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EXTERNAL OPERATIVE AND SERVICES CIRCULAR – DFV – 56

Date: December 16, 2019

SUBJECT: 98: CENTRAL SECURITIES DEPOSITORY – DCV

The Colombian Superintendency of Finance (SFC by its Spanish acronym), approved the amendments to the Rulebook of the Central Securities Depository (*Depósito Central de Valores – DCV*) by which:

- (i) a new paragraph to Article 7 was included in regards with the process by which special credit entities – “*Banco Puente*”¹ - are linked to the DCV;
- (ii) the term "haircut" was modified, amongst other technical and operating terms; and
- (iii) articles 17 and 25 referring to the operation of securities lending (TTV) between direct depositors and, between issuers of securities and the direct depositors were modified.

The afore-listed amendments were included in Resolutions 1434 of October 23, 2019 and 1617 of November 29, 2019.

REGULATIONS OF THE CENTRAL SECURITIES DEPOSITORY – DCV

Article 1. Definition and general functions: *Banco de la República’s* Central Securities Depository, hereinafter the DCV or Depository, is a system designed for the deposit, custody and management of securities through book entries made as electronic records, and for the Clearing and Settlement of securities transactions, in accordance with the laws and regulations in force.

Article 2. Technical and operational terms: For purposes of the present Regulations and the Operating Handbook, the following terms shall have the meanings assigned here below, whether

¹ In accordance with article 9.1.4.1.14 of Decree 2555, 2010, Banco Puente is a special credit entity incorporated with the purpose of receiving assets and liabilities from one or more credit facilities under liquidation, in order to administer and sell them as soon as possible, to maintain the value of such assets.

used in the singular or plural:

Transferee: in Repo and buy/sell transactions, the Depositor who initially receives ownership from the transferor by the transfer of a number of securities in exchange for payment of a given sum of money and in which the Depositor makes the commitment, at the same time, to transfer to the transferor securities of the same type and characteristics in exchange for a sum of money on the same date or on a subsequent date previously agreed upon.

Payment and Collection Agent: a Direct Depositor who gives his authorization for settling in his Central Bank Account money-transfer orders arising from a transaction made by another Direct Depositor or by the latter's Indirect Depositors.

Book Entry: This is the registry that is made of the rights or balances in the securities accounts which will be managed by the Central Securities Depository (DCV).

Central Counterparty Clearinghouse: Any agency whose exclusive purpose is to provide service as the central counterparty clearinghouse for settling and clearing transactions in order to reduce or eliminate the risks of non-compliance with the financial obligations derived from such transactions.

Certificate of Immobilization: a non-negotiable document, not representing ownership, issued in favor of a Secured Depositor and which certifies the immobilization in the Central Securities Depository of securities pledged as collateral between Depositors.

Clearing: determination of the obligations to deliver securities and/or transfer money between Depositors who have participated in a transaction, whether for the initial settlement date or, where applicable, for the forward leg.

Deposit Certification: a non-negotiable document, not representing ownership, issued at the request of a Direct Depositor, in which the book-entry rights of said Depositor or of his Indirect Depositors in the DCV are certified.

Registration Certification: a non-negotiable document, not representing ownership, issued at the request of a Direct Depositor, which certifies the book-entry rights that said Depositor or his Indirect Depositors have registered in the DCV with respect to securities deposited at a centralized securities depository or in an institution abroad that performs equivalent functions.

Central Bank Account: a bank account in legal Colombian tender that a Direct Depositor or his Payment and Collection Agents, previously authorized by *Banco de la República's* Board of Directors, must hold at *Banco de la República* for Settlement of transactions registered at the DCV and for receiving payment of capital, interest, and any other right associated with the securities that are managed by the Bank and are held at the DCV in said Depositor's name or in the name of his Indirect Depositors.

Securities Account: an account assigned by the DCV to each Direct Depositor for registering

recording the securities and rights entered in his name and/or in the name of his clients (Indirect Depositors). Direct Depositors must keep the registrations of third-party securities separate from the registrations of transactions done on their own positions.

(Custodian): Trust company(ies) participating in the DCV and authorized by the Office of the Financial Superintendent of Colombia to provide safekeeping for securities as provided for in Part 2, Book 37, Title 1, Articles 2.37.1.1.1 and 2.37.1.1.2 of Decree 2555/2010 and the regulations that amend, supplement, and substitute for it.

Trustee: an individual or legal entity who has signed a contract with an authorized trust company for securities safekeeping to the end that the latter exercises care and supervision of the securities belonging to the Trustee or the property of the investment vehicle(s) managed by the Trustee in accordance with his legal system.

Depositor: an individual or an entity accepted as holder of a Securities Account or Subaccount at the DCV. For purposes of the present regulation said term may, according to the context, refer indistinctly to a Direct Depositor or an Indirect Depositor or to both types of Depositor at the same time.

Direct Depositor: a legal entity accepted as holder of a Securities Account to carry out transactions on its own account or in the name of third parties, who is authorized to request or effect registrations and transactions as described in these regulations.

Secured Depositor: in an operation pledging securities, the Direct or Indirect Depositor in whose favor the collateral is pledged and the respective Certificate of Immobilization is issued.

Indirect Depositor: an individual or an entity accepted as holder of a Securities Subaccount, through any Direct Depositor.

Dematerialization: a process by which a physical (paper) security received by the DCV is eliminated and transformed into a book entry made by electronic recording.

Working Day: any day on which financial institutions generally provide their services to the public in Bogotá D.C., excluding Saturdays, Sundays and holidays.

Issue: a set of securities having the same issuer, creation rule, effective date and financial and trading conditions.

Transferor: In Repo and buy/sell back transactions, the Transferor is the Depositor who originally transfers ownership of a number of securities to the Transferee in exchange for payment of a sum of money.

Remote Station: a computer terminal that can be connected to another computer located in a distant place.

Base or Initial Collateral or Guarantee: This is the one agreed upon by both or one of the parties in the transaction based on the risk exposure that is assumed in the transaction either prior to

or on at least the same day the transaction is made. In the case of buy/sell back and securities lending transactions, this collateral is an element added to the securities that are the subject of the initial exchange in the transaction. In the case of repo transactions, this guarantee will be the discount applied to the security that is the subject of the initial exchange transaction.

Variation or Adjustment Collateral or Guarantee: In repo, buy/sell back, and securities lending transactions (temporary transfer of securities) this is the one agreed upon by both or one of the parties in the transaction based on the risk exposure assumed in the transaction when required by the Stock Market, the Securities Trading Systems, the Securities Transactions Registration Systems, or Clearing and Settlement Systems for Securities Transactions in which such collateral is in effect.

Haircut: A discount that is applied to the market value of a security in order to protect the one who receives said security in a forward transaction from the estimated market and liquidity risk.

Settlement Time: the window of time, specified in the DCV Operating Manual for every kind of order or transaction, within which the transaction is settled or DCV services are provided.

Settlement: the process of final completion of the obligations arising from a securities transaction closed or registered in a Securities Trading System or a Registry of Securities Transactions, where one party delivers securities through the use of the corresponding Securities Account and the other party transfers funds through the use of the Central Bank Account, i.e., one by one without netting.

Real-time Gross Settlement: One in which the settlement of the funds or securities transfer is done on an individual basis, i.e., one by one without netting.

Manual Settlement: instructions given directly by Direct Depositors in the DCV through their terminals for Settlement of transfer orders.

Global Instrument: a document encompassing an Issue, delivered to the DCV by an Issuer to make book entries of individual securities in favor of the respective subscribers.

Settlement Optimizing and Expediting Mechanisms: either of the following mechanisms that *Banco de la República* establishes and regulates in the DCV Operating Manual: **i) Signaling Mechanism:** an automatic, periodic, persistent action carried out by the DCV to check whether the balance on the Securities or Central Bank Accounts is sufficient for it to process a transaction. **ii) Liquidity-Saving Facility:** an automated process that, based on a mathematical algorithm, checks the aggregate amount of transfer orders to be credited (incoming) and those to be debited (outgoing) to a Depositor's account, and calculates their net value against the balance available at that moment in the Depositor's account, taking into consideration all participants in the system as a group and both sides of the transaction (securities and money) and maintaining the real-time gross settlement model.

Over-the-Counter (OTC) Market: the market that operates outside the securities trading

systems.

Spot Transaction: a transaction that is registered or closed with clearing and settlement period equivalent to the date of registration or closure of the transaction (same day) or up to three (3) working days counted from the day following the date of registration or closing of the transaction.

Forward Transaction: one in which the period for settlement is greater than that established for spot transactions.

Originator: in Securities lending transactions, the Depositor who originally transfers to another (Receiver) ownership of the securities that are the main subject of the transaction with an agreement to retransfer them on the same date or a subsequent one and receives, in exchange, the ownership of other securities or a certain sum of money that is equal to or greater in value than the securities that are the subject of the transaction.

Information Security Principles: i) Confidentiality: information is accessible only to parties with authorized access; ii) Integrity: information is accurate and complete and guaranteed not to have been altered since it was created. iii) Non-repudiation: information regarding a particular transaction or event corresponds to the party thereto, who may not disclaim his participation in the transaction or event.

Infrastructure suppliers: infrastructure suppliers are stock exchanges; the stock exchanges of commodities and agricultural products, agro-industrial products, and others; stock exchanges of futures and options; administrators of securities and foreign exchange trading systems ; administrators of registry systems; administrators of central security depositories ; administrators of settlement and clearance systems for securities, foreign exchange, futures' contracts, options, and other clearance and settlement systems; and the central risk counterparty clearinghouse.

Receiver: in Securities lending transactions, the Depositor who originally receives by transfer from another (Originator) ownership of a number of securities constituting the subject of the transaction with an agreement to retransfer them on the same date or a subsequent one. Concurrently, the Receiver transfers to the Originator the ownership of other securities or a certain sum of money which is equal to or greater in value than the securities that are the subject of the transaction.

Intraday Repo: Purchase of securities with a buy back commitment for the same day of the transaction.

Repos: Transfers in which one party (the "Transferor") transfers ownership of securities to another (the "Transferee") in exchange for the payment of a sum of money (the "Initial Amount") and in which, at the same time, the Transferee makes the commitment to transfer securities to the Transferor of the same kind and characteristics in exchange for the payment of a sum of money ("Final Amount") on the same date or on a date previously agreed upon.

Replacement Risk: The risk that one party to the transaction in effect that should be completed on

a future date does not meet this contractual obligation on the settlement date which could result in the solvent party being left with an open or uncovered market position or without his unrealized earnings from such market position.

SEBRA: *Servicios Electrónicos del Banco de la República.* This electronic system gives authorized agents from the financial sector and the public securities market on-line access in real time to the electronic services offered by *Banco de la República* for making fast, safe, efficient transactions.

Buy/sell back transactions: those in which one party (the Transferor) transfers ownership of securities to another (the “Transferee”) in exchange for the payment of a sum of money (the “Initial Amount”) and in which, at the same time, the Transferee makes the commitment to transfer securities to the Transferor of the same kind and characteristics in exchange for the payment of a sum of money (“Final Amount”) on the same date or on a date previously agreed upon.

Securities Clearing and Settlement Systems: those provided for and regulated in the Third Title, First Chapter, Article 9 of Act 964/2005 in Part 2, Book 12, Article 2.12.1.1.1. of Decree 2555/2010, or as amended, supplemented or substituted by regulation.

External Systems: The Clearing and Settlement Systems for Securities Transactions other than DCV, foreign-exchange clearing and settlement systems, and clearing and settlement systems for futures, options, and other financial assets including central counterparty clearinghouses, all duly authorized to operate in Colombia, that have agreed to and registered their acting as such before the Administrator of the DCV.

Securities Trading Systems or Trading Systems: For purposes hereof, a Securities Trading System is a multilateral transaction system in which institutions, members of the system, take part in making firm offers for securities to be closed in the system and for disseminating information to the market on such transactions, all in accordance with the rules and conditions established and regulated in Part 2, Book 15, Title 2, Chapter 1, Article 2.15.2.1.1. of Decree 2555/2010 or as amended, supplemented, or substituted by measures, or the regulations adopted by the respective system’s managing entity and duly approved by the Office of the Financial Superintendent of Colombia.

Securities Transaction Registration Systems, or Registration Systems: systems intended to receive and register information on securities transactions made in the OTC Market by system members, or by said members with non-member individuals or entities, in accordance with the rules and conditions set forth in Part 2, Book 15, Title 3, Chapter 1, Article 2.15.3.1.1. of Decree 2555/2010 or as amended, supplemented, or substituted for by norms, and in the regulations adopted by the respective systems’ managing entities and duly approved by the Office of the Financial Superintendent of Colombia.

Payment System(s): those defined in Part 2, Book 17, Article 2.17.1.1.1 of Decree 2555/2010 as amended, supplemented, or substituted for by regulations, including both low-value payment systems and high-value payment systems referred to in External Resolution 5 of 2009 issued by *Banco de la República*'s Board of Directors, as amended, supplemented or substituted.

Securities Subaccount: the account assigned by the DCV to each Indirect Depositor for keeping a record of the securities and rights entered in said Indirect Depositor's favor, through a Direct Depositor.

Securities lending (SL): these are those in which one party (the Originator) transfers the ownership of a number of securities (the subject of the transaction) to the other party (Receiver) with an agreement to retransfer them on the same date or a subsequent one. Concurrently, the Receiver shall transfer to the Originator the ownership of other securities or a sum of money that is equal to or greater in value than the securities that are the subject of the transaction.

Security: negotiable right that is part of an issue, which has the purpose or effect of capturing public resources.

Article 3. Services: The Central Securities Depository may provide the following services:

1. Receiving on deposit the Issues or securities that *Banco de la República* issues, guarantees or manages, or those that constitute mandatory investments for entities subject to oversight by the Office of the Financial Superintendent of Colombia, other than shares, allowing to that extent the creation or acquisition of securities in a primary subscription or in the secondary market, by means of electronic entries in the respective Depositor's Securities Account or Subaccount.
2. Registering, by means of book entries, rights on public-debt securities deposited in centralized securities depositories or in overseas institutions that carry out equivalent functions, where *Banco de la República* acts as intermediary of such securities, under agreement with the Nation and/or public-entity issuers. The transactions provided for in these Regulations may be made with such rights, on the conditions set forth herein and in such regulatory circulars as may be issued for regulating the management of said securities in Colombia.
3. Managing the registered securities, where so agreed with the Direct Depositor, on the terms laid down in Chapter III, Article 16 of Act 27 of 1990 and Part 2, Book 14, Title 2, Article 2.14.2.1.3. of Decree 2555/2010 and the remaining regulations that amend, supplement, or take their place.
4. Registering final or temporary transfers of securities between Securities Accounts or Subaccounts, in accordance with the provisions hereof.
5. Clearing and settling transfer orders arising from transactions made or registered by Depositors, according to the instructions they give on their own responsibility, by making the

corresponding movement of securities and funds in their respective Securities and Central Bank Accounts, where appropriate.

6. Paying, on instructions from the issuer, and as agreed upon in the respective contract for management of securities deposited in the DCV, on the date and on the conditions stipulated in the security or in the record or document of Issue, the amount of principal and interest payable on due dates, once the issuer of the securities has delivered the funds needed for the purpose.

7. Recording any liens and precautionary measures issued by the competent authorities in respect of securities and rights registered in the DCV.

8. Providing Direct Depositors with statements on the movement in their Securities Accounts, both in respect of their own securities and rights and those of their clients (Indirect Depositors).

9. Issuing, at the request of any Direct Depositor, certificates and evidence of securities and rights registered in his favor or in favor of an Indirect Depositor in whose name he is acting, including those arising from the furnishing of guarantees, the characteristics and contents thereof to be as specified in the Act or in instructions issued by the Office of the Financial Superintendent. Certificates for the exercise of economic rights shall be issued only where such rights are to be exercised against parties other than *Banco de la República*.

10. Registering pledges of registered securities or rights as collateral.

11. Calculate, demand, and maintain the collateral required from the participants and make the margin calls under the terms set forth in Part 2, Book 36, Title 3, Chapter 2 regarding collateral management in Decree 2555/2010.

Article 4. Operating standards: The DCV shall operate on the following standards:

1. Depository, custody and management of securities dematerialized by book entry and handling of securities as electronic records. The book entry will be made based on the following principles:

(i) Principle of priority: Once securities have been registered, no other registration may be made on the same securities or rights proceeding from a prior fact that turns out to be the opposite of or incompatible with said registration.

(ii) Principle of consecutive nature: The registries of the same registered right must be chronologically, sequentially, and uninterruptedly linked such that the person who transfers the security or right is recorded previously in the registry.

(iii) Principle of petition: A prior request from the owner of the security or right or from the appropriate entity authorized for that purpose is required to carry out each registration. Therefore, registrations shall not be carried out at the will or initiative of the Central Securities Depository apart from previously established regulatory cases.

(iv) Principle of good faith: The person who appears as the owner of a registered item shall be presumed to be the legitimate owner of the security or right that the respective registration refers to.

(v) Principle of fungibility: The owners of registered securities or rights that are part of the same issue and have equal characteristics shall be the legitimate owners of such securities in the corresponding quantity and not of individually specified securities or rights.

2. Comparison or cross-checking of information from the counterparties before processing the transactions made or registered between the counterparties in the corresponding Securities and Central Bank Accounts.

3. Securities or rights of the same class, with identical characteristics and financial conditions and the same issue and maturity dates, recorded in the same Depositor's account, shall be added together for registration in the DCV and shall be identified under a code. In this way, the Depositor's Securities Account shall show one balance for each Issue, which shall increase with the securities or rights of the same class and conditions that the Depositor acquires through credit-type transactions (including, inter alia, primary subscriptions, secondary-market purchases, and interest capitalization) and shall decrease with debit-type transactions (including, inter alia, transfers, repayments occurring at maturity, and materialization of securities).

4. Depositors are connected to the DCV from Remote Stations.

5. Connection to External Systems, Trading Systems and Registration Systems, on terms and conditions previously agreed on with such Systems' managing entities, for providing the service of Settlement, by the methods specified herein, of transactions of securities or rights registered in the DCV, where such transactions have been made, registered or cleared in said Systems. To this end, the DCV is interconnected to *Banco de la República's* High-Value Payment System, for posting entries in the Central Bank Accounts referred to in Article 8 hereof.

6. The mechanism used by the DCV for completing transactions is real-time gross settlement, that is, continuous, transaction by transaction settlement. The settlement methods allowed in the DCV depend on transaction type and origin, as described in detail herein, and are the following:

a) Delivery versus Payment: this method ensures that the transfer of securities in the DCV from one Depositor to another will occur only if the value or money agreed on as payment is available, and the payment is transferred simultaneously to the first Depositor.

b) Delivery free of payment: for securities to be transferred in the DCV by this method it is sufficient for them to be available in the Securities Account of the Depositor ordering the operation, no verification being required of the availability of money or securities in the other Depositor's account. This kind of settlement is applicable only in the events described in Article 17 hereof.

c) Delivery versus delivery: This is a transaction which ensures that the transfer of securities in the DCV from one Depositor to another will occur only if the securities agreed on to be transferred

in exchange are available, and these are delivered simultaneously to the first Depositor.

7. The DCV relies on the following risk controls, among others:

i) Credit risk: The methods of delivery versus payment and delivery versus delivery ensure that the transfer of securities in the DCV from one Depositor to another occurs once the availability of sufficient balances has been checked in the parties' Securities and/or Central Bank Accounts, as the case may be, and that money and securities are transferred simultaneously between the Depositors involved in the respective transaction.

ii) Legal risk: The functioning and operation of the DCV are subject, inter alia, to the following provisions:

(1) Act 31/1992, Decree 2520 of 1993, Act 27/1990, Act 964/2005, Decree 2555/2010 as amended, substituted or supplemented by other regulations.

(2) The present Regulations of the Central Securities Depository - DCV, approved by the Office of the Financial Superintendent of Colombia.

(3) The DCV Operating Manual, issued by *Banco de la República's* Fiduciary and securities department.

(4) The membership contract for using the services of *Banco de la República's* Central Securities Depository - DCV, entered into by Direct Depositors with the Bank.

iii) Operational risk: *Banco de la República* has a Management Continuity System designed to keep the DCV's functions in operation. Said System is composed of:

(1) A framework of reference, containing the System's policies, guidelines and strategies.

(2) An emergency prevention and response system, consisting of emergency plans, organization schemes and applicable procedures to ensure integral management of fire, earthquake and terrorism risks in all Bank facilities.

(3) Technology and operations contingency plans for the services of the high-value payment system (called *Cuentas de Depósito - CUD*) and the Centralized Securities Depository - DCV, and also of the access portal and the formation-exchange mechanism, W-Sebra Htrans. Said plans are tested independently throughout the year. The Bank has two alternate technology and operations centers, one in Bogota and the other outside the capital, with defined service-recovery times. The alternate operations centers may also be used by financial-sector entities and by the government as a last-resort strategy, should they have any problems operating from their facilities.

(4) A crisis management plan, designed to develop and implement notification schemes and the options that can be taken, should the Bank face any incidents liable to turn into emergencies or crises.

(5) Initiatives for integration with the financial sector and the government, designed to

provide information and training to the financial sector in respect of *Banco de la República's* management-continuity system. The initiatives are also designed to define and test different scenarios for measuring the degree of preparation when faced with any incident affecting the national and international payment system.

Furthermore, the Bank offers its clients, both in Bogota and at the Bank's Branches, a contingency service in the event of a financial entity becoming unable to respond to an incident. The financial entity may use the contingency plan should technical failures occur in the equipment making up the technological infrastructure that allows entry to the Bank's electronic services, whether the technical failure occurs in the entity's facilities or prevents the entity from entering them.

Every transaction that is entered directly into the Depository shall be confirmed by an officer other than the one who enters the transaction; this obligation must be reflected in the actual segregation of functions that is the Direct Depositor's responsibility.

The DCV compares or cross-checks information from the counterparties before processing the transfer orders made or registered between them in the corresponding Securities and Central Bank Accounts.

A further control consists of a maximum transaction amount, which cannot exceed the amount of *Banco de la República's* Global Banking Insurance Policy.

Securities are managed in a dematerialized fashion in the Depository, by means of book entries made as electronic records, which eliminates the risk of cloning, adulteration, falsification and theft, among other risks associated with the management and conservation of physical securities.

iv) Liquidity risk: The Settlement Optimizing and Expediting Mechanism, securities lending and Intraday Repos are some of the options offered to Direct Depositors that give them access to liquidity in both securities and money. In the case of SL and IR, the Direct Depositors should present the corresponding access authorization.

Furthermore, the real-time gross settlement system allows Depositors to have immediately at their disposal the securities or money resulting from a transaction.

v) Custody risk: Direct Depositors must keep the registrations of third-party securities separate from the registrations of their own and must transmit transfer orders for Clearing and Settlement in accordance with the provisions in force and the present regulations. Moreover, the DCV periodically makes account statements available to Direct Depositors, among other things, for information and control purposes. To mitigate the risk of fraud, Direct Depositors are required by these regulations to segregate the functions of introducing and confirming transfer orders entered directly into the DCV.

vi) Systemic risk: The DCV operates by the settlement method of delivery versus payment, with on-line, real-time control of balances, which mitigates the impact of default by any Direct

Depositor. And it employs automated settlement mechanisms, which optimize the use of available balances in Direct Depositors' money and securities accounts and speed up the process of settling transfer orders. Moreover, the DCV provides access to *Banco de la República's* functionality of temporary securities lending and intraday cash loans. Tools are thus made available to Direct Depositors for reducing the likelihood of total or partial default of the obligations they have to meet, thereby preventing systemic risk. In the cases of securities lending and intraday repos, the Direct Depositors should present the corresponding access authorization.

In addition, the DCV has the contingency and business-continuity plans needed to mitigate any interruption or malfunctioning of the system and to facilitate the reception of transfer orders and fulfillment of Direct Depositors' obligations.

vii) Market risk: In accordance with the provisions in Part 2, Book 36, Title 3, Chapter 2 of Decree 2555/2010 on the Collateral System or provisions that amend, supplement, or substitute for it, the DCV has a model for mitigating the replacement risk in repo, buy/sell back, and securities lending, and forward purchase/sale transactions. A description of this can be found in these regulations and in the DCV Operating Manual which also details the methodology used to calculate the collateral in Appendix 13.

8. Confirmation of securities transfer orders: A transfer order transmitted to the system shall be considered as confirmed once the parties to the transaction that gave rise to the order have communicated the transaction information to the DCV, and the DCV has received and checked one set of information against the other.

Transfer orders arising from transactions made in a Trading System or registered in a Registration System shall be considered as confirmed once the respective System has transmitted to the DCV, directly or through an External System, information on the awarding or closed deal of the respective transaction.

Confirmed transfer orders may not be cancelled or altered by the party giving the order, except with the express authorization of *Banco de la República* where a material error or technical problems have occurred. Material error shall mean any obvious error in the substantial elements of a transfer order, including, inter alia, the amount, the types of securities involved, the type of transaction that led to the order, the identity of the parties, and identification of the origin or destination accounts or subaccounts. And technical problems shall mean such defects of the information system, hardware or communication channels as prevent normal processing of the transfer order. Where the transfer order has been transmitted by a Trading System, a Registration System or an External System, cancellation of the order may be requested only by the manager of the respective System, before it has been accepted. Where the transfer order has been introduced directly into the DCV by the participant(s) in the respective transaction, in the cases provided for herein, cancellation of the order because of a material error must be requested by the same parties that confirmed the order, before said order has been accepted.

Nevertheless, transfer orders corresponding to a transaction made in a Trading System or registered in a Registry System may be modified when the Custodian, in the exercise of his duty to safeguard the securities, rules that the transfer order does not meet the prerequisites necessary for settlement, and therefore, it must be done by the Trustee. The modification should be requested through the Trading System or the Registry System that sent the transfer order.

9. Acceptance of transfer orders: Since the DCV operates by gross Settlement, the transfer orders it receives shall be considered as accepted once it has been verified that sufficient balances are available on the participants' Securities Accounts and, where appropriate, Central Bank Accounts, and the respective accounting entries have been made in the two parties' accounts, without prejudice to fulfillment of all other operational and risk-control requirements set forth herein.

10. Acceptance of transfer orders arising from forward transactions: Orders for the transfer of funds or securities arising from forward transactions, repos and buy/sell back transactions with securities held in the DCV, shall be accepted and settled on the very day of settlement of each one of the orders involved in the respective transaction, provided that, on that day, the conditions specified in point 9 above exist. In forward transactions, repos, buy/sell back transactions and securities lending, the DCV shall control the transaction cycle. Accordingly, once the information has been transmitted by the Securities Trading or Transaction Registration Systems or entered directly by Direct Depositors, as the case may be, the DCV shall automatically effect the reversal on the day agreed on by the parties.

11. No transactions shall be processed partially by reason of insufficient balances on the Securities and/or Central Bank Accounts.

12. The amount of securities transfers shall be specified by the External Systems, Trading Systems and Securities Transaction Registration Systems, or by the Direct Depositor ordering the clearing and settlement of the transaction, as the case may be, subject to minimum amounts and multiples established in the regulations for the respective security, and up to the maximum specified in the Operating Manual, based on the transaction limit stipulated in *Banco de la República's* Global Banking Insurance Policy.

13. Direct and Indirect Depositors are assumed to have knowledge of the present Regulations, the Operating Manual and such other provisions as *Banco de la República* may issue and disseminate, which shall be considered as an integral part of the membership contract participants enter into.

14. Securities and/or funds transfer orders introduced into the DCV System must be in compliance with the following risk controls in order to be considered as accepted:

i) Credit risk control: There must be sufficient balances on the Securities and/or Central Bank Accounts, as the case may be. Orders for the transfer of securities and/or funds shall not

be processed partially.

ii) Legal risk control: The parties ordering the transfer of securities and/or funds must be members of the DCV as Direct Depositors. In addition, securities and/or funds transfer orders emanating from Trading Systems or Securities Transaction Registration Systems must come from systems authorized by the Office of the Financial Superintendent of Colombia. Where transfer orders involve Indirect Depositors, the Direct Depositor shall be responsible for ensuring that the orders are duly authorized by the Indirect Depositors and are within the scope of the contracts signed with them.

iii) Operational risk control: Orders for the transfer of securities and/or funds must identify the origin or destination accounts or subaccounts. To this end, the Direct Depositor must keep third-party registrations separate from those that correspond to their own transactions. Orders pertaining to transactions made on an organized market or on the OTC market must be transmitted through the interface that the DCV establishes for clearing and settlement of said transactions, except as provided otherwise herein. Transfer orders introduced directly into the DCV must be made through segregation of functions. Securities transfer orders must pertain to securities held or registered in the DCV. Order amounts must not exceed the maximum amount specified in *Banco de la República's* Global Banking Insurance Policy or the multiples specified for circulation of the securities by the Issuer. Transfer orders from the secondary market must be entered or transmitted for both the seller/Transferor/Originator side and the buyer/Transferee/Receiver side. System operators must be expressly authorized by the Direct Depositor's legal representative. Orders must be processed within the hours set by the DCV for each type of transaction, functionality or service described in the Operating Manual.

15. For purposes of the Bank's investment valuation, the price supplier is the one indicated in the DCV Operating Manual.

Article 5. Security systems, means of communication and controls: Direct Depositors may have access to the DCV for registering transfer orders arising from transactions through Remote Stations, which must meet the technical and security characteristics and other connection requirements and operational-risk management requirements imposed by *Banco de la República*.

Connection to the DCV is effected through SEBRA or a future successor system. SEBRA is based on the fundamental principles of information security relating to integrity, confidentiality, non-repudiation and access control. Only persons specified by the Direct Depositor shall be given access to the system; and the Direct Depositor shall segregate the function of introducing transfer orders arising from an operation or transaction in the system, from the function of activation, activation being defined as electronic authorization for final processing of the transaction. System-access profiles must therefore reflect such segregation of functions, and the functions shall, at all events, be supplemented by the review and control activities considered

necessary by the Direct Depositor for appropriate management of risks posed by the transaction procedure.

Connections to the DCV for the transmission of operations, closed deals and/or transactions by External Systems, Securities Trading Systems, Securities Transaction Registration Systems and Direct Depositors' systems shall, once the terms are agreed on with the respective system managers, be made through the SEBRA system or a future successor to it. Said connections must comply with the fundamental Principles of Information Security and with the regulations that *Banco de la República* issues in this respect.

Article 6. Entities eligible for access to DCV services: *Banco de la República's* Board of Directors, pursuant to the Board's constitutional and legal authority, in particular as provided by Article 21 of Act 31 of 1992, and Article 22 of the Bank's Statutes enshrined in Decree 2520 of 1993 and other regulations that amend, supplement or replace it, shall specify the entities eligible for having access to the DCV as Direct Depositors.

All other individuals or entities may have access to DCV services as Indirect Depositors through the instrumentality of Direct Depositors authorized for this kind of intermediation, in accordance with the respective legal provisions governing them. The same applies for entities that are eligible to participate in the DCV as Direct Depositors but wish to act through the instrumentality of other Direct Depositors.

In the cases contemplated in the previous paragraph, Direct Depositors shall keep registrations for third-party securities separate from those that correspond to their own transactions. To this end they shall apply to *Banco de la República* for a subaccount to be opened for each third party and comply with the requirements laid down herein.

Article 7. DCV membership requirements: The following requirements need to be met to become a member of the DCV as a Direct or Indirect Depositor, as the case may be:

Direct Depositors:

- a) Submit to *Banco de la República's* Fiduciary and Securities Department a membership application signed by a duly authorized legal representative. The application shall be accompanied by a certificate of existence issued by a competent authority no more than thirty (30) days earlier, an officially certified copy of the operating authorization or certificate issued by the Office of the Financial Superintendent, or, where appropriate, such documents as according to the provisions in force and the nature of the applicant entity certify its existence and legal representation and operating authorization.
- b) Be a member of *Banco de la República's* SEBRA system for electronic communications, or

a future successor system.

- c) Have a Central Bank Account at *Banco de la República* or request and obtain such an Account, in accordance with the conditions established in this respect by the Bank's Board of Directors in Internal Resolutions 3 of 1997 and 3 of 2003, as amended, supplemented or substituted, and in *Banco de la República's* circulars regulating such Accounts. The Central Bank Account shall be kept open for as long as the Direct Depositor remains a member of the DCV. Direct Depositors lacking access to the service of Central Bank Accounts must engage the services of a Payment and Collection Agent and attach to the DCV membership application a copy of the agreement entered into with such Agent, or of the authorization given by the latter.
- d) Comply with the DCV membership requirements imposed by the Bank in respect of technical and communications matters and mitigation of operational risk, or such requirements as may subsequently be needed in this respect.
- e) Sign the respective DCV membership contract established by the Bank.

Once the contract has been signed, the Bank shall assign to the applicant entity the number of his Securities Account and, in the case of entities with legal capacity to act for the account of third parties, the numbers of the Subaccounts needed for book entries of securities and rights of their Indirect Depositors.

Paragraph: In the case of the *Bancos Puente*², special credit entities referred to in Article 9.1.4.1.15 of Decree 2555 of 2010 and any other provision that modifies, adds or substitutes it, their membership shall be considered effective when a legal representative of FOGAFIN or his proxy, informs *Banco de la República* of the incorporation of the *banco puente* attaching a copy of the corresponding authorization granted by the Superintendency of Finance. *Banco de la República* shall provide the membership contract to be executed by the legal representative of the corresponding *banco puente*.

Provision of the corresponding services shall be conducted upon request from the legal representative of the *banco puente* informing that the Superintendency of Finance has activated it, and once the membership and access to SEBRA system of *Banco de la República* has been confirmed.

Banco de la República may request the Superintendency of Finance, FOGAFIN, the *banco puente* or the entity that was intervened, as is may apply, the documents and information deemed necessary to verify the incorporation, existence, activation and legal representation of the *banco puente*, as well as the technical, operational, communication, and operational risk mitigation requirements, as required for the use of the system referred to in this Regulation.

² In accordance with article 9.1.4.1.14 of Decree 2555, 2010, Banco Puente is a special credit entity incorporated with the purpose of receiving assets and liabilities from one or more credit facilities under liquidation, in order to administer and sell them as soon as possible, to maintain the value of such assets.

Indirect Depositors:

Indirect Depositors may not act in the DCV except through Direct Depositors. To join the DCV, Indirect Depositors must authorize a Direct Depositor by means of a contract of mandate or power of attorney to act in the DCV for the account and in the name of the Indirect Depositors. The Direct Depositor may open Securities Subaccounts directly in the DCV system, taking into account the existence, effectiveness and scope of the respective mandate or power of attorney, which document must be conserved by the Direct Depositor and may be demanded at any time by the DCV. Therefore, it is understood that the Direct Depositor has sufficient authorization from the Indirect Depositor to use the information and deliver it to *Banco de la República* for purposes of membership and transactions in the DCV.

Article 8. Central Bank Account: The DCV shall debit or credit the Central Bank Accounts of Direct Depositors or of their Payment and Collection Agents, as the case may be, in respect of the price or counter-value of securities transactions made by such Depositors for themselves or for their Indirect Depositors, and in general in respect of any payment of money agreed on for settlement of said transactions. The DCV shall also credit funds to the same accounts with respect to principal and interest payments provided for in the respective securities

or registrations and accrued in favor of the Direct Depositor or any of his Indirect Depositors, provided the Bank has been authorized to do so by the respective issuer and has received from said issuer the corresponding funds.

The DCV assumes no responsibility for the lack of available funds needed in the Central Bank Account for executing instructions given by Direct Depositors on their own behalf or on behalf of Indirect Depositors, and said Depositors shall therefore be solely liable for any consequences that may arise from such circumstance.

Article 9. Depositors' obligations and responsibilities: DCV Depositors shall comply with the provisions contained in the present Regulations and in the membership contract, and with the obligations laid down in all other provisions regulating the functioning of centralized securities depositories. Direct Depositors shall, in particular, have the following obligations:

1. To comply with the security standards for code and profile access and management that the Bank establishes. Direct Depositors shall assume responsibility for the proper use of their Remote Stations and all other software and hardware needed for connection to the DCV, for the veracity, authenticity and settlement of transactions and orders processed through the system, and for any improper use of the assigned codes and profiles, which are confidential and non-transferable.
2. A Direct Depositor ordering the Settlement of transactions, for his own account or for the account of third parties, must have a sufficient balance on his Securities Account and/or Central

Bank Account.

3. To comply strictly with provisions on the prevention and control of asset laundering and terrorism funding, as contained in laws or laid down by the competent authorities. Accordingly, Direct Depositors must fully identify and know their clients (Indirect Depositors) before applying for Securities Subaccounts to be opened in the DCV. They must also take appropriate and adequate measures, on the conditions specified by the Office of the Financial Superintendent and other competent authorities, to prevent transfer orders made through the DCV from being used for asset laundering, terrorism funding or any other unlawful purpose.
4. Depending on the mechanism defined by the Bank, to designate the employees who are to have access to the DCV, and such employees shall be provided with confidential and non-transferable codes and profiles for operating the system; to report any updates to such designations and to ensure that such employees are duly trained for handling the system.
5. To review, based on system reports and enquiries, each of the transfer orders to be debited or credited to him to ensure their correct processing, and immediately report any inconsistencies therein to the DCV. In the event that an inconsistency has caused excessive movements in securities or funds, depending on the case, keep the sums of money or securities thus credited in the Deposit or Securities Account so that the DCV can make the pertinent corrections.
6. To accept system lists and records as effective, appropriate and sufficient evidence of transfer orders processed and transactions carried out in the DCV.
7. To remit or credit to Indirect Depositors the sums of money credited to the Direct Depositor's Central Bank Account as capital or interest due on securities or otherwise payable to them in respect of transactions of securities or rights registered in the DCV, and to do so no later than the following working day, unless otherwise agreed between the parties, and at all events subject to the provisions in force.
8. Verify that the information on the Indirect Depositor that is supplied to the DCV is accurate, complete, exact, and up-to-date and there is sufficient authorization from the Indirect Depositor to (i) supply his information to *Banco de la República* for membership and transactions in the DCV, and (ii) maintain his information in *Banco de la República's* database.
9. Comply with the rules for protecting personal information and maintain proper confidentiality regarding the Indirect Depositors' data and information.
10. To conserve the contracts of mandate or powers of attorney for Indirect Depositors' participation in the DCV and show them or deliver a copy of them when required to do so by the Bank.
11. To keep the registrations of third-party securities separate from those done for the Direct Depositor's own transactions, and to this end apply to the DCV for a Subaccount to be opened for each Indirect Depositor, as provided in Article 7 hereof.

12. To be accountable as agent to their clients (Indirect Depositors) for the custody and management of securities through the DCV. Direct Depositors shall be accountable to the DCV, to Indirect Depositors and to third parties for any damages that may be incurred by acting in the DCV without valid, effective or sufficient powers-of-attorney.

13. To provide their clients (Indirect Depositors) in a timely fashion with all such information as they require in connection with the securities they have deposited in the DCV through the Direct Depositors and in general, all such related to their participation and transactions in DCV.

14. To implement and maintain an appropriate contingency and recovery plan for dealing with disasters and acts of God, so as to ensure continuity in their participation in the system and thus ensure Settlement of the transactions they have been involved in; and also to take part in the contingency tests organized by the DCV.

15. To implement and maintain a plan of action designed to mitigate risks pertaining to Direct Depositors' participation in the system, including above all operational, credit, systemic and liquidity risks.

16. To identify correctly the tax status and situation of Indirect Depositors participating in the DCV, in accordance with the provisions in force for their respective registration in the DCV, and ensure that information is kept up to date.

17. To keep the documentation provided to them by Indirect Depositors as evidence of their tax status and situation, in accordance with the provisions in force, so as to be able to show such documentation or provide a copy thereof to the Bank when required to do so by the Bank.

18. To attend the training sessions given or organized by the DCV and the meetings of Direct Depositors arranged by the DCV.

Article 10. Scope and limits of the functions, obligations and responsibility of *Banco de la República* - DCV: *Banco de la República* as manager of the DCV shall be governed in its actions by the following rules, without prejudice to other rules laid down herein:

1. *Banco de la República* as DCV manager assumes the following obligations:

a) To act with due diligence and efficiency in managing the DCV.

b) In accordance with membership contract of the DCV and SEBRA, or a successor system of SEBRA, to have at its disposal the computing and information-technology infrastructure needed for the DCV to function within the parameters and on the conditions stipulated herein and in the Operating Manual.

Exceptionally, and according to numeral 4, Chapter I, Title III, Part I of the Basic Juridical Circular of the Office of the Financial Superintendent of Colombia, DCV may temporarily, suspend the service or modify the service hours due to: (i) motives of force majeure or fortuitous case; or,

(ii) in certain events in which is usual or traditionally the depositor users suspend their services to the public.

In case of the events mentioned in numeral (ii), the novelty will be communicated by DCV, at least 5 days in advance, prior the suspension or modification of the service hours.

c) To have contingency, business-continuity and information-security plans and procedures to ensure continuity of operation and timely processing and finishing of Clearing and Settlement action.

d) To have control systems in place for the proper management of its own equipment, and to maintain security systems designed to ensure the integrity and confidentiality of information transmitted by Direct Depositors, the control of access to the system, and the physical security of the computing center and areas where DCV information is handled.

e) To perform periodic maintenance of the software it uses and take measures to ensure that the system carries out the processes efficiently, registers movements of securities and funds correctly and executes settlements and payments properly in respect of book-entry securities.

f) To supply Depositors with clear, transparent and objective information, including such information as may allow them to identify the risks they run in using the system. To this end, the DCV shall disseminate the present Regulations, the Operating Manual to be issued on the basis hereof, the system's new operational and technical features, and the operational characteristics and procedures regarding the securities held under DCV custody and administration. The mechanisms to be used for such dissemination shall include, inter alia, circular letters by *Banco de la República*, the Bank's website, informational and instructional bulletins, electronic mail, certified mail or any other mechanism that may be specified in future.

g) Keep a record of the transfer orders carried out in the DCV by Depositors. Such records shall be conserved for a period of five (5) years as provided by the Basic Financial System Statutes.

2. *Banco de la República* as DCV manager is accountable up to ordinary negligence in performing the obligations described herein and in membership contracts. The Bank shall not, however, be accountable for total or partial failure to carry out any instructions given by a Depositor directly or through External Systems, Trading Systems or Registration System, where such failure is caused by: 1) acts of God or force majeure, including, inter alia, decisions or orders of competent authorities; 2) the lack of sufficient available funds and/or securities for settling a transfer order in the accounts of the Depositors involved or of their respective Payment and Collection Agents; 3) error or fraud in the use of codes, security devices and other controls that are used or should be used by the Direct Depositor or any of his representatives, directors, employees, dependents or contractors; and, 4) interruptions, delays, errors or failures in the DCV system or in any other information-technology system of the Bank

that interacts with the DCV, provided such interruptions, delays, errors or failures:

(i) are caused by an act of God or force majeure, (ii) result from an unknown cause or a cause that cannot be determined technically, or (iii) are not attributable to willful misconduct, or gross or ordinary negligence on the part of the Bank.

3. For the custody and administration of registered securities, the DCV acts in accordance with instructions given by Direct Depositors.

4. For the DCV to be able to make payment of principal and interest due on deposited securities and execute transfer orders automatically in the system, by making the corresponding movements in Securities and Central Bank Accounts and/or Subaccounts, Direct Depositors or issuers must deliver beforehand the necessary funds and securities, as the case may be according to the type of transaction. The Bank shall in no way be accountable if the issuer or Depositors fail to comply with such obligation.

5. Direct or Indirect Depositors are accountable for transfer orders sent and transactions carried out in the DCV, and the Bank therefore assumes no responsibility to the other Depositors and

third parties for the reality, legality or settlement of such orders and transactions Accordingly, should any claim be made in respect of a transfer order or a transaction carried out in the DCV, the Bank shall notify the Depositors involved therein for timely action by them, by informing the External, Trading or Registrations Systems that had reported the transaction or sent the transfer orders arising from such transaction.

6. The DCV shall not be accountable for the custody or administration of securities transferred to other securities depositories, should the interconnection referred to in Article 16 hereof be put in place.

7. All references to the DCV shall be understood as referring to and limited to the services of the Central Securities Depository managed by *Banco de la República* as described herein and in the Operating Manual. Accordingly, access to other services of the Bank requires compliance with the requirements specified in the respective applicable regulations for each one.

8. The personal data provided by the Direct Depositors in the course of the provision of services by DCV, shall be treated in accordance with the regime for the protection of personal data (Law 1266 of 2008, Law 1581 of 2012, Decree 1074 of 2015, and any other rules that modify, supplement, or substitute them) and according to the following privacy policy:

(i) **General Data - Responsible:** *Banco de la República*, NIT No. 8600052167, Main Office: Bogotá D.C. Contact: Citizen Attention System (SAC), at the address, telephone and e-mail disclosed in the Bank's website in the sections "Citizen Attention System (SAC)" and "Protection of Personal Data - Habeas Data."

(ii) **Treatment and Purpose:** The personal data provided will be subject to treatment (collection, storage, use, circulation or suppression) in order to properly comply with the membership and usage services of the DCV, as described in this Regulation; including the creation of indicators and statistics for monitoring and control, the controls as determined by law, as well as to comply with other constitutional and legal functions of *Banco de la República*.

For that purpose (i) management systems for handling information have updated ISO 9001 and ISO/IEC 27001 certifications, the latter referring to information security management; (ii) policies and standards of the information management system are focused on protecting the confidentiality of the information through mechanisms such as: access control devices and/or authentication to access the network and software allowing management of the levels of authorization, monitor the activity in the systems, and keep activity logs of these activities; (iii) the conservation of documents and information is done in accordance with provisions of Article 55 of the Law 31 of 1992 and supplementary regulations.

(iii) **Exercise of the rights by holders of personal data:** Holders of personal data will be able to access, know, update, and rectify such data; be informed on its use; submit queries and claims regarding the handling of such data; revoke the authorization or request the removal of their data, when appropriate; and exercise all other rights granted by law. To exercise such rights they may use the contact mechanisms mentioned above. The procedures and terms for the processing queries, claims, and other requests concerning the exercise of the right of *habeas data*, shall be subject to Law 1266 of 2008 and data protection principles referred to in Law 1581 of 2012.

(iv) **Date of entry into force of this special treatment policy of personal data: 9 March 2015.**

9. *Banco de la República* undertakes to respect the discretion and confidentiality of information regarding securities and transactions held or registered in the DCV. This is without prejudice to such information as the Bank may have to provide to competent judicial or administrative authorities under the legal provisions in force, or such information as the Bank itself and its Board of Directors may require for the proper performance of their constitutional, legal and statutory functions and, in particular, for regulating the money, foreign-exchange and credit market.

10. Determine the methodology to calculate the required minimum percentages in granting both basic collateral as well as additional collateral for variations with respect to repo, buy/sell back, and temporary transfer of securities transactions and track them to ensure they have been updated.

11. Indicate the conditions or rules for handling or replacing the collateral when the securities have been the subject of a trade suspension or cancellation.

12. Establish the methodology and procedures for determining which securities are susceptible to

being the subject of repo, buy/sell back, and securities lending (temporary transfer of securities) transactions and do follow up to ensure that they have been updated.

Article 11. Withdrawal of Direct Depositors from the DCV: In addition to the cases contemplated in law, either of the parties to the DCV membership contract may terminate it at any time, by notifying the other party in writing, with due regard to the period of advance notice stipulated in the agreement.

Before termination of the deposit agreement and cancellation of the respective Securities Account, a Direct Depositor managing Indirect Depositors' Subaccounts must transfer the securities held therein, on instructions from the respective Indirect Depositors, to any other Subaccount(s) they hold or arrange to have opened in their names in the DCV through any other Direct Depositor(s).

A Direct Depositor wishing to withdraw from the DCV shall leave no business of any nature pending with *Banco de la República* - DCV and shall report the steps it intends to take to complete all pending transactions.

Once the above procedures have been carried out, the Bank shall proceed to restrict the Direct Depositor's access, by disqualifying him in the system and disabling his users and their respective codes and permits.

Notwithstanding the foregoing and in compliance with the provisions in the Basic Legal Circular of the Office of the Financial Superintendent of Colombia, *Banco de la República* shall keep the data or information of the respective Direct Depositor and of the Indirect Depositors participating through him that was supplied or produced during the period that his participation in DCV was in effect in its archives for a period of five (5) years starting as of the date of termination of the contractual relationship.

Article 12. Attachment, seizure, freezing of funds and confiscation orders and other similar measures by the authorities. Under Act 27/1990, article 24, and article 12 of Act 964/2005, the attachment of securities or rights registered in the DCV becomes perfected upon registration of the precautionary measure, up to the amount specified by the respective judicial or administrative authority. Thereupon, the respective Depositor shall no longer be able to register transfers, use as collateral, and other transactions on the respective securities or rights while the attachment remains registered.

Attachments extend to dividends, profits, interests and other benefits of the corresponding security or right attached, according to number 6, article 593, of the General Code of Process.

If the affected securities produces any payment while the attachment order remains in force, the

DCV shall proceed, as consequence, to credit in cash the respective resources by order of the competent court or authority to an entity authorized to manage judicial deposits, provided the issuer of the securities has provided the necessary funds in a timely fashion.

Any amount over and above the amount of the precautionary measure shall be deposited in the respective Direct Depositor's Central Bank Account. Where the securities are not under management of *Banco de la República*, the Bank shall report the measure to their issuer, in order for the issuer to comply with the provisions of the General Code of Process, number 6 of Article 593, as amended or substituted.

If in addition the attached securities are ordered to be seized and no other sequester is expressly designated, the DCV shall, on orders from the competent court or authority, deposit the proceeds of the respective securities as stipulated before. Where another individual or entity is designated as sequestrator, the DCV shall proceed to materialize the respective securities and deliver them to the designated sequestrator, recording the action and notifying the authority that had ordered the measure. Where the characteristics of the security do not allow of materialization, DCV shall transfer the securities to the Securities Account that the sequestrator holds or opens, if the sequestrator is one of the entities authorized to act as a Direct Depositor, or to a Securities Subaccount that the sequestrator holds or opens through a Direct Depositor.

The procedure laid down in this Article is also applicable, where appropriate, to freezing of funds, confiscation, immobilization and similar orders issued by competent judicial or administrative authorities, to the extent that they do not contravene the special instructions given by the respective authority or the nature of the measure adopted.

Article 13. Effects of provisional relief, suspension of payments, liquidation and similar remedies: In accordance with Articles 10 and 11 of Law 964 of 2005 and any other provision that modifies, develops or replace them, transfer orders accepted by the DCV, guarantees established to ensure the liquidation of such orders, and transfer orders accepted by External Systems and sent to the DCV to conduct or complete their liquidation, shall not be affected by:

- i. Attachments, seizure, sequester, confiscation, freezing, or blocking of funds, withholding orders, or any other provisional relief;
- ii. Suspension of payments resulting from take overs of the property and assets;
- iii. The decision to initiate the liquidation, either compulsory or voluntary; or
- iv. The admission or initiation of any other bankruptcy process or universal procedure of debt restructuring.

This provided the transfer order was accepted by the DCV or by an External System, as applicable, prior to the notice of any of the measures listed above.

First paragraph. In no case shall DCV guarantee the liquidation of transfer orders received.

Transfer orders not cleared at the closing of the operations, will be returned to the External System that sent them. The External System shall be in charge of the reports to the competent authorities and stakeholders.

Second paragraph: Transfer orders that have not been accepted by DCV or any other External System prior to receiving notice of the proceedings referred to in subparagraphs ii and iii of this article, will be made available to the Superintendency of Finance or to the authority that decreed the corresponding measure, the corresponding special agent or receiver, as may be the case.

Third paragraph: The DCV shall continue to receive transfer orders accepted by External Systems despite the fact that the participant in the system or the person on behalf of whom it acts is subject to the abovementioned proceedings. In no case shall DCV guarantee the liquidation of the transfer order(s).

Article14. Notification of judicial or administrative measures: Notification of a judicial or administrative measure of attachment, seizure, confiscation, forfeiture, freezing or blocking of funds, retention order or any other precautionary measure shall be considered as effected when the authority that has adopted the measure informs *Banco de la República* as DCV manager thereof in accordance with the applicable procedure.

Measures arising from insolvency proceedings, taking possession, dissolution, liquidation or overall debt restructuring agreements shall be notified personally to the legal representative of *Banco de la República*.

Article15. Interconnection to External Systems: The DCV shall receive, process and settle transfer orders accepted by an External System that is interconnected to the DCV, even when the DCV manager has been notified of any of the judicial or administrative measures referred to in Article 13 hereof against a Direct Depositor or the person on whose behalf he is acting.

Paragraph: The DCV shall have no obligation to guarantee effective compliance with or settlement of the transfer order in question, such compliance or settlement being subject to the existence of sufficient available resources in the Central Bank Accounts of Participants in the Securities Trading System or Securities Transaction Registration System.

Article16. Interconnection to other securities depositories: The DCV may become interconnected to other centralized securities depositories by entering into agreements with them, to allow free circulation of dematerialized securities, where the creation rules or procedures and the issuers thereof so permit.

Where such interconnection is agreed on, the transfer of securities to another centralized securities depository signifies their exit from the DCV. There upon the obligations and responsibilities of the Bank as DCV manager shall cease in respect of such securities, including, inter alia, issuing certificates for the exercise of rights and deposit certifications, attending to orders of attachment, seizure, confiscation, blocking of funds and other such measures adopted by judicial or administrative authorities in respect of the transferred securities, and complying with the obligations and responsibilities intended to prevent and control asset laundering and terrorism funding.

Article 17. Functionalities and services: The services offered by the DCV are: dematerialization of physical securities; depository of primary securities issues and investment or subscription; depository of book-entry securities; securities retirement or materialization; payment of capital and returns on securities held in custody, where their Issue is managed by the Bank; pledging of collateral; and Clearing and Settlement of transfer orders arising from trade/transaction, repos, buy/sell back transactions, securities lending, and other transactions done with domestic public debt securities or securities issued by *Banco de la República* that are electronically registered or deposited at the DCV.

Pursuant to the provisions in force, spot and forward transactions of purchase, Repos, buy/sell transactions and Securities lending must be executed in a Trading System or in the OTC Market; in the latter case, the transactions need to be registered subsequently in a Securities Transaction Registration System. Accordingly, transfer orders for securities or funds resulting from such transactions that are sent to the DCV for clearing and/or settlement, must be transmitted exclusively by Trading Systems or Registration Systems, except for those resulting from Securities lending between Direct Depositors and between securities' issuers and Direct Depositors, and those entities authorized by the Superintendency of Finance included in the Trading Systems or Registration Systems Rulebooks. The Direct Depositor shall be solely responsible for ensuring that the transactions directly sent to DCV correspond to the events foreseen by law.

Transactions not involving the transfer of securities between Depositors, such as the pledging or releasing of collateral, and transfers arising from transactions that, under the provisions in force, need not be carried out or registered in a Trading System or a Registration System, including, inter alia, operations in respect of donations, capital contributions, commercial trust, payment in kind, movement between the same Depositor's portfolios, change of a Direct Depositor, mergers, demergers, assignment of assets, liabilities and contracts, and compliance with judicial decisions, must be identified and reported as such to the DCV system by the respective Direct Depositor(s) and shall be settled free of payment. The Direct Depositor shall be solely responsible for ensuring that transactions introduced directly into the DCV correspond to said events.

In the DCV, all securities transactions carried out in a Trading System or registered in a

Registration System shall be cleared and settled by the mechanism of delivery versus payment or delivery versus delivery, as the case may be, except as provided in these regulations.

Paragraph: The provisions of this Article shall be understood without prejudice to any other specific condition established by the DCV for Securities lending between Direct Depositors and between securities issuers and Direct Depositors, and for compliance with Securities lending from the *Fondo de Reserva para la Estabilización de Cartera Hipotecaria – FRECH.*

Article18. Dematerialization: Dematerialization is a functionality for replacing a physical security with a book entry by means of an electronic recording in the DCV. It applies in the case of physical securities issued, managed or guaranteed by *Banco de la República*, or constituting forced investments of entities that were subject to oversight by the Office of the Financial Superintendent of Colombia, excluding shares, where under the applicable legal provisions and regulations they have been issued in physical form (paper) and are in circulation in that form. Dematerialization requires the beneficiary of the physical security to endorse it for management to *Banco de la República - Central Securities Depository*. The management endorsement in favor of *Banco de la República - Central Securities Depository* must appear on the security itself or on a sheet attached to it.

Pursuant to the provisions of Part 2, Book 14, Title 3, Article 2.14.3.1.10 of Decree 2555/2010 or as amended, supplemented or substituted by other regulations, a Direct Depositor requesting on his own behalf or on behalf of a third party the deposit of a physical security through its dematerialization in the DCV shall be responsible for identifying the last endorser, and also for the integrity and authenticity of the deposited security and the validity of the transactions made with it. Accordingly, once a physical security has been received by the DCV, it shall be considered to be free of defects, liens or attachments, and the Direct Depositor who has delivered it shall be liable for any damages that may be caused to the Bank or third parties in this respect. The DCV may, however, without freeing the Direct Depositor from liability, verify the authenticity of a security presented for deposit, the endorser's identity or compliance with all other legal requirements, if it deems it necessary to do so, and may refrain from receiving said security if it presents defects in the chain of endorsements or if there is any doubt about its authenticity.

The amounts of dematerialized securities shall be credited to the corresponding Securities Account in the DCV.

Article19. Deposit of primary securities Issues and investment or subscription: The DCV may receive on deposit Issues of securities offered, guaranteed or managed by *Banco de la República* or constituting forced investments of entities that were subject to oversight by the Office of the Financial Superintendent of Colombia, other than shares. To this end, the certificate

of the respective Issue shall serve as a Global Instrument, according to the nature of the securities and the agreement entered into by the Bank with the respective issuer.

Upon deposit of an Issue, Direct Depositors may, in their own name or on behalf of third parties, purchase said Issue's securities, which shall be transferred to their own Securities Accounts or the corresponding Subaccounts. The purchase of securities shall be subject to the placement mechanisms and conditions specified by issuers in the corresponding legal and regulatory provisions and subject also to the mandate or fiduciary management agreements entered into by *Banco de la República* with such issuers.

Payment for securities purchased in this way shall be charged to the Central Bank Account held in *Banco de la República* by the purchasing Direct Depositor or his Payment and Collection Agent, as the case may be.

Article 20. Transfers between Direct Depositors: The transfer of securities shall allow Direct Depositors to transfer securities or rights registered in the DCV to the Securities Accounts or Subaccounts of other Direct or Indirect Depositors. Transfer orders arising from transactions that have to be made in a Trading System or registered in a Registration System must come from such Systems and shall be settled by the method of delivery versus payment or delivery versus delivery, as the case may be.

In all other cases referred to in Article 17 hereof, the transfer shall be ordered directly in the DCV by the Direct Depositor whose Securities Account contains the book entries of the securities or rights in question, and shall be settled by delivery free of payment.

Where the transfer is carried out by the method of delivery versus delivery, the Direct Depositors involved in the respective transaction must ensure that the securities agreed on as principal and as consideration or collateral are available in their Securities Accounts, so that the system can proceed to transfer them reciprocally and simultaneously.

In the event of default of a transfer, *Banco de la República* shall report it to the Trading System, Registration System or External System that transmitted the transaction, and also to the Office of the Financial Superintendent and the corresponding autoregulatory organization.

Article 21. Payment of capital and returns on securities registered in the DCV: Where the issuer has contracted the management of Issues deposited in the DCV to *Banco de la República*, including the payment of capital and returns on the respective securities, *Banco de la República* shall proceed once the issuer has delivered the corresponding funds to credit to the respective security holders the sums corresponding to principal and interest as provided in the securities, on the dates stipulated therein. Payment is effected by crediting the Central Bank Account of the respective Direct Depositor or of his Payment and Collection Agent. Where the Direct Depositor

holds securities in the DCV belonging to third parties (Indirect Depositors), he shall remit to them the funds credited to him, no later than one working day after they are received, unless otherwise agreed between the parties, subject to the provisions in force, without the Bank becoming liable for any damages that may be incurred by failure to meet this obligation.

Where the maturity date of a security falls on a non-Working Day, payment shall be made on the following working day, without *Banco de la República* incurring any liability.

Article 22. Retirement or materialization of securities deposited in the DCV: A Direct Depositor may request the materialization of a deposited security, for himself or for his clients (Indirect Depositors), provided the legal provision or administrative action that created the security allows the handling of physical securities and to the extent that the issuer has so ordered or authorized the Bank in the Issue's management agreement. Where the Bank is not authorized to issue physical securities, the request must be presented directly to the issuer and the issuer shall inform the DCV of the decision he has made.

Materialization shall be done by issuing physical securities having all the characteristics specified in the provisions that created and regulated them. The physical securities shall be issued in the name of the beneficiary who figures as the holder of the Securities Account or Subaccount.

Article 23. Repo transactions: Repo transactions made by Direct Depositors and sent to the DCV through a Securities Trading System or a Securities Transaction Registration System, in addition to entailing the transfer of ownership of the securities delivered, and restricting their mobility without prejudice to point 10 of the present Article, must comply with the following general conditions:

1. The maturity of the Repo may not be longer than one (1) year, and its maturity date must fall before the date of maturity and payment of the securities that are the subject of the Repo.
2. The forward leg or return transaction must be executed on the day the agreed maturity ends.
3. The term of the Repo must be expressed in ordinary or calendar days, and its maturity date must fall on a working day to enable the DCV to carry out the forward leg instructions on the conditions agreed on by the participants. If, despite the foregoing, the parties set the transaction's maturity date on a non-working day or on a day declared to be a non-working day in Bogotá, the DCV shall execute the forward leg or return on the first working day after that day, on the same conditions specified by the participants, just as if the transaction were executed on the maturity date.
4. Payments of financial returns accrued during the term of the Repo on the securities that are the subject thereof are credited directly to the Transferor's Central Bank Account, provided the

securities are under management of *Banco de la República* and the issuer delivers the corresponding funds in a timely fashion.

5. If during the term of the Repo *Banco de la República* - DCV receives an attachment order or other precautionary measure against the Transferee that includes the securities received by and held in the possession the Transferee, said securities shall become subject to the respective measure. In this event, the Transferee may complete the transaction with equivalent securities that he deposits in a timely fashion in his Securities Account or Subaccount, in accordance with the provisions of Part 2, Book 36, Title 3, Chapter 1, Article 2.36.3.1.1 of Decree 2555/2010, as amended, supplemented or substituted by other regulations.

6. To make payment of the initial amount and the final amount to be delivered in exchange for the securities that are the subject of the transaction, the Transferor and Transferee must have in their Securities and Central Bank Accounts the securities and funds needed for Settlement to be made on the settlement date and on the forward leg date agreed, as appropriate. In the event that the needed securities or funds do not exist in said accounts, the DCV shall immediately notify the parties and, where forward leg is concerned, shall release the securities in favor of the Transferee. If there is any difference between the transaction's agreed final amount and the securities' market price on the date of default as well as any principal payments or returns that should be transferred by the Transferee, the party benefitting from said difference shall be entitled to receive payment of it from his counterparty within a period not exceeding five (5) working days from the date of default.

Banco de la República shall notify any Repo default, whether at the initial transfer or at reversal, to the Trading System, Registration System or External System that transmitted the transaction, and also to the Office of the Financial Superintendent and the corresponding autoregulatory organization.

The foregoing shall be without prejudice to all other default consequences, for which the parties involved shall be bear full liability.

7. In Repo transactions, information must be provided on the term, and also on the exact initial and final amounts.

8. The DCV must also be informed of all other necessary special conditions and characteristics of the transaction.

9. During the life of the Repo transaction, the securities originally delivered by the Transferor are allowed to be substituted by others.

10. Securities that are the subject of a Repo transaction shall, in principle, be restricted in their mobility. The DCV may, however, offer the Transferor and Transferee the possibility of transmitting, through Trading Systems or Registration Systems, Repo transactions that do not entail mobility restriction. The specific conditions of a Repo transaction without mobility

restriction shall be set out in the DCV Operating Manual.

The above provisions shall be understood without prejudice to any specific rules that the Bank issues on Repo transactions it may carry out in the execution of monetary policy.

Paragraph.- Reversal: At the maturity date agreed on by the parties to a Repo transaction, the DCV effects the reversal or forward leg by transferring the securities to the Transferor, at the same time as transferring the principal plus interest agreed on in the transaction from the Transferor's Central Bank Account to the Transferee's, provided the corresponding balances exist.

Article 24. Buy/sell back transactions: The DCV shall effect the Clearing and Settlement of the buy/sell back transactions of securities that Direct Depositors carry out in a Trading System or in the Spot Market and register in a Registration System, provided such systems are interconnected to the DCV and the transaction involves securities held in the DCV. Such transactions, in addition to entailing the transfer of ownership of the securities delivered, must comply with the following general conditions:

1. The buy/sell back transaction's maturity shall not be longer than one (1) year, and its date of maturity must fall before the date of maturity and payment of the securities that are the subject thereof.
2. The forward leg or return must be executed on the day the agreed maturity ends.
3. The term of the buy/sell back transaction must be expressed in ordinary or calendar days, and its maturity date must fall on a working day to enable the DCV to carry out the forward leg instructions on the conditions agreed on by the participants. If, despite the foregoing, the parties set the transaction's maturity date on a non-Working Day or on a day declared to be a non-working day in Bogotá, the DCV shall execute the forward leg on the first working day after that day, on the same conditions specified by the participants, just as if the transaction were completed on the maturity date.
4. If during the term of the buy/sell back transaction *Banco de la República* - DCV receives an attachment order or other precautionary measure against the Transferee that includes the securities received by and held in the possession of the Transferee, said securities shall become subject to the respective measure.
5. To make payment of the initial amount or the final amount in exchange for the securities, on the buy/sell back transaction's settlement or maturity date, the Transferor/Transferee must have in his Central Bank Account the necessary funds and the Transferee/Transferor the securities, for Settlement to be made on the agreed date. In the event that the needed funds or securities, as the case may be, do not exist in said accounts, the DCV shall declare the transaction to be in default.

In that case, if there is any difference between the transaction's agreed final amount and the securities' market price on the date of default, plus any principal payments or returns that should be transferred by the Transferee, the party benefitting from said difference shall be entitled to receive payment of it from his counterparty within a period not exceeding five (5) working days from the date of default.

The Bank shall notify any default of a buy/sell back transaction, whether occurring at the initial transfer or at reversal, to the Trading System, Registration System or External System that transmitted the transaction and also to the Office of the Financial Superintendent and the corresponding autoregulatory organization.

The foregoing shall be without prejudice to all other default consequences, for which the parties involved shall bear full liability.

6. The DCV must be informed of all other necessary special conditions and characteristics of the transaction.

7. Securities that are the subject of a buy/sell back transaction shall not be restricted in their mobility.

8. All the above provisions shall be understood without prejudice to any specific rules that the Bank issues on buy/sell back transactions it may carry out in the execution of monetary policy

Paragraph.- Reversal: At the end of the term agreed on by the parties, the DCV effects the reversal or forward leg by transferring the securities to the Transferor, at the same time as transferring the principal plus interest agreed on in the transaction from the Transferor's Central Bank Account to the Transferee's, provided the respective balances exist.

Article 25. Temporary Securities lending (TTV):

The DCV has the TTV option, available for Direct Depositors to perform two types of TTV: (i) TTV among Direct Depositors, and ii) TTV between the securities' issuers and Direct Depositors, which must meet the following conditions depending on the type of TTV:

i) TTV between Direct Depositors:

Direct Depositors interested in participating as Originators or Receivers will be able to register and record their requests of specific Emissions, as they may require, authorize counterparties, determine credit lines, determine transferable securities, control and manage the operation of TTV and the securities or funds transferred in propriety in the operation. The TTV will be subject to the following general conditions:

a) The TTV system may operate under a blind or semi-blind modality. In the first case, the parties involved in the transaction (Originator and Receiver) will not be disclosed at any time during the cycle of the operation; in the second case, they will be identified only after the operation has been created in the system.

b) Starting the transaction, the Receiver agrees to transfer in propriety in favor of the Originator the funds or securities which market price amount is equivalent to the market price of the security it receives, applying, for such effect, the valuation formula established in the Operating Manual of the DCV plus a predetermined margin. Over the duration of the operation, the Receiver shall transfer an additional amount so the market price of the securities or funds transferred to the Originator is never less than the market price of the security received by the Receiver.

c) When in the TTV the Receiver transfers money to the Originator in exchange for securities transferred, and a compensation has been agreed upon over such funds, , the net yield for the Originator to recognize to the Receiver or the payment that the latter makes to the former, as per Part 2, Book 36, Title 3, Chapter 1, Article 2.36.3.1.3 of Decree 2555 of 2010 or the regulations that modify, add, or substitute it, shall be equal to the difference between the rate of return on the funds agreed upon over the duration of the operation, and the rate corresponding to the transfer of the security. If this difference is negative, the Receiver shall make the payment to the Originator. The return rate of the money transferred by the Receiver may be zero percent (0%), in which case the Receiver will only need to pay the Originator the total of the agreed rate for the transfer of the security.

d) Participants must comply with this Rulebook, the Operation Manual, and the regulations issued by the Central Bank for this effect, indicating, among other aspects, the general conditions of the TTV operation such as term, admissible securities, discount and liquidation, adjustment of the securities delivered in propriety as per valuation at market prices, agreed rate for the operation, exercise of patrimonial rights over the securities transferred, extensions, anticipated maturities, obligations, and rules applicable in cases of failure to comply. When required, they shall subscribe the contract(s) with *Banco de la República* as established in the Operating Manual.

i) TTV between securities' issuers and Direct Depositors:

This functionality allows the securities' issuer to act as Originator, authorize the counterparties, and increase the balance in circulation of the securities that will be the subject of the TTV, and other characteristics and conditions of such operations.

The Deposit shall administer the corresponding TTV in accordance to the following general conditions and those specific conditions that the securities' issuer determines for each operation:

a) The Direct Depositor authorized by the issuer as Receiver can file the request of TTV in the DCV; when starting the operation, the Direct Depositor obliges to transfer a sum of money in propriety and in favor to the Originator. Such amount shall be established in accordance with the rules provided by the securities' of the securities for such purpose.

- b) The Receiver will acknowledge a compensation in favor of the Originator as defined in the securities' issuer' rules.
 - c) Once the deadline of the operation is reached and the retransfer of the security attached to the TTV is delivered to the Originator, the DCV will transfer to the Receiver the corresponding amount of money for this operation, minus the value of the compensation for the TTV operation, reducing likewise, the balance in circulation of the security attached to the operation.
- ii) General Rules for TTV:** Both the TTV between Direct Depositors offered by *Banco de la República*, and the TTV between Issuers and Direct Depositors, shall be subject to the following general rules:
- a) Direct Depositors that conduct TTV transaction through the DCV will not be allowed to have liabilities exceeding the limits established in Part 2, Book 36, Title 3, Chapter 3, Article 2.36.3.3.2 of Decree 2555 of 2010, or the regulations that may modify, add or substitute them in the future.
 - b) If during a TTV *Banco de la República* - DCV receives a seizure order or other preventive injunction against the Receiver that encompasses the securities it had received and still has in its power, such securities shall be subject to the corresponding order or injunction.
 - c) The TTV are not required to be registered in a Securities Registration System, as established in Part III, Title II, Chapter II, paragraph 2.9.4, of the *Circular Básica Legal* of the Superintendency of Finance (EC. 029/14), or the regulations that modify, add or substitute it.

Article 26. Furnishing of collateral between Direct Depositors: This transaction allows a Direct Depositor to immobilize securities or rights, registered in the DCV, in favor of another Depositor, the beneficiary of the guarantee (Secured Depositor), who must also have a DCV Securities Account or Subaccount.

Pursuant to the provisions of Part 2, Book 12, Article 2.12.1.1.8 of Decree 2555/2010, as amended, supplemented, or substituted by other regulations, where said securities or rights are delivered to the DCV to back the settlement of transfer orders that are to be cleared and/or settled by the DCV itself, such securities or rights shall not become subject to precautionary, administrative or judicial measures until the obligations arising from the transfer orders have been fulfilled. However, any balance remaining after Settlement of the corresponding transactions shall constitute part of the grantor's assets for purposes of the respective administrative or judicial process.

The Direct Depositor ordering the furnishing of a guarantee must inform the DCV of the securities or rights to be immobilized, their nominal value, the number of the Securities Account or Subaccount of the guarantee's beneficiary, and its period of validity. He shall also attach a copy

of the agreement or document containing the conditions of the guarantee. *Banco de la República* assumes no responsibility for the reality or validity of the respective guarantee, or for its correct use by the Secured Depositor.

Any returns accrued on the immobilized securities during the period of validity of the guarantee shall be credited by the DCV to the Direct Depositor who ordered the furnishing of the guarantee.

At the request of the Secured Depositor, the DCV shall issue a Certificate of Immobilization in favor of said Depositor. Where the Secured Depositor is an Indirect Depositor, the Certificate of Immobilization shall be delivered through the Direct Depositor through whom the Secured Depositor's Securities Subaccount is held.

Neither the owner of the securities immobilized by the guarantee operation nor the Secured Depositor may order any transaction on the immobilized securities other than release of the guarantee.

The Certificate of Immobilization issued in respect of operations furnishing guarantees is not a document representing ownership, nor is it negotiable. Its period of validity shall be the same as that for the guarantees.

In the event contemplated in Chapter III, Article 23 of Act 27/1990, where the securities mature before the collateral has been cancelled, the DCV shall proceed to redeem them and place the proceeds and returns thereon at the orders of the Secured Depositor, or of the judge, if they have been attached, in an entity authorized to receive judicial deposits.

The order for release of the guarantee must come from the Direct Depositor who figures as the beneficiary in the corresponding Certificate of Immobilization (the Secured Depositor). To this end, the Secured Depositor shall deliver to the DCV, physically or electronically, as stipulated in the Operating Manual, said Certificate as cancelled or annulled. The DCV, after validating the operation, shall proceed to restore the securities or rights to the Securities Account or Subaccount of the Depositor who owns them.

However, where the Secured Depositor is an External System, the DCV may allow the immobilized securities to be transferred directly to said system's Securities Account, when requested in writing to do so by the manager thereof under his sole responsibility, for the purpose of directly enforcing the guarantee furnished to secure settlement of accepted transfer orders, as provided by said system's own regulations, duly approved by the competent authority, and based on the provisions of Part 2, Book 12, Article 2.12.1.1.8 of Decree 2555/2010 as amended, supplemented or substituted by other regulations.

Paragraph: In the case of guarantees furnished in favor of an External System, the Depositor ordering the furnishing of the guarantee need not send to the DCV a copy of the agreement or document containing the guarantee conditions.

Article 27. Functionality for management of collateral: In accordance with article 4, Operating Standards, point 7, risk controls, item vii - market risk, the DCV has a function for mitigating the Replacement Risk for repo, buy/sell back, securities lending (temporary transfer of securities), and forward purchase/sale transactions. Through this mechanism, the DCV will calculate, require, and maintain the collateral required from the participants and make the margin calls. *Banco de la República* and the Ministry of Finance and Public Credit are exempted from providing collateral.

The buy/sell back transactions that are made on the First Tier in SEN and that in compliance with the provisions in the Market Maker Program regulation for the Ministry of Finance and Public Credit's Public Debt Securities are cleared and settled through the interposition of a central counterparty clearinghouse shall be subject to the guarantee system provided for in the regulations of the respective central counterparty clearinghouse.

The characteristics and conditions for the functionality of the DCV management of guarantees are:

1. General conditions:

a) The Securities Trading Systems, the Securities Transactions Registration Systems, and Clearing and Settlement Systems for Securities Transactions authorized by the Office of the Financial Superintendent of Colombia may be accessed through the principle of adhering to the conditions established in the present regulation and other rules that complement it. In any case, it is the responsibility of said systems to have full and sufficient authorization from their affiliates ahead of time. Banco de la República will also be able to get access to this function for its transactions. In this case, the conditions laid out in this present section will apply without prejudice to the rest of the rules that *Banco de la República* issues in this regard as the monetary, exchange rate, and lending authority.

b) The guarantees that the present article deals with will receive the treatment provided for in Act 964/2005 and may be put into effect without recourse to any judicial proceeding whatsoever as provided for in item a of point 2 in this article.

c) The functioning methodology for managing guarantees seeks to cover the Replacement Risk in transactions. It considers both exposure to current variations in the market (current or adjustment risk) and the possible exposure from observed volatility (potential or initial risk) during the period of the transaction.

d) The methodology used by Banco de la República in their temporary transactions is based on the technique called "*Risk Metrics by Morgan Chase Group*" which seeks to minimize or cover the possible risk of loss with a determined confidence interval under the assumption that prices will follow a normal distribution behavior. In addition, the methodology does a verification or "*backtesting*" to guarantee that the "haircuts" are sufficient to cover daily volatility

of the last figures recorded.

- e) The Basic or Initial Collateral must be set up prior to or at least the same day as each repo, buy/sell back, or temporary transfer of securities transaction.
- f) The collateral required will be calculated with the difference between the agreed upon price and the market price in mind. Both will correspond to the day when the calculation was done plus the Basic Guarantee. By doing this, the risk of non-compliance on the part of the counterparty because of changes in the value of the transaction at market prices is mitigated as are also the possible variations in underlying asset prices based on historical volatilities.
- g) The calculation of the required collateral will take place for both participants in each transaction. As a consequence, no compensation will take place between transactions. The total required collateral for a participant is the sum total of the guarantees required for each transaction.
- h) The collateral to cover a margin or price variation shall be equivalent to the difference between the collateral in place and the total required collateral. If the collateral in place is greater than the collateral required, the excess collateral in place may be released. If the case is the reverse, the participant shall be called upon to increase the collateral in place.

2. Non-compliance

- a) If a participant fails to provide the guarantees at the close of the SEBRA office hours during which DCV required them, he shall have until the time determined by DCV in the

Operating Manual on the working day immediately following to cover them which will have the effect of a cautionary warning. This shall be reported to the market self-regulation authorities and to the Office of the Financial Superintendent of Colombia. If the collateral or margin call has not been fully covered by the time defined by the DCV Operating Manual, the DCV shall identify the transactions for which the collateral is insufficient and inform the Securities Trading System, the Securities Transactions Registration System, and Clearing and Settlement System for Securities Transactions or the system where the transaction originated and the securities market self-regulation authorities and the Office of the Financial Superintendent of Colombia so that they can take the pertinent regulatory actions.

The Securities Trading System, the Securities Transactions Registration System, the Clearing and Settlement System for Securities Transactions, or the system where the transaction originated must carry out one of the following actions with the transactions, which should be reported to the DCV prior to the time defined in the Operating Manual on the day that non-compliance is declared respecting the provision of the required guarantees:

- i) **Early Settlement:** It is appropriate to move forward on the transaction and, instead of the final agreed upon amount, the initial amount should be kept in mind with the addition of the yields accrued as of the early termination in the case of repos and buy/sell back transactions. In the case of forward purchases/sales, the initial clean price plus the accrued coupon shall be

considered. In any case, it is the responsibility of the Direct Depositors involved in the transaction to do the down payment procedure using the facilities the DCV offers for that purpose based on the authorization the DCV gives for specific transactions. The transaction must be fully carried out within what remains of the day in which the DCV declares early settlement and if it is not carried out, the procedure for default on obligations referred to in item b) of point 2 in this article shall be followed.

ii) Declaration of default on transaction: The stipulations in Part 2, Book 36, Title 3, Chapter I, Article 2.36.3.1.8 of Decree 2555/2010 or as amended, supplemented, or substituted, for repo, buy/sell back, and temporary transfer of securities transactions shall apply, i.e., each party shall maintain property rights over the sums of money and securities that party has received in the transaction and will be able to keep them definitively, dispose of them, or cash them out upon maturity. If there is a difference between, on the one hand, the final amount agreed upon in the transaction and, on the other, the market price of the securities on the date of default plus the repayments, yields, or dividends for which the buyer had a transfer obligation, the party for whom said difference is a positive balance has the right to be paid that balance in cash within a period of no more than five (5) working days starting from the date of default. However, the participants could agree that the difference may be paid in securities. When the transaction is declared in default before the maturity date, the amount of the transaction shall be determined using the procedure established for this end in the case of early settlement referred to in item a) under this point.

If necessary, the collateral provided by the counterparty up to and including the replacement risk shall be given to the party complying with the agreement according to the procedure established in item b) under this point with respect to collateral transfers. This collateral shall be considered in the calculation of the difference between the final amount agreed upon in the transaction and the market price of the securities to be returned.

If the Securities Trading System, the Securities Transactions Registration System, the Clearing and Settlement System for Securities Transactions, or the system where the transaction originated have not acted within the period established in item a) under point 2 of this article, the transaction shall be declared in default by the DCV in the cases of repo, buy/sell back, and securities lending repurchases, the transaction shall be declared in default by the DCV and in forward purchase/sale transactions early settlement shall be opted for.

b) If, upon the maturity of the secured transaction, one party defaults on an obligation derived from it in the terms and conditions of the regulation that is applicable to said transaction, the guarantee given shall go into effect. To that end, the collateral given by the party to cover the replacement risk valued at the market price on the day of default shall be payable. In those cases in which the collateral paid is done so in securities, it will be the responsibility of that party to complete the exact amount that could not be paid due to the minimum fraction of securities that can be moved. The necessary collateral shall be transferred to the party affected by the

Replacement Risk on the working day following the default. In any case, it shall be the responsibility of the party who should cover the market risk to transfer any additional amount that is lacking to complete the amount defined. If five (5) days after the transfer of the collateral the party responsible for covering the market risk has not paid the difference, the DCV shall proceed to transfer the necessary additional collateral to cover said difference.

c) In any case, the actions of *Banco de la República* as manager of the DCV shall be limited to calculating, requesting, and maintaining the coverage needs generated by the changes in the replacement prices of the securities that the Transferee/Receiver made the commitment to transfer in the transaction. Therefore, the Bank shall in no case guarantee the location of the collateral required or their settlement. Neither shall the Bank be responsible for the participants' compliance with the margin calls nor guarantee completion of the transactions for which it is providing the replacement risk coverage and will not recognize any type of yield on the collateral received. If there is a default, *Banco de la República* shall not guarantee that the collateral released will cover the losses incurred. As a consequence, the party to the transaction shall be the only one liable to the counterparty in the transaction for the acquisition, delivery, and adjustment of the collateral as well as for their substitution or replacement whether he acts on his own account or for a third party.

3. Acceptable collateral:

Securities deposited in DCV and cash in legal Colombian currency will be considered acceptable collateral for the operations mentioned in number one of the present article. The securities given as collateral, should comply with Part 2, Book 36, Title 3, Chapter II, of Decree 2555 of 2010 or as amended, supplemented, or substituted and what is defined in the present Regulation, or the corresponding normativity of the trading or registration system, that originated the transactions, and the normativity expedited by Banco de la República in its operations as monetary, exchange, and credit authority, as appropriate.

a) In the case of securities, those that meet the following risk criteria will be acceptable collateral:

i) Credit: these shall be debt securities issued by *Banco de la República* or subject to being managed by the bank through the DCV in compliance with the provisions in its own legal system.

ii) Liquidity: that the valuation prices for the security to be delivered as collateral in a determined number of days have been calculated on the basis of data derived from negotiation for a determined period. The parameters for the number of days and period will be published by the DCV.

iii) Market: that the difference between the last two (2) valuation prices available for the respective security to be transferred as collateral are equal to or less than a percentage of

a 1-day “haircut” as calculated for that debt security in particular.

Both the conditions for selecting acceptable collateral and the percentage of basic coverage or “haircut” that are applied to it shall be defined in the DCV Operating Manual.

b) In Repo, Buy/sell back, and securities lending transactions, securities that are equivalent to those that are the subject of the transaction may be accepted as collateral, both basic or initial and variation or adjustment, provided that they are debt securities issued Banco de la República or managed in DCV and comply with the liquidity, credit, and market risk conditions as well as with the rest of the conditions established in the present regulation in order for them to be considered acceptable collateral.

c) The assets that are delivered as Basic Collateral, collateral to cover adjustments, or that are substitutes must be free of any encumbrance or preventive measure.

4. Minimum percentage of collateral: The minimum percentage that can be required in repo, buy/sell back, and securities lending transactions shall be equivalent to a one (1) day haircut determined by *Banco de la República* in its open market transactions. The minimum transfer shall be adjusted to the multiples established by the law of circulation for that percentage. The methodology used to calculate the haircut is the one set up for that purpose in the External Regulatory Circular - DODM - 141 which is available on *Banco de la República*'s web page, www.banrep.gov.co and to which the methodology is attached as an appendix.

5. Special rules in the case of suspension or cancellation: In the event that the negotiation for a security that is to be delivered as collateral for a repo, buy/sell back, or securities lending transaction is declared suspended or canceled the security to be used as collateral is no longer eligible as of the working day following the date on which the suspension or cancellation of the negotiation was declared.

Article 28. Service fees: The DCV's fees for the services it offers shall be set in a general fashion by *Banco de la República*'s Administration Council, in accordance with the provisions of the Council's statutes issued under Decree 2520 of 1993, Article 41(m), as amended, supplemented or substituted by regulations. Said fees shall be published in External Regulatory Circulars and publicized by such mechanisms as the Bank decides on, including information bulletins and the Bank's internet website, without prejudice to employing other, additional means of dissemination.

The Bank's Administration Council has established that such fees shall be set by applying the policy of uniform fees per product, that is to say, fees shall not be determined by Agents' legal status or individual characteristics of the users of the respective service. It has further established that fees must be published before being charged and shall not be retroactive.

Paragraph: The Administration Council may, in accordance its legal and statutory powers,

modify the fees set should new circumstances justify doing so by reason, inter alia, of the volume of transactions or cost growth, and shall so inform Direct Depositors by the means indicated.

Article 29. Consequences of default: Default by a Direct Depositor of the provisions of these regulations, the Operating Manual or the membership contract shall generate the following consequences, without prejudice to any other actions that his conduct may give rise to, or any actions by a self-regulation organization of the securities market.

1. **Cautionary warning:** When the DCV finds that a Direct Depositor has defaulted on the obligations set forth in numerals 1), 2), 3), 4), 7), 10), 11), 12), 14), 16), 17), and 18) of Article 9 and item a) under point 2) of article 27 of these regulations, they shall generate a written cautionary warning directed to the depositor's legal representative. In the event of default of point 2) of Article 9 and item a) under point 2) in article 27, if the transfer order comes from a Trading System, a Securities Transaction Registration System or an External System, instead of the consequence specified in the present point, *Banco de la República*- DCV shall report the default in writing to the manager of the System that transmitted the order, so that such System may, if it considers it appropriate, apply the consequences laid down in its own regulations to the respective Depositor. In the event of default of numerals 2), 3), 7), and 11) of article 9 and in item a) under point 2) of article 27, copies of the notification shall be sent to the Office of the Financial Superintendent of Colombia and to the autoregulatory organization of the securities market.

Before sending the cautionary warning, the DCV shall ask the Direct Depositor, for a report in writing on the causes of the situation, in order to evaluate the circumstances. The Direct Depositor shall respond in writing to the DCV within a non-modifiable period of three (3) working days. If the Direct Depositor fails to respond or if the DCV does not find the Direct Depositor's explanation satisfactory, the DCV shall so inform the Direct Depositor by a written cautionary warning. In such notice the DCV may request the Direct Depositor to make the necessary adjustments to the internal controls or procedures, as the case may be, to ensure that the Depositor's participation shall be in compliance with the provisions in force.

2. **Disqualification:** The DCV shall declare a Direct Depositor of the DCV disqualified at the express request of a competent authority, or when the competent authority notifies *Banco de la República* that said Depositor has been suspended from the National Registry of Securities Market Agents or from the auto-regulatory organization, as the case may be, or that the authorization enabling him to carry out the activities of his corporate purpose has been suspended. The disqualification period shall be as requested by the competent authority or equal to the duration of the suspension decreed by the respective authority, as the case may be. And the suspension shall go into effect once notification has been carried out by competent authority.

3. **Exclusion:** A Direct Depositor shall be excluded at the express request of a competent

judicial or administrative authority or when *Banco de la República* is notified of the initiation of a process of forced or voluntary liquidation of the Direct Depositor, or his definitive removal from the National Register of Securities Market Agents or from the autoregulatory organization, unless otherwise decided by the Office of the Financial Superintendent of Colombia, the liquidating agent (in the event of forced liquidation) or the autoregulatory organization. The exclusion of a Direct Depositor shall become effective on the working day following that on which the notification is received from the judicial or administrative authority provided that said authority does not order it to be put into effect immediately. The DCV shall notify the respective Direct Depositor in writing of the exclusion measure. The Direct Depositor may reapply for membership of the DCV, by following the procedure set forth herein, when it is proved that the causes of the exclusion have been fully dealt with.

Article 30. Scope of consequences: Disqualification shall signify interruption of the Direct Depositor's authority to operate in the DCV; this notwithstanding, the obligations, duties and responsibilities set forth herein and in the respective membership contract shall remain in force. Accordingly, the disqualified Direct Depositor is obliged to place the necessary funds or securities in his Central Bank Account or Securities Account in a timely fashion, as the case may be, if at the time the disqualification goes into effect transactions to which he is a party are pending settlement.

Exclusion of a Direct Depositor shall mean termination of the membership contract by *Banco de la República*, without prejudice to fulfillment of any obligations owed to the Bank or third parties and Settlement of any transfer orders already accepted, and any others that the Office of the Financial Superintendent of Colombia may stipulate within its sphere of competence.

Article 31. Resolution of controversies: In the event of any disagreement or controversy arising between Direct Depositors, or between Direct and Indirect Depositors, with respect to one or more transactions or transfer orders that have been or should have been processed in the DCV, the Depositors involved may have recourse to any legal mechanism for resolving the disagreement or dispute, preferably the use of alternate means of controversy resolution, such as arbitration, conciliation and amiable composition. Action by *Banco de la República* shall be limited to providing such information as the Depositors involved or the competent authorities request from it on the respective transactions or transfer orders registered in the System.

Accordingly, *Banco de la República* shall not mediate, arbitrate or resolve any controversies that may arise between Direct Depositors, or between Direct and Indirect Depositors, in connection with transactions or transfer orders effected or processed by the DCV, and the Bank's action in this regard shall be limited to providing the information referred in this Article.

Any controversies arising between *Banco de la República*, as DCV manager, and a Direct Depositor shall be resolved by arbitration, in the manner specified in membership contracts for DCV services.

Article 32. Information dissemination mechanisms: The DCV shall disseminate on a monthly basis aggregate statistical information on the behavior of the securities under custody, by means of bulletins, circulars, press releases, notice boards and any other means that ensure public access to information on settled transfer orders, total volumes and the number of transactions involved.

The DCV shall endeavor to make the information clear, transparent and objective, so as to allow Direct Depositors to identify the risks they incur by using the System. To this end, the DCV shall disseminate the present Regulations, the Operating Manual, the “DCV Technical and Operating Requirements,” the operating instructions, the new operating and technical features of the System, the fees, and the model membership contract, the total publication of repo, buy/sell back, securities lending transactions cleared and settled through the DCV by using, inter alia, the following mechanisms: External Regulatory Circulars, *Banco de República*’s internet website, information bulletins, e-mails, certified mail, SEBRA (the Bank’s electronic services system), certified mail, participants’ meetings and training sessions for users.

The DCV shall place information on the amounts committed still outstanding in the Depository on behalf of their clients at the disposition of the authorities and the affiliates or members of the Securities Trading Systems, the Securities Transactions Registration Systems, or the Clearing and Settlement System for Securities Transactions and the Stock Market as required.

Banco de la República shall provide to the Office of the Financial Superintendent, the self-regulation organization of the securities market and all other competent authorities such information as they may require for performing their functions.

Article 33. Contingency mechanisms: For the purpose of controlling operational risk, *Banco de la República* shall put in place a support mechanism in case failures occur in the main equipment designed for running the DCV. The support mechanism shall consist of other equipment having characteristics similar to the main one, to which Direct Depositors can become connected. Should failures occur simultaneously in both sets of equipment or communications systems, the Bank may suspend the service without notice in advance to the Direct Depositors, until the event causing the interruption in service has been dealt with.