allocation and following the five minute auction and random end, market conditions are such that the volume of market orders, plus market to limit orders, is higher than the volume of opposite-side orders which may be allocated. In such situations, the system does not carry out the share allocation and, in these exceptional cases, the share remains under auction, leaving the allocation decision in the hands of the Trading and Control Committee, which (via the Supervision Department) will make the decision to go ahead with the allocation, provided that the situation is corrected. If the closing auction is extended, the system will carry out the allocation process automatically after the close of the two-minute extension period.

9.2. Static and dynamic ranges

Static and dynamic ranges are calculated on the basis of the most recent historical volatility of each share. Each share has a unique static and dynamic range, reflecting its specific characteristics and in line with its most recent performance. These ranges are publicly available[15] and are updated on a regular basis, so ensuring that they accurately reflect the characteristics of the share at any given moment.

- **Static ranges**: The static range defines the maximum permitted variation around the static price (in either direction) and is expressed as a percentage. The static price is the price fixed at the last auction (the auction allocation price)[16]. The static range remains in force throughout the entire session.

  A number of standardised categories for possible static ranges have been set. These are as follows: 4%, 5%, 6%, 7% and 8%.

- **Dynamic ranges:** The dynamic range defines the maximum permitted variation around the dynamic price (in either direction) and is expressed as a percentage. The dynamic price is the price fixed in the last trade, and may be the result either of an auction (in which case it will be the same as the static price) or of a trade made on the open market.

  A number of standardised categories for possible dynamic ranges have been set. These are as follows: 1%, 1.5%, 2%, 2.5%, 3%, 3.5%, 4% and 8%. The dynamic range remains in force only while the market is open and during the closing auction.

However, although standard market practice will be to apply these ranges, in exceptional circumstances the Trading and Control Committee may adjust the range set for a certain share or segment, or, where applicable and when prevailing market conditions so require, for the whole of the market.

It should be noted that dynamic ranges are, by definition, less than or equal to static ranges.

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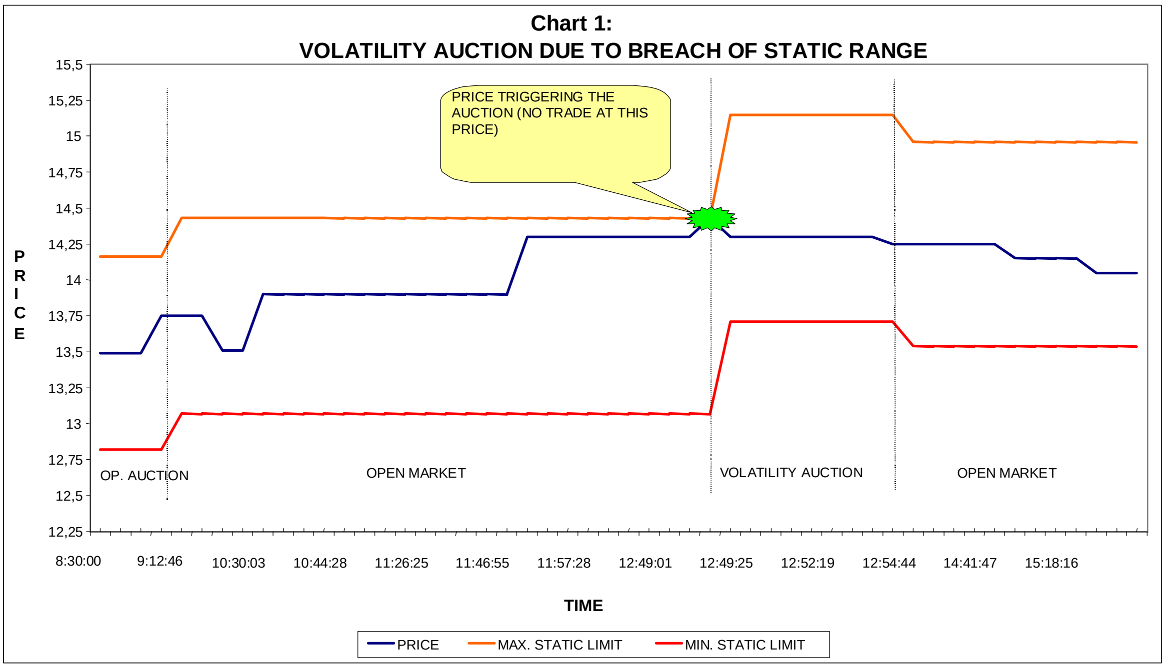
[15] The ranges in force in each period are published in Operating Instructions from Sociedad de Bolsas.

[16] The static price at 8.30 a m. is the reference price.

9.3. Volatility auctions *due to breach of static range*

Volatility Auctions due to breaches of the static range are triggered when a trade in a stock is tried either at the upper or lower limit of the static price range (maximum variation in either direction in the static price).

By way of ***example***, we offer the following illustration, which uses real data and is plotted in Chart 1, showing movement in the share in question throughout most of the session. This chart plots both *trading prices* on the open market and the (non-traded) indicative price during auction. The static range of this share is 5%. As the chart shows, a Volatility Auction is triggered when the price reaches a level (static price +5%) which causes an upswing in volatility. It should be noted that during this auction period, the static price is the trigger price of the auction, since, because if it were not as this, the share could not continue fluctuating in the breaking point direction (on the upside). In the example given here, movement during the Volatility Auction is as follows: during the five minutes of the auction, the trigger price was perceived to be too high by all market participants, since in the Volatility Auction shares were allocated at a lower price. This new static price, which is higher than the previous one, causes a movement toward the top end of the static limits.



Source: Sociedad de Bolsas, S.A.

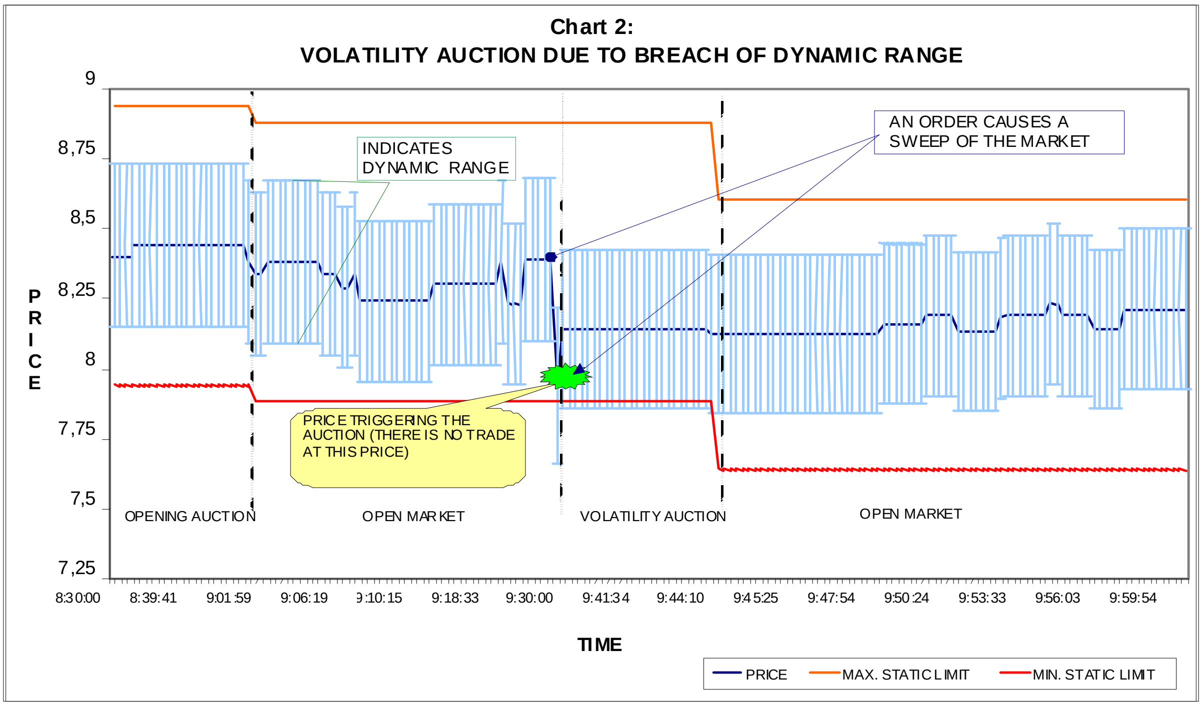
9.4. Volatility auctions *due to breach of dynamic range*

Volatility Auctions due to breaches of the dynamic range are triggered when a trade in a stock is tried either at or out the upper or lower limit of the *dynamic price range* (maximum variation in the dynamic price in either direction[18]).

As an ***example*** of a Volatility Auction triggered by a breach of the dynamic range, Chart 2 plots the performance of a share (using real data) in the first hour and mid way through the trading session. This chart plots both *trading prices* on the open market and (non-traded) *auction prices*. The static range of the share is 6% and the dynamic range 3.5%. The trigger price initiating the Volatility Auction due to breach of the dynamic range was, in fact, a price at which the market was going to trade. Therefore, trading continued until the price of the share threatened to breach the dynamic price range on the downside (dynamic price -3.5%). In this case, during the five minutes of the auction, the trigger price was perceived as too low by all market participants and

[17] The dynamic price is last price traded at any given moment (whether resulting from an allocation carried out in an auction, or simply, resulting from the last trade).

was corrected in the auction, when the shares were allocated at a higher price. This new static price is lower than the previous one, causes a movement toward the lower end of the static limits.



Source: Sociedad de Bolsas, S.A.

9.5. Extensions of the opening and closing auctions

Both the opening and closing auctions may be extended. These extensions last for two minutes plus a 30-second random end period. As mentioned above, Volatility Auctions are ***never*** extended.

Before detailing how and why auction extensions come about, we propose to look at a potential scenario in which, due to a breach of either the static or dynamic range a Volatility Auction is triggered less than five minutes before the start of a closing auction. In such cases, the Volatility Auction overlaps with the general closing auction.

Why and when is the opening auction for a given share (or group of shares) extended? If the price resulting from the opening auction is on the limits of the static range, the opening auction for the share in question is extended (by two minutes plus the random end).

Why and when is the closing auction for a given share (or group of shares) extended? If the price resulting from the closing auction is on the limits of the static range, or on the limits of or outside the dynamic range, the closing auction for the share in question is extended (by two minutes plus the random end).

10. MARKET SPECIALISTS

Specialists have been assigned to some shares (mainly those included in the Latibex[20]), to provide liquidity for those for which they are responsible.

Market members may request that the Market Trading and Control Committee register commitments assumed with the issuers of shares traded in the market in respect of which they are responsible for promoting market liquidity. Accordingly, market members who have registered a liquidity commitment shall be considered specialists and shall be required to comply with certain market parameters (mainly spread and volume parameters) and prerequisites at all times. These parameters will differ depending on whether the share is the subject of an auction or is trading on the open market.

The Supervision Department is responsible for ensuring that specialists comply with the contractual commitments assumed at all times.

11. INFORMATION DISSEMINATION

S.I.B. includes a specialised information dissemination system, designed to distribute detailed information on how the market is performing—both in terms of trades actually being carried out on the market and the system's order book—in real time. The aim of this is to provide a service giving a true reflection of market transparency.

This flow of information provides all entities connected to the system with real time information on each trade carried out on the market, any change in the IBEX® indices and the status of the order book throughout the session.

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[18] Remember that the dynamic range also applies in the closing auction.

[19] Extensions to closing auctions always end with an allocation, regardless of whether market conditions are such that the volume of market orders, plus market to limit orders, is higher than the volume of opposite-side orders that may be allocated. However, if such conditions arise during an extension to an opening auction, the share remains under auction, leaving the allocation decision in the hands of the Trading and Control Committee, which (via the Supervision Department) will make the decision to go ahead with the allocation, provided that the situation is corrected.

[20] Core regulations pertaining to specialists contained in Circular nº 3/2000 and Operating Instruction nº 1/2001 of the Mercado de Valores Latinoamericanos.

The following contents are available:

- *Trades:* a message is issued each time a trade is carried out. The message details the price, volume and counterparties of the trade.

- *Order book (Market by prices):* a message is issued each time there is a change in the five (5) or twenty (20) best buy and/or sell positions.

- *Index information:* messages with information pertaining to all IBEX® indices are issued.