

# Stock lending

## *Lima Stock Exchange*

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## **Definitions:**

- Stock lending is a temporary transfer of securities: spot transaction (leg 1) + future transaction (leg 2).
- It is only used to cover short sales<sup>1</sup> and avoid fail trades.
- Lender: the original owner of the lendable securities.  
Borrower: the requestor of the lendable securities.
- The ownership of the securities is transferred from the lender to the borrower.
- The economic rights remain with the lender and the political rights are transferred to the borrower.
- It can be done with equities that belong to the List of Reference Values (TVR, Tabla de Valores Referenciales) 1, 2 and 3.
- In exchange for the lent securities, the borrower provides collateral to the lender.
- The Peruvian clearing house (CAVALI) is in charge of the daily mark to market and requests replacement of guarantees to the borrower if necessary.

## **Most important changes:**

- Pension funds can participate in securities lending, as lenders.
- Loan Purpose : cover operations pending settlement , securities lent are not freely available .
- Collateral constitution:
  - Main guarantee (100%): equities, fixed income and cash.
  - Additional guarantee (20%): equities, fixed income, cash and letters of guarantee.
- Early settlement: the deadline for asking an early settlement was removed.
- Extraordinary situations and delivery of benefits: the operation is settled in advance when there is an extraordinary situation or a preferential subscription on the lent security.

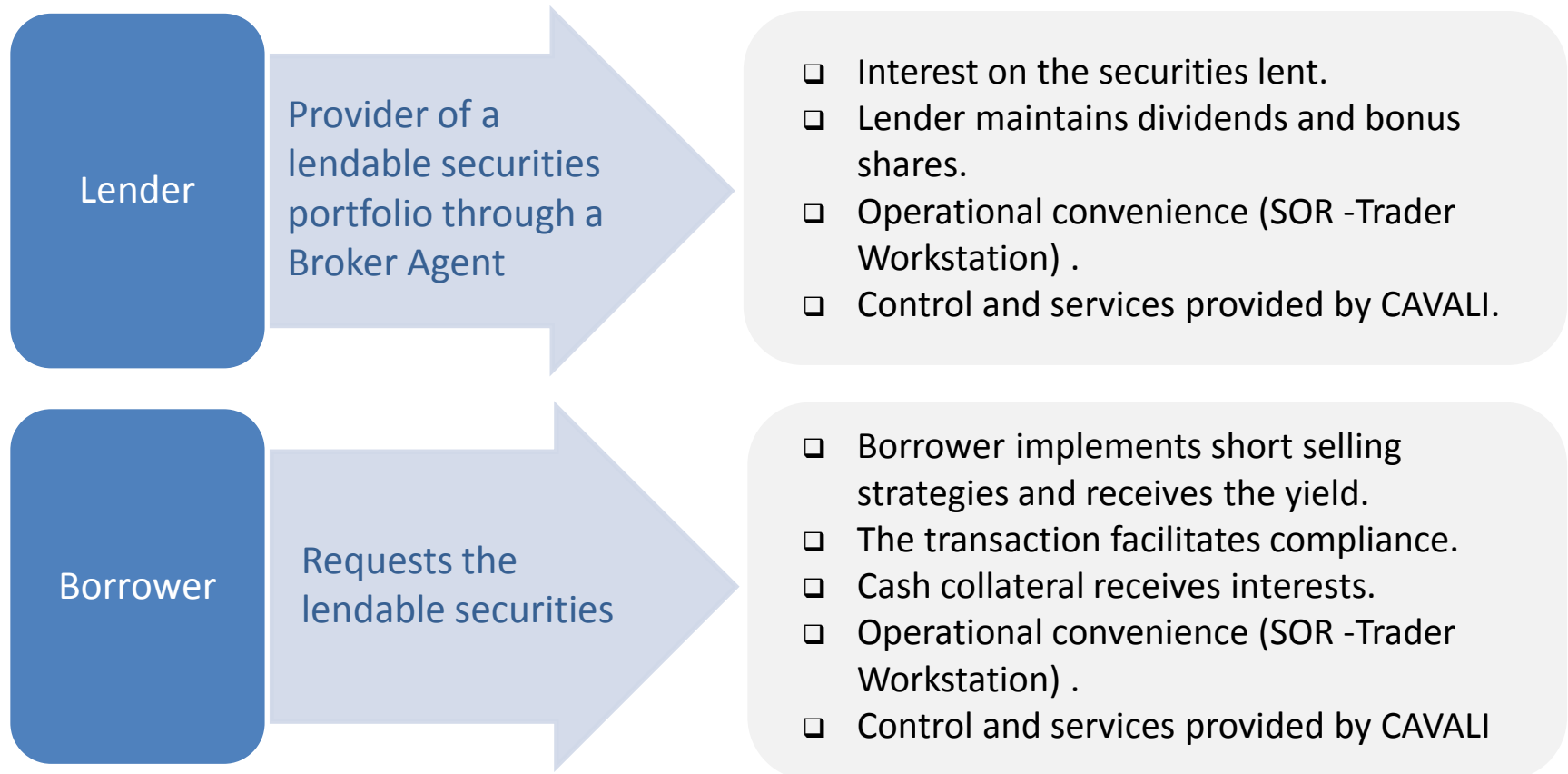
<sup>1</sup> Short sales can be traded only with shares and securities representing rights to shares that belong to the Lists 1 and 2 of the Table of Reference Values.

## 2. Advantages of the securities lending model

- Tax efficient model, only if it is through the Lima Stock Exchange (BVL for its acronym in Spanish)
- Stock market transaction regulated by rules of the BVL (not mutual).
- Regulatory clarity facing the existence of corporate events.
- CAVALI classifies guarantees by borrower and by operation.
- Intangible guarantees in CAVALI, according to the Stock Market Law.
- The lender chooses the counterparties (maximum of 5).
- The brokers are the counterparties and responsible for the transaction.

### 3. Economic rationality

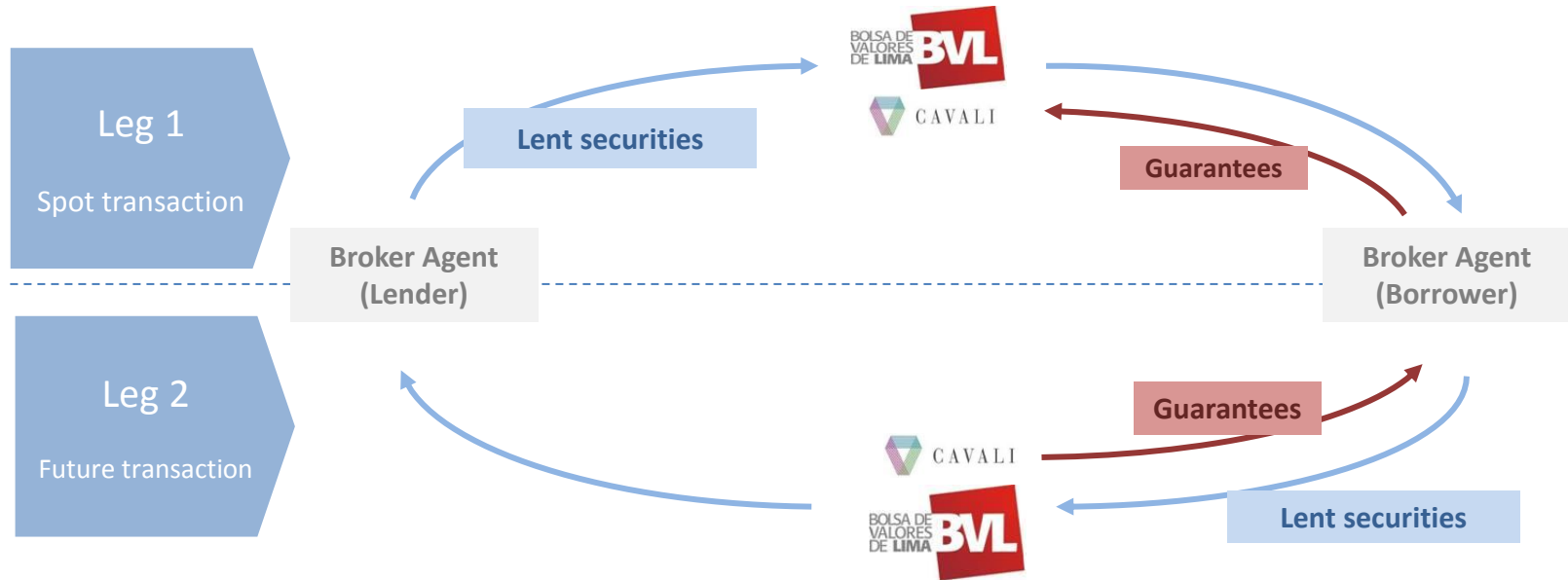
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**The market will have a dynamic performance, hence, more liquidity of the Peruvian stock market**

# 4. Procedure

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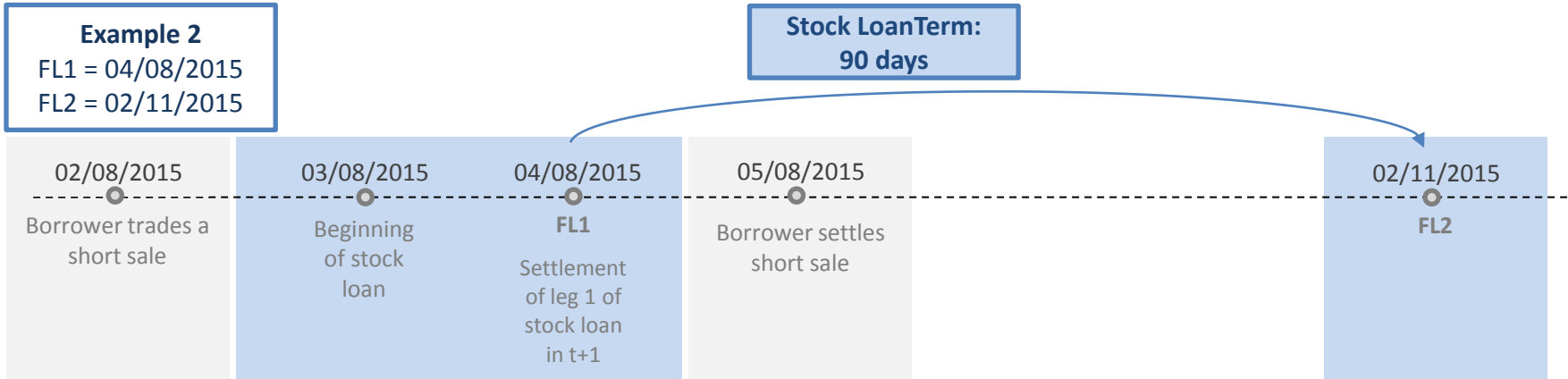
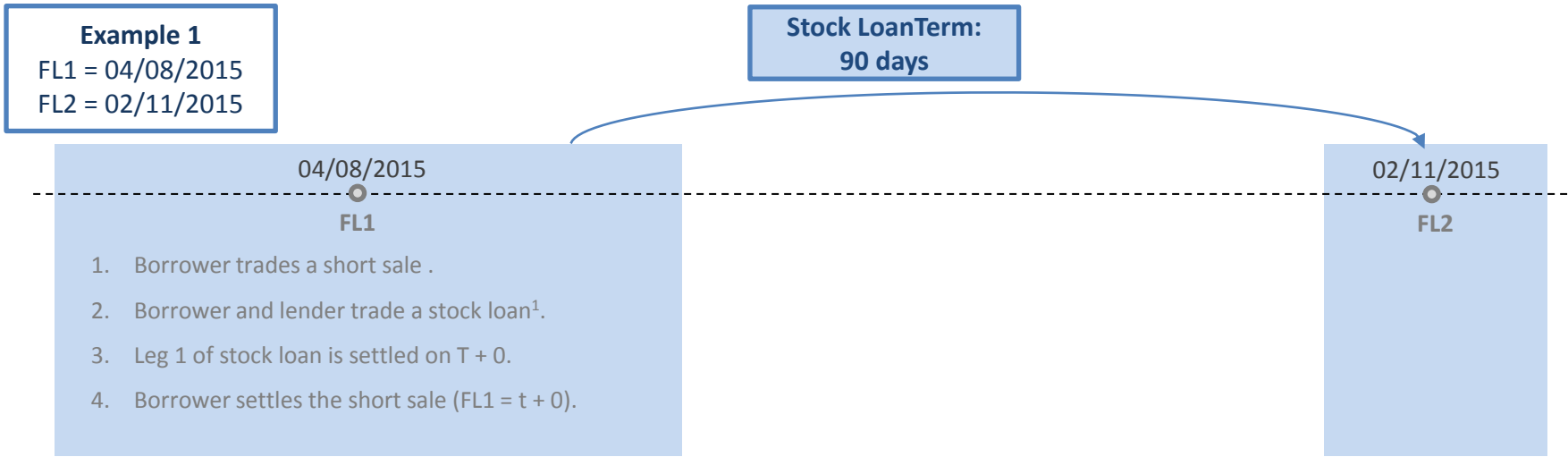


**Lent securities:** Spot amount = Spot price x Amount negotiated

**Guarantees:** Main guarantee + Additional guarantee >= Hedge amount

# 4. Procedure: Example with a short sale

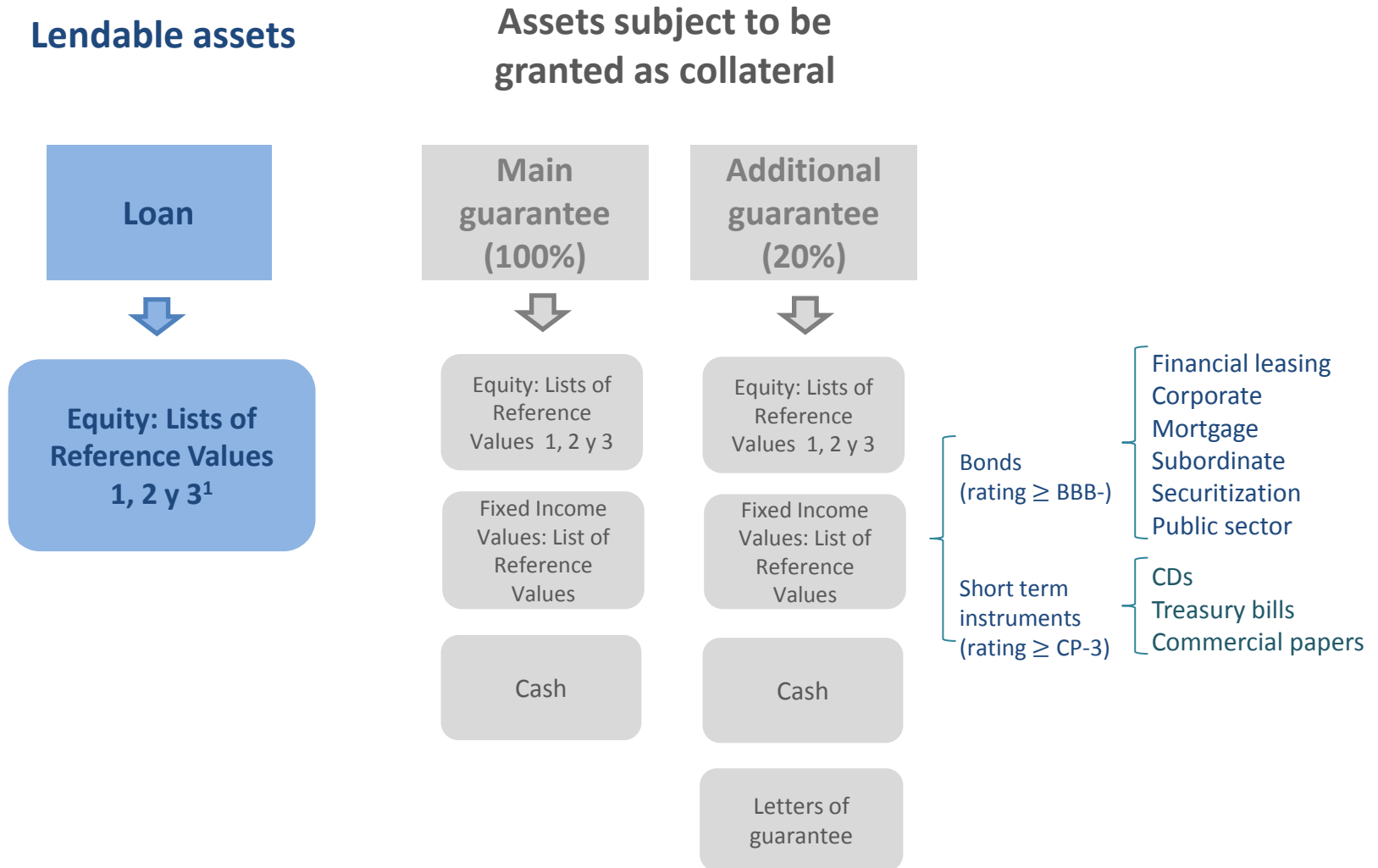
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<sup>1</sup> Before making a short sale, the broker agent should have traded or have orders for a stock loan at a market value rate and with a settlement date until the settlement of the short sale, or have orders to make a purchase of securities in the spot market at a market price. This operation must be intended to cover the short sale.

# 5. Assets allowed in the operation

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<sup>1</sup> Uncovered sales may be made only with securities from the Lists of Reference Values 1 and 2.



### According to the Operations Rules of Lima Stock Exchange

**By security:** up to 20 % of all registered shares in book-entry form of CAVALI . As to foreign securities, it is considered 20% of the total issue registered in the trading mechanism.

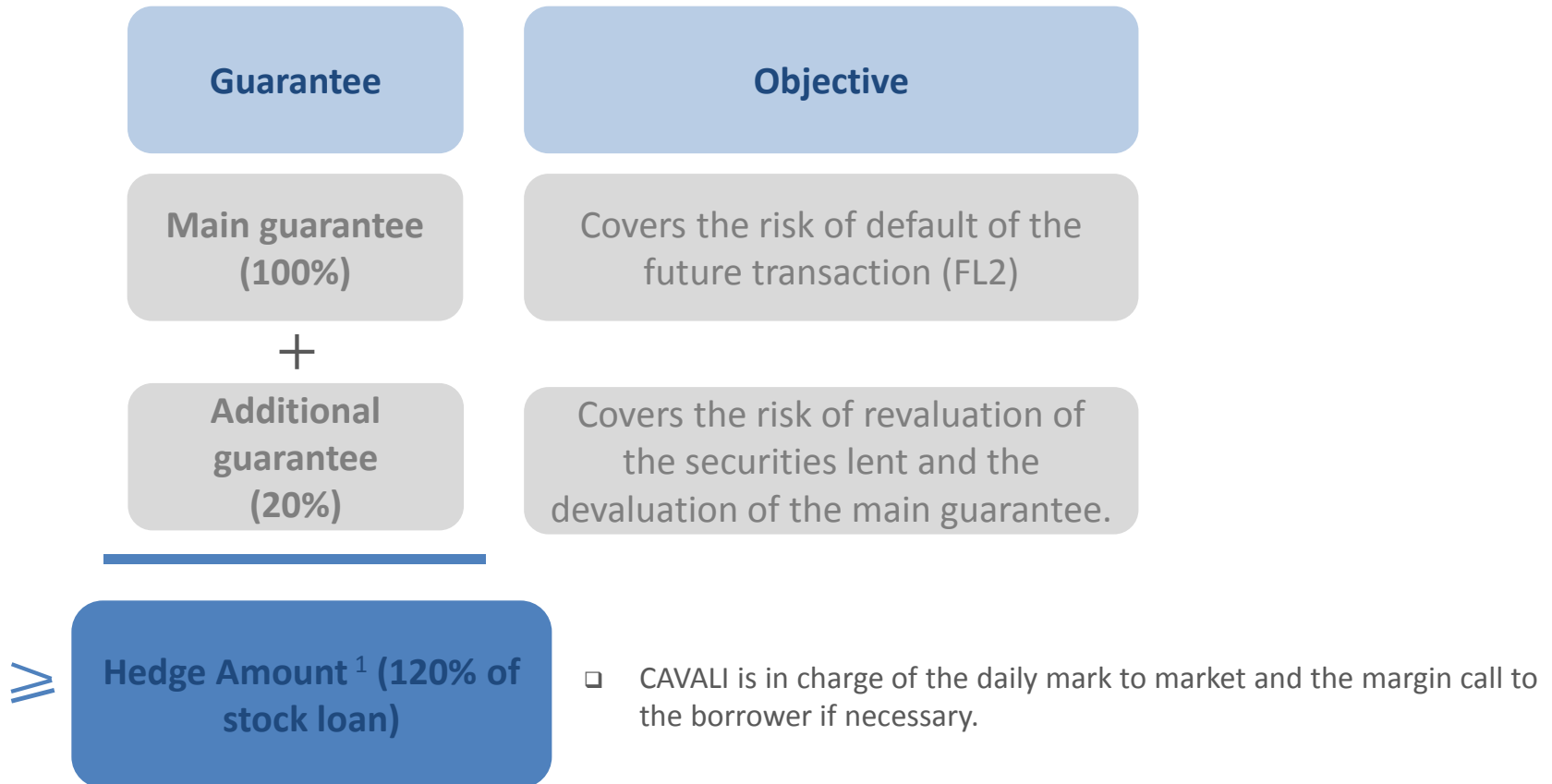
**By intermediary:** up to 50% of the limit set by security.

### According to Title VI of Investments of the Compendium of Regulatory Standards

Up to 30% of the value of each category of fund.

**Important:** the 20% limit by security considers both the securities lending transaction and the repo transactions.

## 7. Guarantee: amounts and objective



<sup>1</sup>Hedge amount: Sum of the percentages determined for the main and additional guarantee = 120%.

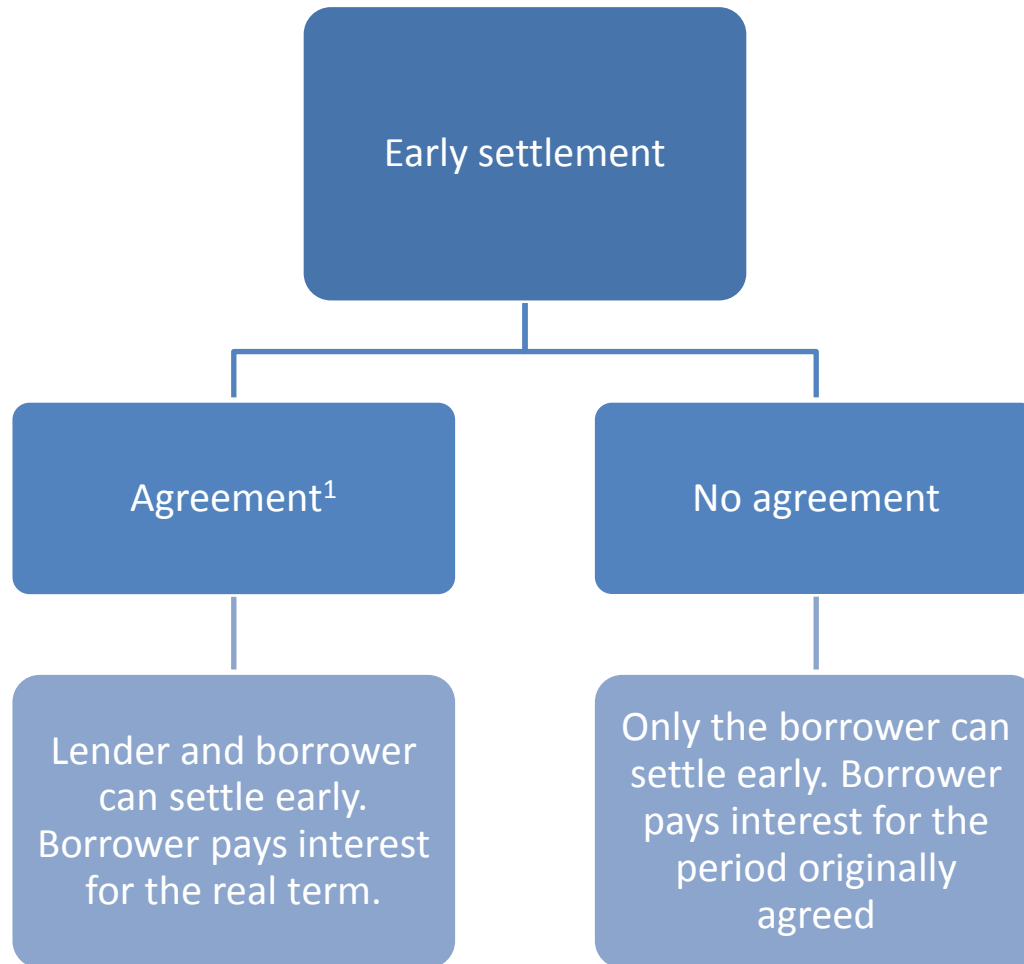
# 7. Guarantee's management

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Guarantees	Main	Additional
Equities	Transferred and blocked in the lender's account in CAVALI	Blocked in the borrower's account in CAVALI, in favor of the lender.
Fixed Income	Transferred and blocked in the lender's account in CAVALI	Blocked in the borrower's account in CAVALI, in favor of the lender.
Cash	Blocked in a bank account in the name of CAVALI, in favor of the lender. The interests generated in the bank account belong to the borrower.	Blocked in a bank account in the name of CAVALI, in favor of the lender. The interests generated in the bank account belong to the borrower.
Letters of guarantee		Issued in the name of CAVALI

# 8. Corporate events and extraordinary situations

		Lent securities	Main guarantee	Additional guarantee
Delivery of benefits	Bonus shares	<input type="checkbox"/> Lender retains the economic right . Borrower will return a compensation for the benefit to the lender.	<input type="checkbox"/> They are recorded as guarantee from date of delivery of the benefit.	<input type="checkbox"/> They are recorded as guarantee from date of delivery of the benefit.
	Cash dividends			
	Subscription right	<input type="checkbox"/> Early settlement.	<input type="checkbox"/> Early settlement <input type="checkbox"/> Max. Punishment TVR + 10%.	<input type="checkbox"/> Max. Punishment TVR + 10%.
	Interests/Partial redemption of debt			
Extraordinary situations	Change in nominal value	<input type="checkbox"/> Early settlement.	<input type="checkbox"/> Early settlement <input type="checkbox"/> Max. Punishment TVR + 10%.	<input type="checkbox"/> Max. Punishment TVR + 10%.
	Change in the securities amount			
	Public offers			
Political rights		<input type="checkbox"/> According to Law 30052 Operations Report , political rights are transferred to the borrower.		

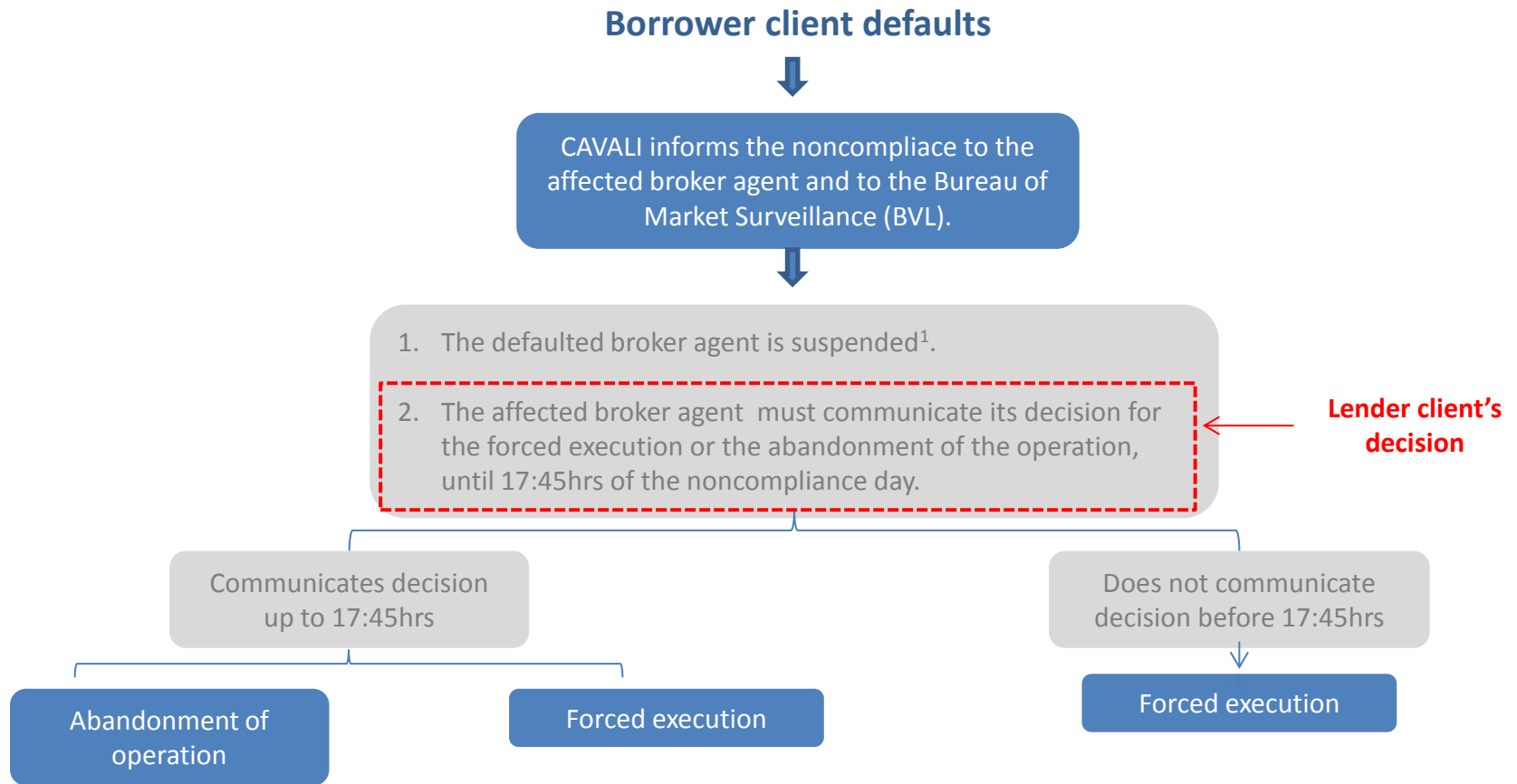


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<sup>1</sup> In the trading system screen, the checkbox for early settlement is checked by default.

# 10. Default in the settlement date

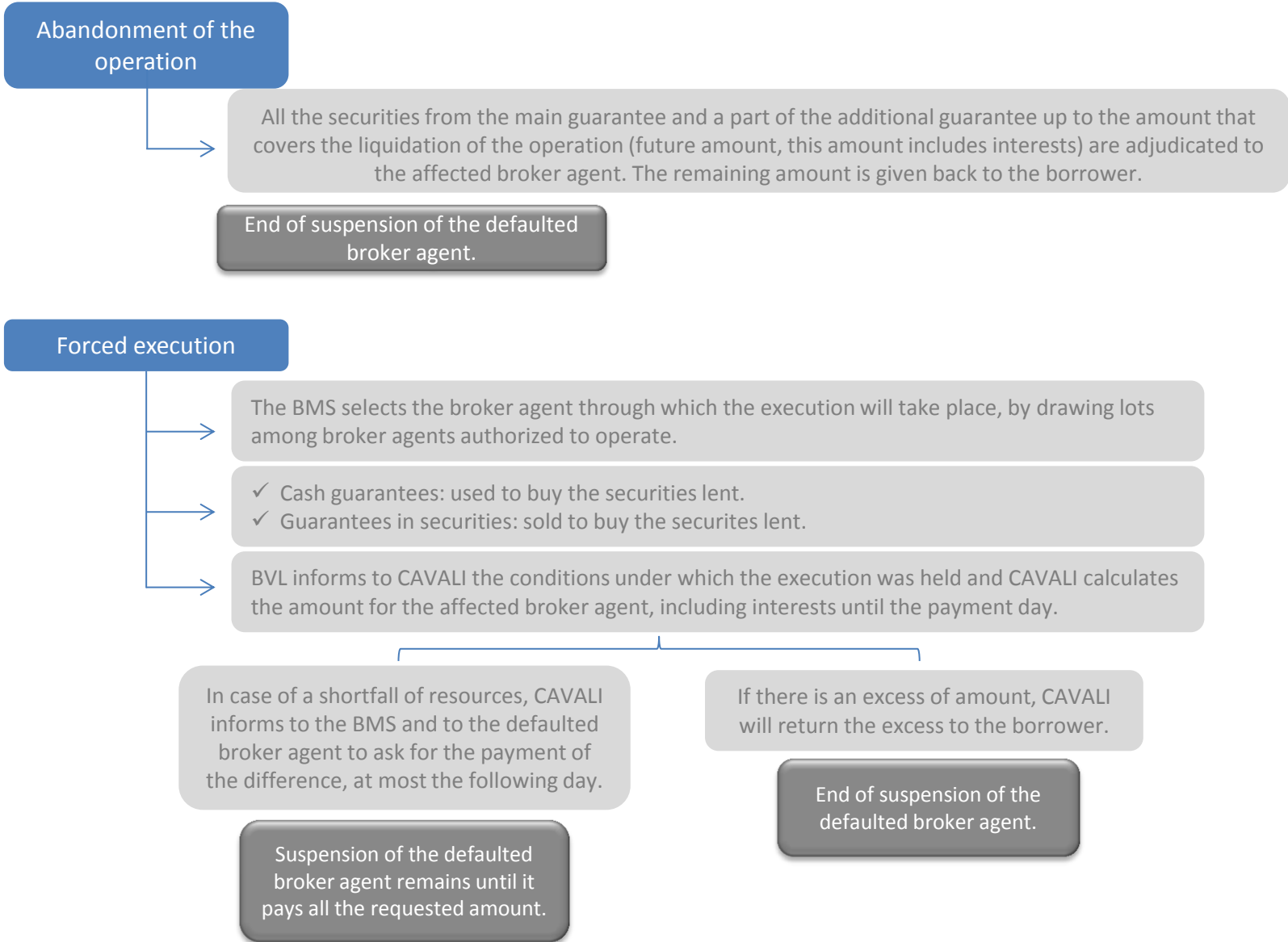
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1 Note that the punishment is a suspension to participate in negotiation and that this does not release it from the obligation to comply with the liquidations of all pending operations.

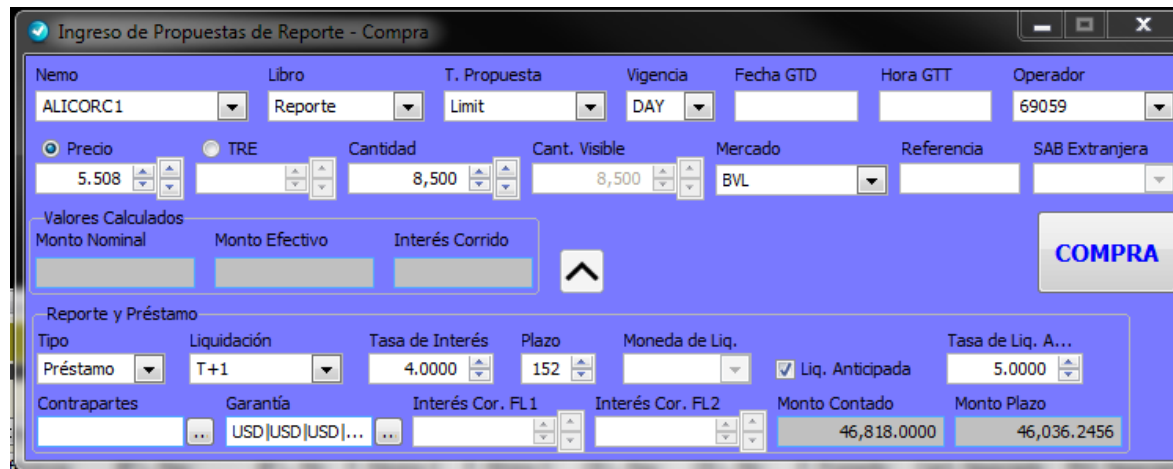
# 10. Default in the settlement date

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# 11. Proposal: SOR-Trader Workstation

In order to put a proposal in the trading system, the screen is the following:



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- Nemo: a value of the list 1, 2 and 3 of the TVR.
  - The menu offers all the equity values, it is necessary to know the list where each one belongs.
  - Here one selects the currency
- Libro: Select the book "Reporte" that includes securities lending.
- T. Propuesta: Select Limit.
- Vigencia: Select DAY.
- Tipo: Select Préstamo
- Precio: The reference price for securities lending appears automatically, and it can be modified by the higher or equal reference price.
- Cantidad: Put the number of values..
- Liquidación: If it is desired a liquidation for the first leg in t+0 or t+1
- Tasa de interés: interest rate
- Plazo: maximum term is 360 days. It must be a trading business day, otherwise, the proposal will be rejected.
- Checkbox Liq. Anticipada: it is selected by default. A value for the additional rate must be put, min 0.001%, otherwise the proposal will be rejected.
- Contrapartes: it is optional to select the counterparties, up to five.
- Garantías: put the guarantees



### Fee's exemption for operations of stock lending BVL and CAVALI until July 31st 2016 and SMV until December 31st 2016

Institution	Previous fees		Current fees	
	Spot transaction (first sale)	Future transaction (second sale)	Spot transaction (first sale)	Future transaction (second sale)
CAVALI	0.016% <sup>1</sup>	0.008% <sup>2</sup>	0.000%	0.000%
BVL	0.012% <sup>1</sup>	0.006% <sup>2</sup>	0.000%	0.000%
SMV	0.005%	0.005%	0.000%	0.000%
Guarantee fund	0.000%	0.000%	0.000%	0.000%
<b>Total<sup>3</sup></b>	<b>0.0330%</b>	<b>0.0190%</b>	<b>0.0000%</b>	<b>0.0000%</b>
<b>Total + VAT<sup>4</sup></b>	<b>0.0380%</b>	<b>0.0215%</b>	<b>0.0000%</b>	<b>0.0000%</b>

1 Applied on transactions greater than or equal to 30 days. For shorter periods the equivalent rate is applied.

2 Applied on transactions of 30 days. For greater or shorter periods the equivalent rate is applied.

3 Does not include broker's fee.

4 VAT does not apply for SMV's fee.

# Annex

# 13.1 Annex: Table of reference values for equities

Current list from April 1st, 2016

**TABLA DE VALORES REFERENCIALES - OPERACIONES DE REPORTE CON RENTA VARIABLE  
vigente a partir del 1 de Abril de 2016**

**ACCIONES DE CAPITAL**

LISTA 1			al 50% del valor del mercado
	ALICORC1	IFS	VOLCABC1
	BAP	MILPOC1	
LISTA 2			al 40% del valor del mercado
	ATACOBC1	CVERDEC1	LUSURC1
	BVN	FERREYC1	RELAPAC1
	CONTINC1	GRAMONC1	
	CPACASC1	INRETC1	
También se consideran en la Lista 2 los valores que cuenten con un Formador de Mercado: HBM			
LISTA 3			al 20% del valor del mercado
	BROCALC1	EDELNOC1	TEF
	CASAGRC1	ENGIEC1	TELEFBC1
	CORAREC1	SCCO	TV
	CREDITC1	SCOTIAC1	UNACEMC1
	EDEGELC1	SIDERC1	

**ACCIONES DE INVERSION**

LISTA 1			al 50% del valor del mercado
	MINSURI1		
LISTA 2			al 40% del valor del mercado
	CORAREI1		
LISTA 3			al 15% del valor del mercado
	BACKUSH1	CPACASI1	

Source: <http://www.bvl.com.pe/estadist/Nuevatvr.pdf>

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# 13.2 Annex: Table of reference values for fixed income

## Current list from monthly report of April 2016

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Bonds															
Corporate (185)															
AH20L18C1U	AA+	BRIP3BC3A	A+	CRED4BC10C	AAA	EDEL4BC13A	AAA	ENGIE1BC1U	AAA	LUSUR2BC3U	AAA	REP2BC15A	AAA	SCOTI2BC5B	AAA
AH20L18C2U	AA+	BRIP4BC1A	A+	CREDI2BC3A	AAA	EDEL4BC15A	AAA	ENGIE1BC2U	AAA	LUSUR2BC4U	AAA	REP2BC17A	AAA	SCOTI2BC9A	AAA
AICP18C1U	AA+	BRIP4BC1B	A+	CREDI2BC3B	AAA	EDEL4BC1A	AAA	ENGIE1BC3U	AAA	LUSUR2BC5U	AAA	REP2BC20A	AAA	SCOTI2BC9B	AAA
AKALP18C1U	AAA	CINEP18C1A	AA-	CREDI4BC9A	AAA	EDEL4BC1B	AAA	ENGIE1BC4A	AAA	LUSUR2BC6U	AAA	REP2BC4A	AAA	SCOTI2BC9C	AAA
ALICO3BC1A	AAA	CIUDA18C1A	pA-	CSCOT18C4A	AAA	EDEL4BC4A	AAA	ENGIE1BC6A	AAA	LUSUR2BC7U	AAA	REP3BC1A	AAA	TELE4BC12A	AAA
ALICO3BC2A	AAA	COF3DBC10A	AAA	CTO18C1U	AAA	EDEL4BC5A	AAA	ENGIE1BC7A	AAA	LUSUR2BC8U	AAA	REP3BC1B	AAA	TELE4BC19A	AAA
ALICO3BC3A	AAA	COF3DBC11A	AAA	CTO18C2U	AAA	EDEL4BC9A	AAA	FALAB18C1A	AA+	LUSUR2BC9U	AAA	REP3BC3A	AAA	TELE4BC19B	AAA
ALICO3BC4A	AAA	COF3DBC9A	AAA	CTO18C3U	AAA	EDELSBC10A	AAA	FMV18C1A	AAA	LUSUR3BC1A	AAA	REP3BC4A	AAA	TELE4BC19C	AAA
ANDIN18C3A	AA	COFI4DBC2A	AAA	CTO18C4U	AAA	EDELSBC11A	AAA	GLOR18C2A	AAA	LUSUR3BC2A	AAA	REP3BC7A	AAA	TELE4BC36A	AAA
ATELSBC22A	AAA	COFI4DBC5A	AAA	DUKE2BC1A	AA+	EDELSBC12A	AAA	GLOR18C3A	AAA	LUSUR3BC3A	AAA	SAGA2BC1A	AA	TELE4BC36B	AAA
ATELSBC29A	AAA	COFID2BC8A	AAA	DUKE2BC2A	AA+	EDELSBC17A	AAA	GLOR18C4A	AAA	MIBAN3BC1A	AA	SAGA2BC1B	AA	TELE4BC37A	AAA
ATELSBC31A	AAA	COFID2BC8B	AAA	EDEG3BC11A	AAA	EDELSBC18A	AAA	GLOR18C5A	AAA	MIBAN3BC1B	AA	SAGA2BC2A	AA	TELE4BC45A	AAA
ATELSBC33A	AAA	CONTI3BC7U	AAA	EDEGE3BC1A	AAA	EDELSBC19A	AAA	GLOR2BC10A	AA	MIBAN3BC4A	AA	SAGA3BC1A	AA	TELMO2BC9A	AAA
BFAL18C1A	AA-	CONTI4BC1U	AAA	EDEGE3BC3A	AAA	EDEL5BC1A	AAA	GLOR2BC7A	AA	MIBAN3BC5A	AA	SAGA3BC1B	AA	TELMO2BC9B	AAA
BFAL18C1B	AA-	CONTI4BC2A	AAA	EDEGE3BC8A	AAA	EDEL5BC1B	AAA	GLOR2BC8A	AA	MIBAN3BC5B	AA	SAGA3BC2A	AA	TEMO2BC11A	AAA
BFAL18C4A	AA-	CONTI4BC3A	AAA	EDEGE4BC1A	AAA	EDELSBC2A	AAA	ICCN18C1A	AA	MIBAN4BC1A	AA	SCOTI18C7A	AAA	TEMO2BC11B	AAA
BFAL18C6A	AA-	CONTI5BC1A	AAA	EDEGE4BC2A	AAA	EDELSBC5A	AAA	ICCN18C2A	AA	NORV118C1U	AA	SCOTI18C8A	AAA	TEMO2BC27A	AAA
BFAL18C7A	AA-	CONTI5BC2A	AAA	EDEGE4BC4A	AAA	EDELSBC8A	AAA	JAIME18C1A	A-	NORV118C2U	AA	SCOTI2BC1A	AAA	TGP18C4A	AAA
BFIN18C1A	AA-	CONTI5BC5U	AAA	EDEGE4BC5A	AAA	EDELSBC9A	AAA	JPLAZ18C1A	AA+	PLNG18C3A	AA+	SCOTI2BC1B	AAA	TGP18C6A	AAA
BFIN18C6A	AA	CONTI5BC6A	AAA	EDEL2BC3B	AAA	EDILC18C1A	A+	JPLAZ18C2A	AA+	PLNG18C4A	AA+	SCOTI2BC1C	AAA	UNAC2DBC1A	AA+
BFIN3BC3A	AA	COSAP18C1A	AA-	EDEL3BC7A	AAA	EDYF18C1U	AAA	LUSU2BC10U	AAA	PLUC1DBC1A	AAA	SCOTI2BC3A	AAA	UNAC2DBC2A	AA+
BFINA2BC4A	AA-	CRE4BC10A	AAA	EDEL4BC11A	AAA	EDYF18C3A	AA	LUSUR2BC1U	AAA	PLUC1DBC1B	AAA	SCOTI2BC3B	AAA	UNAC2DBC3A	AA+
BRIP18C2U	A+	CRED4BC10B	AAA	EDEL4BC12A	AAA	EFECT18C1A	A+	LUSUR2BC2U	AAA	PLUSL18C2A	AAA	SCOTI2BC5A	AAA	YURA4BC1A	AAA
														YURA4BC2A	AAA

Short Term Instruments			
Cds (16)			
BIF3CD1D	CLA-1+	FCONF1CD4B	CP-1
BRIP4CD1C	CP-1	FINUN1CD4B	CP-1
BRIP4CD1D	CP-1	FINUN2CD1A	CP-2+
BRIP4CD1E	CP-1	FINUN3CD1A	CP-1
BRIP4CD1F	CP-1	FINUN3CD2A	CP-1
COMPF1CD2A	CP-1	TFC1CD1B	CP-2
FCONF1CD3A	CP-1	TFC1CD1C	CP-2
FCONF1CD4A	CP-1	TFC1CD2A	CP-2

Treasury bills (11)			
LTP01JUN16		LTP14SEP16	
LTP02NOV16		LTP15FEB17	
LTP04MAY16		LTP15MAR17	
LTP05OCT16		LTP17AGO16	
LTP07DIC16		LTP18ENE17	
LTP13JUL16		LTP18ENE17	

Comercial papers (14)			
CHAVI1CP1K	p2	MEDRO1CP2F	CLA-1
CHAVI1CP1L	p2	MEDRO1CP2G	CLA-1
CHAVI1CP1M	p2	OBRAI1CP2A	CP-2+
CHAVI1CP1N	p2	PORTA1PC3C	EQL-2+
ELVIA1PC1B	p2	PORTA1PC3D	EQL-2+
ELVIA1PC1C	p2	PORTA1PC3E	EQL-2+
ELVIA1PC1D	p2	PORTA1PC3F	EQL-2

Short term instruments (8)			
AIH1CP4A	EQL-2+	COFI2DCP4B	CP-1+
AIH1CP5A	CLA-2	EDILC1CP1C	p1-
BAGRO1CP1A	EQL-1	JAIME1CP1D	EQL-2
COFI2DCP4A	CP-1+	SNMAR1CP1A	p2+

Subordinate (46)			
BANCOMBS21	BBB-	CONTI18S1A	AA+
BFINA0BS1U	AA-	CONTI18S2A	AA+
BFINA18S1A	A+	CONTI18S3A	AA+
BIF18S1A	AA	CONTI28S1A	AA+
BIF18S1B	AA	CONTI28S2A	AA+
BIF18S2A	AA	CONTI28S3A	AA+
BIF18S2B	AA	CONTI28S4U	AA+
BIF28S1A	AA	CONTI28S5U	AA+
BIF28S3A	AA	CONTI28S6A	AA+
BIFSUB4A	AA	CONTI38S1U	AA+
BIFSUB4B	AA	CREDI18S1A	AA+
BIFSUB4C	AA	CREDI18S4D	AA+
BIFSUB5A	AA	CSCOT18S1A	AA-
BNCOMOBS22	BBB-	EDYF18S1A	AA-
BNCOMOBS23	BBB-	EDYF18S2A	AA-
BNCOMOBS24	BBB-	EDYF18S4A	AA-

Securitization (26)			
CON1THBC11	AAA	CRE2TIP1U	AA
CON1THBC12	A	CRE3THO10A	AAA
CON1TLP1A	AA-	CRE3THO12A	AAA
CON2TLP1A	AA-	CRE3THOC7A	AAA
CRE1TATN1A	AA+	CRE3THOC8A	AAA
CRE1TATN2A	AA+	SCO1TRYT1A	AAA
CRE1TATN3A	AA+	SCO1TRYT2A	AAA
CRE2TCB1U	AAA	SCO1TSCO1U	AA+
CRE2TCB2U	AAA	SCOT1TLM1U	AA
CRE2TCB3U	AAA	SCOT1TLR1U	AA
CRE2TCB5U	AAA	SCOT1TMB1U	AA
CRE2THOC1A	AAA	TP0THPRF1A	AAA
CRE2THOC3A	AAA	TP0THSUB1B	BBB

Brady (1)	
PERU-PAR	

Public sector (30)	
PERU16	SB12AGO37
PERU19	SB12AGO46
PERU25	SB12FEB18
PERU27	SB12FEB29
PERU33	SB12FEB30
PERU37	SB12FEB40
PERU50	SB12FEB42
SB04ENE26A	SB12FEB54
SB06AGO35	SB12FEB55
SB08JUN16	SB12SEP23
SB12AGO17	SB13JUL19
SB12AGO20	SB13OCT24
SB12AGO24	SB14ABR16
SB12AGO26	SB30MAY34
SB12AGO31	SB31ENE35

Financial leasing (17)			
BFINA18A1A	AA	CONTI28A1A	AAA
BFINA18A1B	AA	CREDI18A6A	AAA
BFINA18A2A	AA	LTOTA48A3B	AA-
BFINA38A1U	AA	LTOTA48A4A	AA-
BFINA38A3U	AA	LTOTA48A5A	AA-
BIF18A1A	AA+	LTOTA58A1A	AA-
BIF18A2A	AA+	LTOTA58A2A	AA-
BIF18A2B	AA+	SAN28A3U	AA+
BIF18A2C	AA+		

Source: [http://www.bvl.com.pe/pubdif/infmen/Ultimo\\_IB.pdf](http://www.bvl.com.pe/pubdif/infmen/Ultimo_IB.pdf)

## 13.3 Annex: Link to the rules of operations

Securities lending model is updated in the New Operating Rules, according to SMV Resolution N°008-2015-SMV/01, which is valid since May 4th, 2015:

<http://www.elperuano.com.pe/NormasElperuano/2015/05/02/1231628-1.html>

The Articles regarding the model are:

Article 27: Selection of the equities allowed

Article 28: Guarantee or margin

Article 42: Securities lending operation

Article 43: Delivery of benefits

Article 46: Early settlements

Article 47: Extraordinary situations

Article 49: Defaults

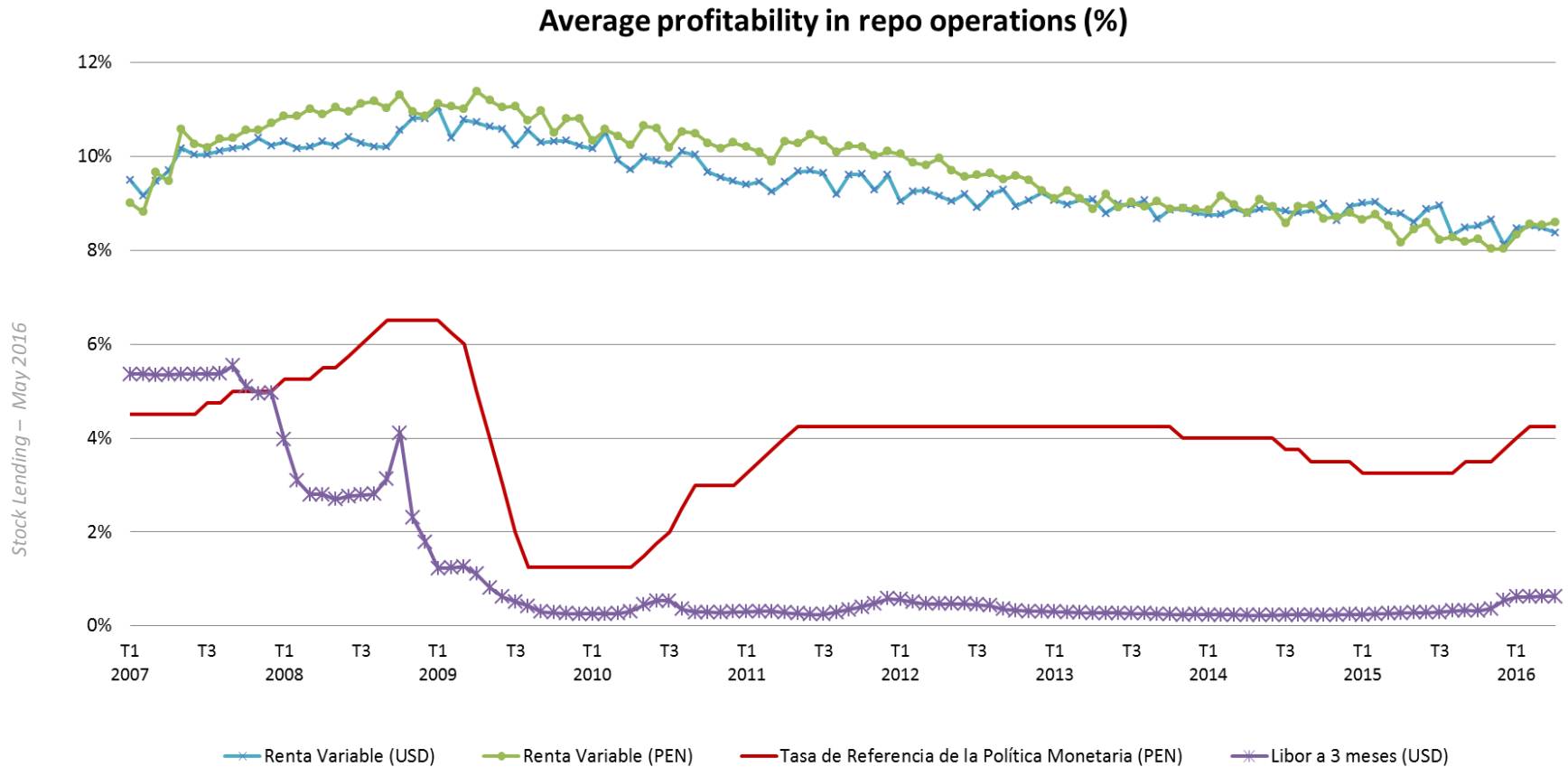
Article 50: Defaults in the repo or securities lending operation

Article 51: Application of the guarantee and margin

Also, the complementary dispositions of these articles are published on the website of the Stock Exchange.

[http://www.bvl.com.pe/disp\\_complementarias.html](http://www.bvl.com.pe/disp_complementarias.html)

# 13.4 Annex: Interest rate of repo transactions



- ❑ Repo transactions volume in USD represented 47% of the total volume in 2015.
- ❑ Repo transactions volume on Equities in USD and PEN represented 84.3% of the total number of operations in 2015.

## Frequently Asked Questions (FAQ)

### Pre-trading

1. What is the regulatory framework for stock lending?
2. What are the agreements agreed between participants?
3. Which securities are lendable?
4. Can pension funds lend the stocks of their managed portfolios?
5. Are pension funds ready to lend?

### Trading

6. What are the maximum periods of time to participate in a stock lending transaction?
7. Is it possible to cover a short sale with a security lending transaction and settle the short sale in the same day “t”?
8. Who are the counterparties?
9. How many counterparties can be selected in the trading system?
10. What is the procedure when a foreign investor acts as a lender?
11. What is the procedure when a foreign investor acts as a borrower?
12. What is the cost of doing a stock lending transaction?



### Post-trade

#### Collateral

13. What are the risks and mitigating factors in the operation?
14. How is the collateral provided by the borrower agent maintained ?
15. How does the recall provision work?
16. How is the reporting of collateral details to be presented to the lender?
17. How does CAVALI manage the collateral given as cash?

#### Early settlement

18. What are the procedures for early settlements?

#### Political and economic rights

19. What happens to the political rights?
20. How can the lender be assured of the return of economic rights?
21. What happens when dividends on lent securities are delivered?
22. How is the tax payment handled when a delivery of dividends on lent securities occurs?

### Post-trade

#### Default

- 23. What happens in a default situation in the second operation?
- 24. Who is responsible for a default over the lent securities?

#### Other

- 25. What is the accounting process if a pension fund wants to lend its securities?
- 26. What happens if a security of the collateral is suspended?
- 27. What happens if the borrower agent is suspended in the settlement date?
- 28. What happens in the remote case of CAVALI's bankruptcy?

## Pre-trading

1. There are three regulatory schemes:

1.1 Operations rules and supplementary provisions:

Resolution CONASEV N° 021-1999-EF/94.10 (last modification with Resolution SMV N° 025-2015-SMV/01)

Article 27: Selection of the assets allowed in the operations

Article 28: Guarantee or margin

Article 42: Securities lending operations

Article 43: Benefits of a securities lending operation

Article 46: Early settlement of securities lending operation

Article 47: Extraordinary situations

Article 49: Defaults

Article 50: Defaults in the repo or securities lending operation

Article 51: Application of the margin and collateral

1.2 Law N° 30052 – Repo Transactions Law

All, with the exception of Article 4 and Article 5.

1.3 Title 6 of Investment of pension funds

Compendium of Regulatory Standards of Pension Funds System- Title VI : Investments

Subchapter II – A: Securities lending operations

Article 75H: Limits applicable to repo transactions and securities lending negotiated in centralized and not centralized trading mechanisms.

Title VI amended by SBS Resolution No. 3233-2015

The Compendium of Regulatory Standards of Pension Funds System was modified.

1.4 Rules of broker agents

Modification of the Rules of broker agents through SMV Resolution N° 011-2016-SMV/01.

2. There are agreements between the lender and the lender agent, between the borrower and the borrower agent and between the short seller and the short seller agent.

3. The lender can only lend equities belonging to the lists 1, 2 and 3 from the Table of Reference Values, calculated and published quarterly by BVL. Short sales can be done with equities from the lists 1 and 2 only. The current table is available at

<http://www.bvl.com.pe/estadist/Nuevatvr.pdf>

For further details about the methodology of construction, consult the Supplementary Provision of Article 27 of the Operation Rules

4. Yes, up to 30% of the total value of each category of fund. It is only allowed for them to lend securities from the List of Reference Values 1, 2 and 3.

5. At a regulatory level, both the Operations Rules of Lima Stock Exchange and the Title 6 of Investments for Pension Funds allow them to participate as lenders. At an operational level, they are in the process of adaptation of their investment policies, and up to date one pension fund made a securities lending operation.

### Trading

6. In order to settle the first operation, it is possible to select the settlement date 1 (FL1) for the same day (t) or the following day (t+1). In order to settle the second operation, the term (FL2) can be selected up to 360 days counted since the settlement date 1 (FL1).
7. It is possible. For that, the short seller must negotiate a security lending with settlement date of the first operation (FL1) in the same day "t".
8. The counterparties are the broker agents, and they are responsible for their own final clients. Neither the borrower nor the lender know who is behind each broker agent as client.
9. Millennium system allows to select up to 5 counterparties only if the broker wants to limit the participants in the negotiation. If not, no counterparty is selected.
10. The foreign investor sends instructions to the custodian in order to deliver the securities lent to the broker agent. The remaining process works as the local model.
11. The foreign investor sends instructions to the custodian in order to deliver the collateral (cash or shares) to the broker agent. The remaining process works as the local model.
12. Currently, there is a fee's exemption for BVL and CAVALI, until July the 31st 2016. SMV's exemption will be until December 31st 2016. These apply for both the first and second operation in a stock lending transaction.  
On the other hand, short sales fees are 0.021% for BVL and 0.0075% for guarantee fund.

### Post-trading

#### Collateral

13. There is a risk of noncompliance in returning the securities to the lender, but this is mitigated by the collateral given by the borrower. Another risk is the devaluation of the collateral or appreciation of the loan value. In this case, CAVALI asks for a margin call to the borrower broker agent. If it fails to deliver the additional collateral, there are penalties for the borrower broker agent.
14. The collateral remains blocked and untouched in CAVALI, with the 100 % (main guarantee) registered in an account in favor of the lender and the 20% (additional guarantee) is registered in the account of the borrower. If the terms of the operation are interrupted for any reason, the lender may (i) abandon the operation or (ii) ask for a forced execution.

### Post-trading

#### Collateral

15. CAVALI asks for margin calls to the borrower agent when a) there is a mismatching of 2% or more between the updated amount of coverage and the assets given as collateral or b) the updated valuation of the additional guarantee fails to comply with the following rule: the valuation of the additional guarantee assets must be in every moment greater than or equal to max (initial additional guarantee, updated coverage amount - updated main guarantee).

If the failure happens over both criteria, the margin call is calculated as the difference with respect to the max (initial additional guarantee, updated coverage amount - updated main guarantee)

CAVALI will make the request after concluding the daily valuation, and the borrower agent must comply with this replacement as indicated in the Peruvian Rules of Operations.

The margin calls are constituted as additional guarantee. In that sense, CAVALI will block the margin call in the borrower's account.

16. CAVALI and BVL have been working with the regulator and pension funds for a final structure of the report.

17. Both the main guarantee (100%) and the additional guarantee (20%) given as cash are managed by CAVALI in a bank account in its name, generating a minimum interest which belongs to the borrower (original owner of the guarantee). Within their records, CAVALI recognizes that the main guarantee is in the name of the lender, while the additional guarantee is in the name of the borrower.

#### Early settlement

18. If there is prior agreement of early settlement, both the lender and the borrower can ask for it, and the borrower pays interest for the real period of time. If there was no prior agreement of early settlement, only the borrower ask for it, and the borrower pays interest for the whole term originally agreed.

#### Political and economic rights

19. The political rights are transferred with the ownership of the securities to the new holder. If the lender wants to execute the political right, it is possible to:

Before the beginning of the security lending: a) lend a portion of the securities that does not affect the political right or, b) define a settlement date that does not interfere with board meetings assistance.

When already initiated: early settlement.

## Post-tradin

### Political and economic rights

20. The return is mandatory according to Article 43 of the Operations Rules of Lima Stock Exchange.

21 . At the settlement date, the borrower must return to the lender an equivalent amount of the dividends received for the lent securities.

22. According to regulation, the pension funds are tax exempt for their dividends income. It is important to clarify that the lender doesn't receive the dividend in the date of delivery, but in the settlement date of the stock lending operation, as a "compensation for dividends not received" that is an amount equivalent to the whole dividend, without taxation. If the lender is not a pension fund, it is mandatory to apply taxation.

### Default

23. If the borrower agent defaults in the settlement, it is suspended until the lender agent chooses to abandon the operation or receives back the securities due to a forced execution of the operation. The choice depends on the lender broker agent.

24. In case of a dividends payment during the term of the loan, this dividend will be paid by the Issuer, through CAVALI, to the person who appears as owner-in record date- of the securities of the loan.

At the settlement of the operation, the Borrower must provide to the Lender (either an AFP or any other client), and through CAVALI, an economic compensation equivalent to the total amount of the dividend paid by the Issuer (gross dividend, without discount). This is because the one who receives the securities on loan (borrower) uses them to settle a transaction that has already been made (remember that the securities received from a stock loan can only be used to settle a short sale or a transaction with pending settlement); as a result, the borrower will never receive the dividend because the securities are not under his ownership. What the borrower received were shares entitled to a dividend and, if the record date occurs during the term of the transaction, in the settlement date he must return to the lender the share ex-right + dividend (the share price is reduced by the application of the dividend).

### Post-tradin

#### Other

25. The securities lent by the AFP through a lender broker agent remain in the accounts of the managed portfolio, even though the ownership is transferred to the borrower (considering the nature of “temporal transfer of securities”, according to the Law of Repo Operations), until the settlement date of the second operation, when the securities have to be returned from the borrower to the lender. Following the same criteria, the securities given by the borrower as guarantee do not count as part of the managed portfolio of the AFP, even when the main guarantee is in CAVALI in the name of the lender.

Also, dividends and other economic rights over the securities lent are delivered to the current holder of securities but at the settlement date the borrower broker agent must return them to the lender broker agent, as a compensation for economic rights non received.

26. The procedures described in Article 47 of extraordinary situations are applied. For the main guarantee assets: a) early settlement within 10 days of the announcement of the situation, and the borrower pays interest for the real period of time, or b) keep the operation alive but using other valuation criteria (greater punishment for valuation). For additional guarantees assets: the operation is kept alive by applying other valuation criteria (greater punishment for valuation).

Another option is to change guarantees, following the procedure detailed in the Supplementary Provision of Article 28.

27. For any suspension reason, the broker agent is denied to continue negotiating new operations, but must continue meeting their responsibilities for the settlements of all pending operations.

28. According to Article 237 of the Securities Market Law, the values from the main and additional guarantees that are blocked under custody of CAVALI cannot, under any circumstances, be part of the assets in liquidation. In addition, the Law N° 27649 refers to the immunity from seizure of accounts that prevents that resources owned by customers and holders that integrate CAVALI accounts be subject to a precautionary measure. Similarly, Article 108 of the Rules of Clearing Houses indicates that in no case the securities registered in the clearing house or the resources generated by settlement, by collateral management, by the management of the resources of hedging mechanisms for settlement risks or by the distribution of benefits or rights on such securities, constitute a part of the assets in liquidation.

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## Securities lending