Thomas Murray Data Services

CHILE

Public CSD Rating Report

Deposito Central de Valores SA

Publication Date: August 2014

Thomas Murray CSD Public Rating for: Deposito Central de Valores SA is A+

CSD Rating	Overall Rating	Asset Commitment Risk	Liquidity Risk	Counterparty Risk	Asset Safety Risk	Asset Servicing Risk	Financial Risk	Operational Risk	Governance & Transparency
Chile DCV Rating:	A+	AA	A+	A+	AA-	AA-	A	A+	A

The outlook for the rating is: Stable

Overall Risk Summary

Thomas Murray has affirmed the overall Central Securities Depository risk rating of Depósito Central de Valores SA (DCV) at A+, which translates as low risk. The rating is a weighted average of eight different risk components comprising of Asset Commitment Risk, Liquidity Risk, Counterparty Risk, Asset Safety Risk, Asset Servicing Risk, Financial Risk, and Operational Risk.

Although the overall rating has remained unchanged, DCV has made some progress during the past year in taking steps to mitigate risks including the introduction of a reserve fund, the creation of a user group, the restructuring of its internal audit department providing additional independence by making it report directly to the Board of Directors..

DCV acts as settlement agent for all eligible securities in Chile. Clearing is executed by CCLV, which also acts as central counterparty for on-exchange transactions, and Combanc, which acts as clearinghouse for off-exchange and OTC transactions. For on-exchange transactions, the model results in longer asset commitment periods for sellers as securities can be blocked at any time during settlement date up to the start of the batch while cash is received at the end of the of the relevant batch. Cash, however, is not blocked but must be in CCLV's account at the central bank before the start of the batch, which reduces the asset commitment period for buyers. For off-exchange transactions, the asset commitment period is also shorter for buyers (the length of the DVP process, maximum 30 minutes). Securities are blocked as soon as they are available in the seller's account and remain frozen until DVP takes place through Combanc.

Liquidity risk for on-exchange transactions has been diminished by the use of BIS model 3 settlement combined with strong fails management procedures employed by CCLV, the central counterparty. The liquidity requirements are higher for off-exchange transactions, which settle on a gross basis and are not subject to any fails mitigation procedures. However, there is an active repo market supported by the central bank and brokers can obtain credit from the banks.

Counterparty risk is mitigated by the use of a CCP for on-exchange transactions, which uses a risk containment model based on collateral and guarantees as well as simultaneous DVP in central bank funds. However, for off-exchange and OTC settlements, DVP is not simultaneous and there are no guarantees in the event of default.

Asset Safety Risk is reduced through the dematerialisation of securities at DCV and the compulsory segregation at the participant level. However althoug beneficial owner accounts are possible, are not currently market practice at DCV.

DCV, through its subsidiary DCV Registros, takes an active role in asset servicing providing corporate action information via its proprietary electronic system and accepting liability for errors and omissions where it has been at fault. DCV Registros acts as paying agent for about 70% of equity issuers in Chile.

DCV is a for-profit organisation and has been highly profitable over the past five years. Although the level of capital it holds is not high, its substantial insurance coverage helps to provide adequate protection against any potential claims. The main concern is the significant level of accountability that DCV must accept by law.

DCV manages Operational Risk through an extensive audit programme in respect of its operational controls. It has a well established internal audit division and controls are also audited by several external organisations including Deloitte which is appointed by the Surveillance Committee, a committee which is established under law as an independent group with responsibility for providing oversight of DCV's operations on behalf of its participants. A SAS-70 report has also been undertaken by Ernst and Young. In terms of its disaster recovery and business continuity arrangements, DCV operates two alternative parallel IT sites where the capability exists to automatically transfer processing from one centre to another without any disruption to service. There is also a third data centre in the USA. Staff have been split between the two main business locations to enhance its business continuity plan.

Governance and Transparency Risk includes the use of a User Group to discuss upcoming events, a Board of Directors that represent all shareholders and users, although there are no independent directors and the disclosure of significant corporate information.

Outlook Summary

Thomas Murray has assigned an Outlook of Stable, as there are currently no definitive plans that may change the rating in the short term. However, DCV is developing a new settlement system know as DCV Evolución, which should automate a number of processes and improve Operational Risk. It is also developing a collateral management facility for ComDer, the new OTC derivatives CCP, as well as a establishing a link with Euroclear for the settlement of funds. Finally, it is launching a link with the central bank to communicate via ISO 15022 standards.

Role of the Depository

The Depósito Central de Valores SA (DCV) is a private company established in March 1993, although it only began operations in 1995. DCV is the only depository in Chile and provides clearing, settlement and safekeeping of a wide range of instruments. The main instruments are equities, bank bonds, certificates of deposit, mortgage bonds, government debt, corporate debt, debentures and treasury bills.

DCV is governed by Laws 18,876 and 18,046 and is supervised by the Superintendencia de Valores y Seguros (SVS). In addition, DCV is subject to Finance Ministry Supreme Decree 734, which provides additional regulations relating to the operation of depositories, as well as its own internal regulations, which have been approved by the SVS.

Settlement through DCV is mandatory for medium and long-term government fixed income instruments traded by brokers. Pension funds are required by law to maintain at least 98% of their assets in custody at DCV whilst Insurance Companies and Reinsurers must keep at least 95%. Currently, all stock exchange transactions related to equities, fixed income and money markets instruments are settled through the depository.

95.4% of the securities on deposit with DCV were held in dematerialised form as of July 2014. Money Markets Securities (IIF - Instrumentos de Intermediación Financiera) are almost fully dematerialised, but some infrastructure bonds (bonos de infraestructura), commercial papers (efectos de comercio) and mortgage bonds (issued by only one bank), are still held in physical form. Equities are in dematerialised form, but can be converted into physical form if requested by the holder.

DCV also provides a centralised service for forward contracts and acts as repository for these instruments. The International Custody Service, allows DCV participants to invest in securities abroad, in the same way as domestic securities.

Risk Summary	Risk
Overall Risk	A+
Asset Commitment Risk The asset commitment period varies significantly depending on the market and the type of security. For on-exchange trades, sellers face an asset commitment period which is considerably longer than buyers'. In the case of buyers, the commitment period tends to last a maximum of 30 minutes, whereas for sellers it can be between 90 minutes and 2.5 hours depending on the type of instrument. Similarly, in the OTC market, the asset commitment period for buyers is far shorter than for sellers, who can face commitment periods of up to four hours. Buyers, on the other hand, tend to be exposed for a few minutes (the length of the DVP process).	AA
Liquidity Risk The main exposure to liquidity risk comes from off-exchange and OTC transactions which settle on a gross basis and do not have any fails management mechanisms in place. The risk is lower for on-exchange trades due to the netting settlement and effective fails management procedures operated by CCLV, the central counterparty.	A+
Counterparty Risk The introduction of CCLV in the Chilean market has helped reduced the counterparty risk exposure for participants in the on-exchange market due to the strength of the CCLV and the mechanisms used to minimise this risk. For off-exchange and OTC transactions, the only mechanism used to minimise counterparty risk is the use of a non-simultaneous DVP system with replacement cost risk not covered. The existing regulation does not fully support finality of OTC transactions.	A+
Asset Servicing Risk DCV does not take an active role in corporate actions processing. DCV Registros, a subsidiary of DCV, provides corporate actions information and event processing for those issuers, which have appointed DCV Registros as registrar (about 2/3 of the market). DCV Registros provides corporate action information via physical letter to shareholders on a daily basis and largely accepts responsibility for its completeness, accuracy and timeliness. It receives this information from a variety of sources including issuers and official market sources and verifies the data with third parties to the extent possible. Some information is physically delivered to the registrar and could therefore be subject to delays and errors in manual input. DCV's role in asset servicing is limited to providing a list of shareholders to the issuer or registrar upon request.	A+
Financial Risk DCV's financial exposure is limited as it neither acts as a central counterparty nor provides any guarantee of settlement. Its principal exposure is through operational risks, for which it has sufficient insurance. DCV's capital base appears to be low relative to CSDs with a similar business base although it has created a reserve fund to cover any unforeseen events. There have been no reported operational losses during the past five years. DCV is a privately incorporated entity. It operates as a for-profit enterprise and has reported good profits over the past few years.	AA-
Operational Risk	

DCV has a well-designed business continuity (BC) plan including the use of two internet suppliers, to ensure that operations are not disrupted in the event of an incident. In addition, the depository has two alternative data centre in Santiago and one data centre in the USA. DCV is heavily audited by external auditors appointed by DCV and a different auditor appointed by users through the vigilance committee as well as annual audits by the SVS, the market regulator. Reporting to participants is via web-based interfaces.	AA-
CSD on CSD Credit Risk DCV has an outbound link with DTC in the USA. It also has two-way DVP links with Euroclear Bank, DECEVAL in Colombia, Cavali in Peru and Indeval in Mexico. It also holds accounts at Citibank and Deustche Bank NY.	Links Exist

Asset Commitment Risk

Summary

The asset commitment period varies significantly depending on the market and the type of security. For on-exchange trades, sellers face an asset commitment period which is considerably longer than the buyers'. In the case of buyers, the commitment period tends to last about 30 minutes or the length of the processing cycle, whereas for sellers it can be between 90 minutes and 2.5 hours depending on the instrument traded.

Similarly, in the OTC market, the asset commitment period for buyers is far shorter (30 minutes) than for sellers, (up to four hours) although the asset commitment period for sellers depends on the moment from when securities become available in the system. Nonetheless, the gap in asset commitment between buyers and sellers in the Chilean market can be significant.

Processing Cycles

The settlement cycle in DCV differs according to the type of instrument and the market used for trading. The first part of this section focuses on the description of the settlement process for on-exchange trades, which covers equities, fixed income and money market instruments. The second part of the section is dedicated to the OTC segment where the process is slightly different if cash settlement is conducted through Combanc (a bank-owned clearing house) or the Central Bank of Chile (BCCH).

On-Exchange Trades

On-exchange trades account for 17% (by value) and 21% (by volume) of all trades processed by DCV. Securities traded in any of Chile's stock exchanges settle according to the type of securities; equities settle on a T+2 basis, fixed income settles on T+1 and money market instruments on T+0. The settlement cash leg is done via Chile's CCP (CCLV) as described below. On–exchange equities and fixed income settle on a multilateral net basis for both cash and securities.

On-Exchange Trades - Equity

Trading ends at 5.00pm. On T+1, the CCLV sends an electronic file to DCV at 6.30pm, containing all the outstanding net securities positions due for settlement from the previous day. At 9.00am on T+2, DCV's system begins to run batches every three minutes. During each batch the system looks for securities and, when these are found, the system blocks the net positions. The batch cycles end at 1.00pm.

Upon confirmation of cash availability, CCLV instructs DCV to settle the securities. This takes place by 1.30pm at the latest, but normally finishes a few minutes after 1.00pm. The deadline for settlement instructions to CCLV is 1.00pm.

On-Exchange Trades – Fixed Income

In the case of fixed income, trading ends at 4.30pm and at 6.30pm the outstanding balance file is sent by CCLV to DCV. On T+1, DCV's system begins its batches at 9.00am in order to block securities. Similar to equities, the batch runs every three minutes, blocking securities as they become available until 12.00pm.

CCLV instructs DCV to settle securities after confirmation of cash availability with the settlement process completed by 12.30pm at the latest. The deadline for settlement instructions to CCLV is 12.00pm.

On-Exchange Trades – Money Markets

For money markets, which settle on T+0, trading takes place until 1.05pm. Before 2.00pm, the CCLV must submit the file containing all outstanding positions from the day's trading session. DCV's system begins to search for securities availability between 2.00pm and 3.00pm.

At 3.00pm, the CCLV confirms the availability of funds and instructs DCV to settle the transactions. The process normally finishes a few minutes after 3.00pm, but the official deadline is 3.30pm. Settlement of money market instruments traded on-exchange in on a gross basis.

On-exchange Trades Foreign Securities

For foreign securities denominated in USD and listed and traded on the Santiago Stock Exchange (BCS), settlement takes place via DCV on a gross basis in the same batches and using the same procedure as local securities. However, cash takes place on a bilateral basis between the counterparties (brokers) using their USD accounts. Therefore, settlement is on an FOP basis.

DCV offers a post-trade Matching Service to its participants allowing local brokers to undertake pre-settlement actions on behalf of the investors more efficiently. The service is offered since 26 July 2012 through Omgeo's platform "Central Trade Manager (CTM)".

OTC trades

DCV settles OTC trades on a gross basis. Nonetheless, the process for OTC trades is different in Chile because the cash leg of the transactions does not necessarily settle at the BCCH. In a significant number of cases, cash settles at Combanc, the Chilean clearing house.

Combanc is a for-profit organisation and was created and used by the Chilean banks. The entity began operations in 2005 and provides settlement for about 80% of all high value trades in the market including transactions related to the securities markets,.

Combanc operates a model based on bilateral credit lines between participants. Every morning, banks have to report to Combanc the credit lines to be extended to their counterparties. By the close of business, those credit lines are closed. Combanc controls the DVP process for the Chilean OTC segment.

OTC Trades – Via Combanc

In the Chilean OTC segment, the settlement cycle is agreed by the parties involved; but usually trades settle on a T+0 basis. Broker to custodian trades settle during the same cycle as on-exchange trades (equities T+2, fixed income T+1 and money markets T+0).

On T+0, the parties involved enter the details of the trade into DCV's system using a web-based interface. At this stage the system provides a "key", which is a password to be included in the instructions to the bank. The key allows Combanc and DCV to link the trade with the payment instruction.

On SD, securities are blocked as soon as these are available in DCV's system. As with the on-exchange segment, blocking starts at 9.00am and the batch is run every three minutes. The process ends at 4.00pm.

By that time, buyers must have completed the "planning" process in which they instruct their bank to undertake the payment. The instruction, which has the trade's "key", is issued outside DCV's system using the bank's own interface. If the trade details match perfectly, the instruction is accepted. Instructions to the bank must be received by 4.00pm. The bank must then notify Combanc by 4.30pm at the latest if it decides to use Combanc to settle the cash leg of the transaction.

Upon notification from the bank, Combanc requests that DCV confirms whether securities are blocked and, if so, Combanc instructs the CSD to complete the settlement. When DCV confirms the settlement of securities, Combanc credits the seller's bank account.

OTC Trades – Via the BCCH

The process for trades settling through the RTGS system at the BCCH is similar to the process through Combanc. The two main differences are that the trade settles as soon as instructions are received by the BCCH and that the deadline to receive instructions from the bank is 5.15pm, which gives banks an additional 45 minutes to process the trades. Otherwise, the procedures between counterparties, DCV and the bank are as described above.

Cash

On-Exchange Trades

As mentioned above, the cash leg of on-exchange transactions settles through the CCLV. In addition, the deadlines for availability of funds are different for each instrument traded on any of Chile's stock markets. After trading sessions have ended, novation takes place at the CCLV at the end of T+0.

On-Exchange Trades – Equity

For equities, funds have to be made available in CCLV's account with the central bank by 1.00pm on T+2 at the latest. The settlement batch is run at this time in order to transfer net obligations. While the process only takes a few minutes, the deadline to complete this is 1.30pm. Once this stage is over, the CCLV notifies DCV and the securities leg of the trade settles.

If a participant does not deliver funds by 1.00pm, the deadline is extended as stipulated by the CCLV rules. Further information on this can be found in the section dealing with fails management procedures.

On-Exchange Trades – Fixed Income

For fixed income trades, the deadline for funds availability is 12.00pm on T+1. If cash is available, net obligations are transferred and the settlement process is completed a few minutes after 1.00pm (although the absolute deadline is 12.30pm). Subsequently, DCV is notified of successful cash settlement and securities are moved to the beneficiary account.

On-Exchange Trades – Money Markets

In the case of money markets, which settle on a T+0 basis, cash must be available by 3.00pm. At this time, the transfer of net funds takes place and upon completion, the CCLV notifies DCV to complete the settlement of securities. The deadline for cash settlement is 3.30pm.

OTC Trades

The cash leg of OTC trades can settle either through Combanc or through the BCCH. This decision is normally made by the banks.

OTC Trades – via Combanc

Combanc participants set up bilateral credit lines amongst each other every morning. At 4.00pm on SD, Combanc calculates the net position of all participants. By this time, buyers must make fund available in their bank account ready to be debited. Once positions have been estimated, Combanc credits and debits participants' accounts. After this, Combanc notifies all banks of their net balances. At this stage banks must place funds on their accounts at the central bank. Also, upon notification from Combanc, banks fund the sellers' accounts. Combanc instructs the BCCH to transfer funds before the close off business; this takes place through the payment system (LBTR).

OTC Trades – via BCCH

If a bank chooses to use the central bank to settle the cash leg of the trade, it has to notify Combanc of its decision. The deadline to make funds available at the BCCH is 5.15pm. However, the trade will settle on a gross basis as soon as funds are available and not necessarily at the end of the business day.

Asset Commitment Periods

On-Exchange Trades

For on-exchange trades, the asset commitment period (ACP) varies according to the type of instrument traded. Overall, buyers face an ACP of no more than 30 minutes, while sellers have a longer commitment period which depends on the market deadline.

For sales of equities (T+2), securities can be blocked at any time between 9.00am and 1.00pm. Meanwhile, the CCLV blocks cash at 1.00pm. If there is no issue with funds or securities, settlement takes place by 1.30pm at the latest. Thus, the buyer faces an ACP of less than 30 minutes. In the case of the seller, depending on the length of time for which securities are blocked, the ACP can be between 4.5 hours or 30 minutes. Taking the mid-point as reference, the ACP for the seller is 2.5 hours.

For fixed income (T+1) the situation is quite similar. On SD securities can be blocked from 9.00am, but the market deadline is

12.00pm. At this time, CCLV begins the cash settlement process. The entire process normally takes a few minutes, but should be completed by 12.30pm at the latest. This implies that, as with equities, the buyer faces an ACP of no more than 30 minutes. For the seller the ACP can be between 30 minutes and 3.5 hours. Taking the middle point, the ACP averages around two hours.

In the money market segment, DCV blocks securities at 2.00pm. Meanwhile the CCLV blocks cash at 3.00pm. The settlement cycle is completed by 3.30pm at the latest. Thus, the buyer has an ACP of 30 minutes. The seller faces an ACP of no more than 90 minutes.

OTC Trades

In the OTC segment, the ACP varies depending on whether the cash leg is settled through Combanc or through the BCCH. In either case, the securities are blocked when they become available. This takes place between 9.00am and 4.00pm.

If the cash settlement takes place via Combanc, funds have to be ready by 4.00pm and the settlement process is normally completed by 4.30pm. This means the buyer's ACP is 30 minutes. The seller's ACP could be between seven hours and 30 minutes. Taking the mid-point as reference, the ACP for sellers is around four hours.

If the cash settles through the central bank, the deadline is extended until 5.15pm. While this increases the ACP for the buyer by 45 more minutes (making the entire period one hour, 15 minutes), the trade could settle at any point during the day as long as funds are available at the BCCH. In the case of the seller, the ACP is also extended by 45 minutes. The mid-point in this case is 1.00pm, which implies an ACP of five hours and 15 minutes.

Irrevocability

Securities are irrevocably committed to the settlement process at the time the transfer occurs in the DCV system during the business day. This occurs between 9.00am and 3.00pm. Cash settlement becomes final upon settlement via the Combanc Clearinghouse or the central bank's LBTR payment system.

Transactions can be revoked prior to settlement. Unilateral cancellation of trades is permitted prior to matching, while bilateral cancellation is required after matching takes place.

Finality

The Law (20,345) on Clearing and Settlement of Financial Instruments includes the concept of irrevocability and finality of transactions. Under this law, once settlement has taken place, it can not be unwound under any circumstance.

Asset Commitment Risk - Key Indicators			
Irrevocable commitment to the processing cycle			
	Transaction Type	*Start*	*Finish*
Securities	On-exchange DVP – Equity On-exchange DVP – Fixed income On-exchange DVP - Money Markets OTC – Combanc OTC - BCCH	9.00am 9.00am 2.00pm 9.00am 9.00am	1.30pm 12.30pm 3.30pm 4.30pm 5.15pm
Cash	On-exchange DVP – Equity On-exchange DVP – Fixed income On-exchange DVP - Money Markets OTC – Combanc OTC - BCCH	1.00pm 12.00pm 3.00pm 4.00pm 5.15pm	1.30pm 12.30pm 3.30pm 4.30pm 5.15pm

Comments (i.e., on pre-funding and irrevocability)

There is no pre-funding, and securities settlement is irrevocable once securities have been transferred between accounts.

Securities processing cycle outlined

For on-exchange trades, which settle on a multilateral net basis, securities are blocked as these become available during the day. DCV transfers securities once the CCLV confirms that funds have settled at the BCCH. The process ends about 30 minutes after the market deadline.

In the case of OTC trades, securities begin to be blocked from 9.00am until 4.00pm. Upon confirmation that funds are available, DCV transfers securities. Depending on whether settlement takes place through Combanc or the BCCH, securities can settle either at 4.30pm or 5.15pm at the latest.

Cash processing cycle outlined

For on-exchange trades, cash settlement takes place at BCCH, following instructions from the CCLV. Prior to this, the CCLV has estimated net cash obligations. Settlement normally is completed before 1.30pm.

For OTC trades, the cash settlement takes place via Combanc before 4.30pm or via BCCH (should the participating bank wish so) before 5.15pm. Combanc estimates net positions while the settlement through the BCCH is gross.

Liquidity Risk

Summary

The main exposure to liquidity risk comes from off-exchange and OTC transactions which settle on a gross basis and have no fails management mechanisms in place. The risk is lower for on-exchange trades due to settlement netting and effective fails management procedures operated by CCLV, the central counterparty.

Processing Model

All transfers of securities within DCV are in an electronic book-entry form. For off-exchange transactions securities are transferred on a gross basis, upon payment confirmation from Combanc. For gross settlement, the DVP model is similar to BIS model 1, with gross settlement of securities and funds. DVP capabilities are available throughout the day (9.45am – 4.30pm) through the facilities of DCV and Combanc.

On-Exchange equities and fixed income settlement is on a BIS Model 3 settlement (i.e., net securities and funds transfers), with netting done on a multilateral basis. There are no existing restrictions on redelivery of securities (turnarounds) on the same day. The DCV system calculates securities obligations on a multilateral net basis for each broker and then moves the net debit positions of each security from the main account to the holding account of each broker.

On-Exchange money market instruments settlement is similar to BIS Model 1 with gross settlement of securities and cash.

Fails Management

For on-exchange transactions, CCLV has a well defined fails management process that starts with the use of a mandatory stock lending facility until 12.00pm. If by then there still a shortage of securities, the transaction is removed from the netting process. If the securities have not been delivered by 12.00pm on SD+1, the buy-in process begins and will continue until SD+4. CCLV will appoint a broker to undertake the buy-in process. If the buy-in process is not completely successful, CCLV would use the guarantee fund to compensate the affected party in the amount equivalent to the outstanding value.

Alternatively, it is possible for the affected party to request a financial compensation and cancel the trade without completing the buy-in process, but this is at the discretion of CCLV's management. CCLV also charges fines and can suspend its members as a tool to prevent fails. If there are insufficient funds, CCLV will use the guarantee provided by the clearing members to settle the trade (please refer to guarantee funds below).

For off-exchange transactions there are no fails management mechanisms in place. If a trade remains outstanding, it is cancelled at the end of SD and a new instruction must be submitted the following day.

Credit Facilities

The Central Bank also provides a repo facility for participant banks to obtain funds intra-day. The most common mechanism is the intra-day liquidity financing (locally known as FLI), which is a repo managed by the central bank with 0% interest rate. It appears to be widely used by banks. There is also interbank lending and an overnight repo, although this is only used to control the interest rate.

The repo market in Chile is not subject to any taxes.

Overdrafts are not possible for foreign investors.

Securities Lending

Title VI of Law 20,345 provides a legal basis for stock lending and borrowing. Stock lending is permitted within the market but loans are contracted externally to DCV; however delivery of securities takes place within DCV via book entry movement. Securities lending in the market seems to be predominantly between Pension Funds (lenders) and Broker/Dealers (borrowers).

CCLV manages a compulsory stock lending and borrowing market as part of its fails management mechanism. The mechanism is automatically activated by CCLV if there is an uncovered position after the ‘cover’ process ends. This period is called the ‘complementary’ period and is used to obtain missing securities or cash for settlement. It should last around 60 minutes unless the required securities or cash to meet the settlement obligations are found.
The SBL mechanism does not appear to be very active and there is no centralised pool of securities.

Eligible securities to be used as collateral include US Treasury Bonds and Notes held at DCV's account at DTC.

Registration Model

For book-entry transactions in DCV, there is no separate re-registration process and securities are available for re-delivery the same day (immediately), with some limitations. All shares held at DCV are registered in the depository’s name at the issuing company. DCV allows participants to open sub-accounts under the participant’s main account.

DCV also permits nominated accounts (cuentas nominadas), which allow participants to hold the account at the beneficial owner level.

In the issuer’s register, ownership is registered and changes are made on a regular basis. The issuer registers the securities deposited at DCV under DCV’s name, but the issuer must have an auxiliary registry in which the real ownership of the securities is recorded (registered).

Deposited securities

As atJuly 2014, 95.8% of the securities deposited at DCV were in dematerialised form; the remainder in immobilised form. No physical transfers of securities are supported.

As atJuly 2014, the value of all securities held in DCV was USD 280 billion. On 29 August 2013 the first local ETF was launched and it is held at DCV.

Deposit and Withdrawal of securities

For the initial immobilisation of equities, the security is re-registered in the name of DCV’s central nominee, thus rendering securities into fungible form. Legal transfer of title occurs once securities balances are transferred on the books of DCV. Re-registration of an issue typically takes one day, as defined by company law. In this case, securities are available for onward delivery the next business day.
Through different regulations, the use of DCV is mandatory for pension funds, mutual funds, investment funds and insurance companies (safekeeping) and brokers (settlement).

The law of Pension Funds states that no less than 98% of the securities held by pension funds must be safekept in the Central Bank, in foreign companies authorised by it, and in Chilean Central Security Depositories. However, since the Central Bank currently does not offer safekeeping services, DCV is the only company located in Chile qualified for pension funds to meet this obligation.

Since 1998 the securities movements associated with all brokers’ trades have been settled at DCV.

Since 2003 the Capital Market Law established as mandatory for insurance companies to deposit their securities at DCV in the name of the beneficial owner.

Since 2007 the Securities and Insurance Superintendency (SVS) established as mandatory for investment funds and mutual funds to deposit their securities at DCV in the name of the beneficial owner.

For fixed income and money market instruments, the issuer or participant submits a transfer (‘traspaso’) instruction to DCV and DCV automatically loads and reviews the information in the system. This process takes a maximum of one hour.

In the case of equities, DCV receives a deposit form from the participant (in physical form). DCV then enters the data into the system and confirms with the issuer that the participant holds the requested amount of securities to be deposited. The issuer then has 24 hours to confirm or reject the deposit instruction.

Securities can be traded but not settled during the deposit period.

The withdrawal process for fixed income and money market instruments is only possible if the security is issued as 'withdrawable', which means that the issuer specified at the time of issue that it is able to provide a certificate for this. All equities in the market are withdrawables.

If 'withdrawable', DCV receives a withdrawal certificate from the participant and proceeds to remove the security from the system. The holder can request a certificate to the issuer and the issuer has seven days to issue it.

Liquidity Risk - Key Indicators

Settlement Models

OTC: BIS Model 1 - gross settlement of securities and cash.

On-Exchange: Similar to BIS Model 3 - Simultaneous multilateral net settlement of securities and multilateral net settlement of funds.

Processing Periods

Overnight (by batch)

No

End of day

No

Batch daylight processing

Yes

Real-time and on-line

Yes

Other

No

Credit Facilities

Central bank money used to settle cash elements of trades

Yes

Credit facilities provided by the CSD

No

Credit facilities provided by commercial banks

Yes

Comments

Settlement in central bank funds is optional for off-exchange and OTC trades and compulsory for on-exchange trades.

Stock Lending

Is stock lending permitted in the market

Yes

Are stock lending facilities provided by the CSD?

No

Are stock lending facilities provided by commercial banks/brokers?

Yes

Comments

CCLV operates a mandatory stock lending facility for fails.

Transfer of Securities

Are securities deliveries achieved by book-entry?

Yes

Comments

Securities are held by DCV in Nominee form. Transfer of securities in the settlement process is final and irrevocable.

Registration of Securities

Period of time required to register a holding?

Deposits of physical certificates typically receive book-entry credit within one day. Registration is immediate with transfer.

Comments

The market is largely dematerialised or immobilised so physical movement of securities has ceased to be a major consideration for the market.

Counterparty Risk

Summary

The introduction of CCLV in the Chilean market has helped reduced the counterparty risk exposure for participants in the on-exchange market due to the strength of the CCLV and the mechanisms used to minimise this risk. For off-exchange and OTC transactions, the only mechanism used to minimise counterparty risk is the use of a non-simultaneous DVP system with replacement cost risk not covered. The existing regulation does not fully support finality of OTC transactions.

Participant Counterparty Risk

Although DCV does not control the DVP process, counterparty risk exposure for on-exchange transactions in the Chilean market appears to be marginal due to the role that CCLV plays in the settlement process.

For the on-exchange market, counterparty risk is absorbed by the CCLV, the central counterparty set up by the Bolsa de Comercio de Santiago (BCS) in September 2010 (see additional details on the CCP section below). CCLV manages a number of guarantees and can use its own capital in order to guarantee the settlement of transactions. Bank members of Combanc are exposed to each other given the loss sharing arrangements in place. Although there are risk management procedures in place, in the event of default by one of the banks the collateral posted by all members will be used.

For on-exchange trades, if CCLV only novates trades at the end of the day, any default during the trading day would mean the transactions executed with that counterparty for that day would not be covered.

Risk Containment Model

The risk containment model for transactions settled through DCV, varies depending on the market in which the securities are traded. In the case of on-exchange trades, CCLV, which novates trades by the close of business on T+0, holds an account at the BCCH to settle cash obligations (additional information can be found under the heading for 'Central Counterparty CCP').

For the OTC market, the only mechanism in place to mitigate counterparty risk is the use of near-simultaneous DVP, which ensures that there is no principal loss. However, there are no other mechanisms in place in the event of default to minimise market risk. On the cash side of an OTC trade, the risk containment model used by Combanc is based on the combination of four mechanisms that aim to minimise counterparty exposure.

• Bilateral credit lines- these are established directly by the banks themselves based on their risk analysis, which should take into consideration their daily liabilities and exposures to other members. This takes place by 9.35am at the latest.

• Level of credit assigned by other banks- if a participant cannot obtain a credit line of at least USD 3 million by at least 50% of the other banks, then Combanc suspends that bank as it indicates that its peers do not trust it and, thus, there is a non-negligible level of counterparty exposure.

• Cash collateral- Combanc requires banks to deposit funds as collateral equivalent to 11.5% of their maximum credit line. Collateral is deposited on a daily basis in an account at the BCCH. Participants obtain funds for their cash position by conducting REPO operations with the BCCH. Combanc blocks these funds until the market closes and all obligations have been covered. At this point Combanc instructs the BCCH to reimburse the funds to each bank.

• Loss sharing agreement- Combanc has set a mechanism that would cover the maximum multilateral default. This is estimated in function of the credit lines set by the banks themselves. In case of a default, the cash collateral is used to cover the shortage of funds. If the collateral is insufficient, then the outstanding balance is covered with the collateral guarantees of other participants on a pro-rata basis. When a problem arises, Combanc notifies all participants and the BCCH. The defaulting party faces penalties and could be suspended from operating on the next day.

For OTC trades conducted through BCCH, the risk containment model is limited to the availability of funds before settlement of securities and the DVP arrangements set up between the BCCH and DCV. For the delivery of securities in the OTC segment, the risk containment model is limited to DCV's blocking of securities when these become available on SD.

Delivery Versus Payment

DCV does not control the DVP process for either on-exchange trades, nor for the OTC segment.

For the on-exchange market, CCLV coordinates the movement of cash and securities. Once the netting process of outstanding obligations has been processed and net buyers make funds available, CCLV instructs DCV to transfer the securities. The DVP is simultaneous final and irrevocable for these transactions. The DVP is in central bank funds, on a BIS model 3 with multilateral netting for cash and securities. Nonetheless, the two systems operate on different platforms.

Foreign securities traded on BCS settle on an FOP basis with cash settling via their counterparties' accounts in USD. Securities are transferred via DCV on a gross basis.

In the OTC segment, the DVP process is managed by Combanc or the BCCH (depending on the choice of the bank). While movement of securities and the related payment are linked, they occur in separate systems and generally occur a few seconds apart.

Role of Central Counterparty (CCP)

The Chilean Congress passed the Clearing and Settlement of Financial Instruments Bill on 6 June 2009 (Law 20,345), which complements the Securities Market Law (Law 18,045). The new legislation introduces the concept of central counterparty (CCP) and establishes the rules to which CCPs are subject.

CCLV commenced operations in Chile in September 2010 for on-exchange transactions. CCLV is fully owned by the Bolsa de Comercio de Santiago (BCS) and has a capital of CLP 4,735 million (approx. USD 9.04 million) at 31 December 2013.

CCLV becomes the central counterparty for on-exchange trades via novation, which takes place at the end of T+0. In the event of a default, CCLV has four lines of defence to cover its obligations:

- Individual Guarantee
- Guarantee Fund
- Reserve Fund
- CCLV’s capital

Please refer below to Guarantee Funds for additional details of the guarantees managed by the CCLV.

CCLV also holds committed lines of credit with at least 2 different Chilean banks, according to the law. At least one of these lines of credit will be exclusively used to pay CCLV debit balances associated with the clearing and settlement of derivatives and equities instruments, and at least one credit line must be used exclusively to pay debt balances to CCLV; referred "lines of credit used as an exclusive purpose" so that any money transfer made from them can only be instructed by the respective bank, as a participant in the RTGS system of the Central Bank of Chile, to the relevant cash account of CCLV and that operates as settlement account for the purpose of participation in the RTGS system.

Participant Criteria

DCV has clearly defined participation criteria, although there are no minimum capital requirements approved by law. However, according to the requirements of the SVS, broker-dealers who trade solely for their own proprietary account require USD 275,000 in capital and those wishing to trade on behalf of clients require USD 550,000. The criteria are defined in Law 18,876, which authorises the following possible participants: Tesoreria General de la Republica de Chile (State-owned company), Central Bank, Corporacion de Fomento de la Produccion (state-owned company), banks, stockbrokers, mutual funds, investment funds, foreign investment funds, pension funds, insurance companies, stock exchanges, other companies authorised by DCV. The Board of Directors of DCV may authorise other companies to participate.

However, since CCLV started operations, all brokers have become direct clearing members and must comply with CCLV’s minimum capital requirements. They stand at USD 890,000 for clearing members that do not provide services to indirect clearing members and USD 1.7 million for members that provide services to indirect members.

For banks, the minimum capital requirements established by the Superintendency of Banks stands at around USD 37 million at December 2013. These levels of capital appear to be adequate for the size of the market and by international standards.

Other direct participants in DCV such as pension funds and insurance companies do not have any minimum capital requirements in place.

Participant Concentration

There does not appear to be a significant concentration risk in the Chilean market. In the off-exchange and OTC segments there is mild concentration as there are a large number (180) and varied range of participants. The largest participant accounted for 10% by transaction value while the top 10% of participants (15) accounted for 65% in 2010.

For on-exchange transactions, there are 44 brokers acting as participants.

Financial Compliance/Surveillance

DCV does not monitor the financial status of its participants. In addition to the surveillance which is undertaken by the SVS, both the CCLV and Combanc, monitor the financial status of their participants.

The CCLV monitors the intra-day exposure of the clearing members and takes collateral based on the value of their outstanding positions. Combanc also monitors the intra-day exposure of banks and sets limits based on their initial collateral and the caps set by the other participants in the system.

The Superintendency of Pension Funds monitors the transactions and exposure of pension funds in the market.

Following the cancellation of the operations of Alfa Corredores de Bolsa (Alfa - Brokerage house) in the market on 23 April 2008, the SVS now requests all brokerage houses of the market to report their liquidity and solvency indices on a weekly basis. The information is published on the websites of the brokerage houses and the SVS.

Guarantee Funds

DCV does not operate any guarantee funds and there are no loss-sharing arrangements in place.

However, the CCLV manages guarantees as part of its operations as central counterparty . There are different types of guarantees collected by CCLV:

1. Individual guarantee – It is composed of the Minimum and the Current Guarantee. The CCLV will request clearing members to provide the higher between these two values. On 31 July 2014 the total level of individual guarantee collected by the CCLV stood at USD 84 million (1 USD = 570.51 CLP as of end of July 2014).

- The minimum guarantee is the minimum level of guarantee required by the CCLV that clearing members must maintain in the system at all times in the system and it is based on the historic net positions of each clearing member.
- The current guarantee is the level of guarantee required by the CCLV based on the existing net positions that direct and indirect clearing members hold. It is designed to cover the losses associated with price changes in the event of default.
- Additional Guarantee: It is the additional guarantee that the CCLV can request to clearing members in extreme conditions.

2. Guarantee Fund– It is a fund created to cover any additional losses incurred in the event of default where the individual guarantees provided by the defaulter are insufficient. The contribution to the guarantee fund is calculated on the last working day of each month. Clearing members may be required to post additional collateral to cover their obligations. The value of the fund as at 31 July 2014 was USD 26.93 million.

3. Reserve Fund – This fund was created by the CCLV using CCLV's resources in order to guarantee settlement. The initial size of the fund was USD 1 million but is augmented with the fines charged to clearing members in the event of late settlement.

The Guarantee Funds for the clearing and settlement of equities and the Clearing Chamber System will be equal to at least the total of the two biggest potential losses not covered by the current required individual collateral, considering extreme market conditions within the last 250 days.

The guarantees are regulated under Law 20,345. They can be constituted in cash or securities but maximum 30% of the collateral required can be deposited in equities. The guarantees are stress tested using historical data and have a 99% confidence level.

Combanc is a clearing house but does not act as central counterparty. It generally works on loss-sharing arrangements between members (all banks). As part of its risk management strategy, the system allows for banks to set bilateral limits with each other and also requires banks to provide 11.5% of the highest limit given in the system. The collateral must be 100% in cash.

Counterparty Risk - Key indicators

Capacity of CSD

Agent

Surveillance of Participants by CSD

No

Settlement Assurance

On-exchange – Use of CCLV
Off-exchange and OTC transactions – Use of a near-simultaneous DVP mechanism.

Participation Criteria

N/A

Minimum Capital (local currency)

Brokers:
Client assets: UF 6,000
Proprietary trading: UF 12,000

Clearing Members:
No services to indirect clearing members: UF 20,000
Services to indirect clearing members: UF 40,000

Banks: UF 800,000

UF – Unidad de fomento – is an inflation adjusted unit of account adopted by the Chilean authorities in the 1960s when inflationary and currency issues were a concern. The UF is widely used in Chile’s financial industry and by authorities.

Size of Guarantee Fund - (Name, local currency, Euro and USD - (millions))

CCLV as central counterparty (31 July 2013):

- Guarantee Fund: USD 21 million
- Reserve Fund: USD 17 million

Does the CSD act as a Central Counterparty?

No
Participant Concentration (Local Currency Millions)
Value of transactions in the market by top 10% of participants 65%
Volume of transactions by top 10% of participants 44%
Volume of largest individual participant 17%

Asset Servicing Risk

Summary

DCV Registros (DCVR), a wholly owned subsidiary of DCV, provides corporate actions information by physical letter to shareholders on a daily basis for those issuers where it acts as registrar and largely accepts responsibility for its completeness, accuracy and timeliness. DCV receives this information from a variety of sources including issuers and the official market source (the stock exchange) and verifies the data with third parties to the extent possible. Most issuers provide documents on magnetic media, the minority is provided in physical form but manual input is required in DCV's system.

DCV is not involved in the processing of corporate actions instructions. DCV Resgistros provides shareholders' services upon request of the issuer.

DCV Registros manages the records of shareholders and beneficial owners of more than 230 issuers, with a staff of highly trained professionals to meet the diverse needs of its participants, always watching over the security, transparency and quality of the services.

Information processing

DCV Registros actively collects corporate action information from issuers, the three stock exchanges and the press. While the process for information gathering and input is manual, DCV Registros' performance record for accuracy and timeliness of information has been good, even though they are not generally considered to be the primary source of information for market participants. The three stock exchanges - Bolsa de Comercio de Santiago (BCS), Bolsa Electronica de Chile, the Valparaiso Stockbrokers' Exchange and also the Superintendencia de Valores y Seguros - collectively act as the official source of corporate action information in the Chilean market. Where issuers have signed a contract with DCV Registros to provide all relevant corporate action material, that information is received in physical form which requires manual input into the depository's system. However, all information is input by different members of staff in DCV Registros' system and matched to minimise the risk of errors. Corporate actions data from other sources is received through the mail and is therefore also required to be manually keyed into DCV's system. As far as possible, all corporate action data is verified with a third party such as financial newspapers or the stock exchanges.

Corporate action notifications are transmitted to DCV shareholders via physical letter. Shareholders are advised of mandatory and optional corporate events providing they have a position in the relevant security. DCV does not provide confirmations of final entitlements, nor does it provide full prospectuses.

Where an issuer has signed a contract to provide DCV Registros with all relevant corporate action information, DCV Registros will accept responsibility for the completeness, accuracy and timeliness of such information without qualification, assuming that DCV Registros transmits the same information provided by the issuer. The information must be published at least 20 days before the event in a national newspaper. For corporate action information relating to an issuer that has not signed such a contract, DCV Registros will only accept responsibility for direct losses that result from its negligence. The depository maintains an insurance policy specifically for this purpose.

Instruction processing

DCV does not process participants' corporate actions instructions. The depository's role in corporate events finishes once it provided the list of securities holders to the issuer or registrar. Participants need to instruct the registrar or issuer directly. DCV Registros acts as paying agent for those issuers that have appointed it as registrar. DCV Registros acts as registrar for approximately two-thirds of the equity issuers in Chile.

DCV Registros has accounts with a commercial bank (BCI) for the payment of income. For the payment process, it is established in the agreement in place that issuers shall deposit the funds 48 hours or 24 hrs at the latest (exception), prior to payment date and these are electronically distributed on PD to the holders' account (investor). There have been no instances in the past when payment has been delayed or paid late by DCV Registros.

Proxy Voting

DCV notifications of all general meetings are transmitted to participants via the proprietary electronic system. DCV Registros will accept responsibility for losses caused by its failure to notify participants of a pending general meeting in the following circumstances:

-DCV Registros receives notification of a general meeting from an issuer, but fails to transmit this data to participants within an acceptable timeframe;

-DCV Registros receives notification of a general meeting from an issuer but transmits incorrect or inaccurate information to its participants;

Where DCV Registros has signed a contract with a specific issuer agreeing to take-on such responsibility.

DCV Registros' role in the proxy voting process finishes once it has issued a notification. Requests for additional corporate governance information should be made directly to the issuer. Participants must be in attendance at the general meeting to cast their vote.

DCV Registros helps issuers for which it acts as registrars to organise general meetings of shareholders. As at December 2012 DCV Registros organised and participated in 197 shareholders' meetings.

Foreign investors holding shares on Chilean issuers part of MILA market must submit forms Anexo 06-A and 06-B (powers of attorney – private or public documents respectively) included in the MILA Operations Guide in order to exercise their right to voting during the AGMs.

Other services

DCV does not provide any additional asset servicing facilities. Tax reclaims are not possible through DCV. The sale of rights and subscription and redemption services for funds are performed by brokers and issuer-appointed banks, respectively.

DCV is recognised as a financial provider in compliance with FATCA and its Global Intermediary Identification Number (GIIN) authorises DCV to operate in the US market. In this respect, DCV has also required its participants to provide DCV with the information in line with the requirements of the FATCA.

Asset Servicing Risk - Key indicators
Information processing
Securities covered Equities, corporate and government debt
Information sources used Issuers, stock exchanges & press
Information provided in English No
Number of Events during last full year
Dividends

185 (2013)

Interest & Redemptions

N/A

Corporate actions

384 (2013)

Notification via

Letter

SWIFT message types

No

Notification within

Same day

Information processing comments

The interest and redemption figure is included in dividends and corporate actions.

Instruction processing

Use of depository

Not used

Settlement on due date

N/A

Optional corporate actions supported

Yes

Cash account credited

Yes

Central paying agent

No

Entitlements based on

N/A

Instruction processing comments

Optional corporate actions supported is information only

Proxy voting services

On-line

No

Outsourced

No

Announcement of meetings

Yes

Elections (Voting)

No

Results reporting

No

Financial Risk

Summary

DCV's financial exposure is limited as it neither acts as a central counterparty nor provides any guarantee of settlement. Its principal exposure is through operational risks, for which it has sufficient insurance. DCV's capital base appears to be low relative to CSDs with a similar business base although it has created a reserve fund to cover any unforeseen events. There have been no reported operational losses during the past five years. DCV is a privately incorporated entity. It operates as a for-profit enterprise and has reported good profits over the past few years.

Financial and other Resources

Capital Structure

The ownership of DCV is as follows: 27% Sociedad Interbancaria de Depósito de Valores S.A. (Banks), 27% Inversiones DCV S.A. (Pension Funds), 21% Bolsa de Comercio de Santiago, Bolsa de Valores (Santiago Stock Exchange), 10% DTCC Holdings LLC, 9% DCV Vida S.A. (Life Insurance Companies), 5% Inversiones Bursátiles S.A. (Santiago Electronic Stock Exchange), and 1% others.

Shareholders' capital plus reserves was CLP 6,917.36 (USD 13.16 million) at 31 December 2013 compared to CLP5,803.71 (USD 12.1 million) at end of December 2012 (USD 10.4 million in December 2011). It included CLP 4,089.8 million paid-in capital, and CLP 2,827.54 million of retained earnings. Although the amount of capital seems to be low, DCV can call for additional capital from its shareholders. While there are no pre-defined conditions, DCV has made two capital calls, the first was in 1994 in the amount of USD 2.6 million . The reason for this was that the development of the DCV system ran over time and over budget. All shareholders met the call, which demonstrates the willingness of the owners to support the CSD. The second capital call was made in August of 2010 for USD 2.1 million by DTCC Holdings LLC, which became a new shareholder of the company. The minimum capital requirements for DCV under the current law is UF 30,000, which corresponds to approximately USD 1.2 million. {Note: The Unidad de Fomento (UF) is an accounting unit that is calculated on a daily basis relative to the CLP based on the inflation rate in the last two months.}

DCV recently amended its dividend policy which is now to distribute at least 30% of dividends to shareholders. Although it has historically distributed 100%, in the last year DCV decided to retain some profits in order to create a reserve fund. The target value of the fund is to cover 6 months of operational expenses. At June 2014 the fund covered 3 months of expenses.

Earnings Performance

DCV has been increasingly profitable during each of the past six years due, in part, to a steady increase in transaction and custody volumes. At the end of December 2013, DCV reported net profits of CLP 1,601.6 million (USD 3.05 million) a 39% increase compared to CLP 1,154.2 million (USD 2.4 million) reported in 2013. Primary sources of revenue include; safekeeping and custody (80%), and other services (20%). DCV requires the approval of its Board of Directors and the Superintendent of Securities and Insurance in order to increase fees. This raises the possibility that politics could interfere with CSD's ability to adjust its revenues as the Board is solely made up of participants. A further constraint on financial flexibility is the inability of DCV to impose special assessments on its participants. Given that revenues and expenses have a large fixed component DCV's earnings capacity is constrained, however, they have sustained consistent profitability for several years while maintaining a practice of providing participants with fee discounts of fees.

Guarantee Funds (Central Counterparty Funds Only)

DCV maintains no guarantee funds as it has no responsibility to assure settlement.

Access to Credit

DCV can raise funds through borrowing in the market. Since 2005 DCV has no outstanding loans with local banks. DCV has set up a committed credit line with two banks of about USD 3 million.

Insurance

DCV is required by law to have insurance coverage equivalent to 1/1000 of securities under custody. The insurance policy is reviewed once a month in order to meet the legal requirements. As at 31 December 2012, DCV's insurance coverage was USD 305 million.

Each year the insurance policy is renewed.

DCV carries insurance in the form of a Banker's Blanket Bond (BBB) for USD 305 million. In addition to that DCV has a terrorism policy for USD 25 million and the electronic fraud coverage is up to USD 257 million.

Potential Claims on Financial Resources

Credit Loss

Potential calls on capital are low. DCV does not guarantee settlement nor does it provide credit to its participants. Given that over 95% of securities in DCV are dematerialised and the remainder are immobilised, safekeeping risks are low.

Central Counterparty Exposure

None

Liability for Operational Losses

By law, DCV has the highest level of accountability to its users called for in Chile. DCV accepts liability for direct losses caused by the depository's errors, omissions or fraud (not including force majeure events), including failures in the depository's systems, and reconciliation errors (through the fault of the depository only). DCV has recorded no claims which have resulted in operational losses of any material nature.

Investment in Infrastructure

DCV is continously upgrading its systems as well as developing new systems for new products such as the new centralisation of forward contracts.

Financial Risk - Key indicators

Ownership of the CSD

	Number - Domestic	Number - Foreign	Total Percentage
Central Bank	0	0	0
Stock Exchange	2	0	26
Participant banks	25	0	27
Broker/dealers	0	0	0
Mutual funds	0	0	0
Private clients	0	0	0
Others	-	0	1
Pension Funds	6	0	27
Life Insurance	53	0	9

Companies			
DTCC Holdings LLC	0	1	10

Comments

DTCC is the CSD in the USA.

Statistics

	Capital structure Local Currency
Issued capital	4,089,817
Reserves	0
Retained earnings	2,827.54
Total	6,917,358

Comments

Statistics (in CLP thousands) as at 31 December 2013

Lines of stock

	2009	**2010**	**2011**	**2012**	**2013**
Lines of stock	N/A	N/A	N/A	N/A	N/A
% Stock Exchange transactions cleared & settled through CSD	N/A	N/A	N/A	N/A	N/A
Total value of securities under custody	106,063	121,584	136,053	146,118	148,017

Comments

Value of securities under custody in CLP million.

Equities

	2009	**2010**	**2011**	**2012**	**2013**
Market Value	28,683	41,757	39,137	43,195	41,455
% of issued securities in the CSD	N/A	N/A	N/A	N/A	N/A
% of market capitalisation in the CSD	N/A	N/A	N/A	N/A	N/A

Comments

Market value in CLP million.

Fixed Income

	2009	2010	2011	2012	2013
Market Value	48,005	51,451	63,203	68,181	71,048
% of issued securities in the CSD	N/A	N/A	N/A	N/A	N/A
% of market capitalisation in the CSD	N/A	N/A	N/A	N/A	N/A

Comments

Market value in CLP million.

Money Markets

	2009	2010	2011	2012	2013
Market Value	29,374	28,376	33,713	34,742	35,524
% of issued securities in the CSD	N/A	N/A	N/A	N/A	N/A
% of market capitalisation in the CSD	N/A	N/A	N/A	N/A	N/A

Comments

Market value in CLP million.

Expenses

	2009	2010	2011	2012	2013
Expenses as % total operating revenue	67%	68%	72%	80%	87%

Operational Risk

Summary

DCV maintains a comprehensive system of internal controls and procedures. Depository, clearing, data processing and business continuity key controls and related procedures, which are consistent with DCV's business, exist and have been satisfactorily tested by independent external auditors. Other operational risk controls systems exist, which are all regularly reviewed by the Vigilance Committee and Internal Audit group and reported to the Board of Directors.

The Board of Directors and the CEO of DCV have overall responsibility for risk management policy and procedures. By law, the participants in DCV form and operate a committee (Vigilance Committee) to supervise the general performance of the company, with particular attention to risk and audit. A financial controller reports audit matters directly to the Board. A daily activity report is sent from the system to the executives and engineers by e-mail. Risk management and procedures are updated as often as necessary. Once a year, the Internal Audit Group verifies the accomplishment of these tasks. The Audit Group reports directly to the Board of Directors. Within this Board, there is an Audit Committee composed of three members of the Board.

DCV does allow for the use of electronic means to communicate relevant issues to participants and issuers.

Depository controls

Controls in DCV are aimed at protecting participants' securities on deposit against loss and inappropriate disposition. The main controls include:

• Physical Controls

The different areas in DCV's premises are classified as 'prohibited', 'restricted' or 'public' depending on the level of security defined;
There are closed circuit television cameras in the building, which are monitored by the security staff;
There are movement sensors in some specific areas and are activated during non-working hours and days;
Access by staff is controlled by electronic cards with restrictions to certain areas.

• Reconciliation

- A reconciliation process is automatically run every night to reconcile securities positions with participants. If differences are identified, the process stops until corrected.
- A random sample of physical securities selected by the Vigilance Committee is counted periodically, by the Custody Area, Internal Audit Department, and 2 external auditors.
- The vault was built to the highest security standards, the zone is monitored by security guards, access is restricted and involves the use of electronic ID cards.
- A balance report is sent daily to transfer agents (DCV Registros and issuers) and DCV's reconciliation unit checks balances periodically.
- Withdrawals must be ordered using DCV's client application software, with user ID and password, followed by an authorised person's signature.
- Access to different functions in the system is restricted. Custody's personnel only have access to process deposits and withdrawals.

• Risk Management

DCV's risk management considers an integrated view of the Operational Risk, Business Continuity, legal or regulatory risk and Information Security functions.

As at March 2014, 98% of the processes related to services that DCV provides, have been analysed from the risk point of view according to the risk management model defined by the company. The DCV risk management model is based on the requirements set by the regulator (Superintendencia de Valores y Seguros), through its Circular Nº 1939.

DCV`s Corporate Governance includes two Risk committees, one at the Board leel and one at the Management level. The Operational Risk Management Committee is formed by one member of each area of DCV, and has the responsibility to propose and approve -as a first resort- the internal regulation of the Risk Management.

DCV has a General Risk Policy, which sets the roles and responsibilities of each participant of the risk management model, as well as the definition of risk at the DCV. The current risk assessment model considers the following stages:

-Context set up. Consist in setting up basic parameters through which operational risk management will be carried out.
-Risk Identification. Involves the definition of risk factors that could initiate a threat associated with the process.
-Risk Analysis. Risks are assessed considering the impact and the probability that the event will occur.
-Risks Treatment. The objective of this phase is to monitor the risk, the effectiveness of the risk treatment plan, the strategies and the system administration which has been set up in order to control the implementation, taking into account risks treatment techniques.

• Audit

DCV has a well established internal control area, which consists of three people in the operational audit area and three in the IT audit area. During 2012 and 2013 , DCV reinforced the area, committed to segregate the risk management functions and audit, and as a result the area of Operational Risk was created as a separate division.

The audit plan is designed every year and presented to the Audit Committee in December for approval. It is however adjusted throughout the year depending on the needs and the events that take place. Priority is given through a methodology based on risk, analysing a number of factors such as events, IT systems, regulatory changes, recent frauds, management changes, financial changes, number of employees, results of last audit and specific risks.

The internal audit department reports directly to the Board of Directors and closely works with the Audit Committee.

DCV is also regularly audited by external operational and technological auditors which provide independent evidence of their internal controls and procedures.

The Participants' Vigilance Committee each year establishes an audit plan and appoints an external audit firm to execute regular reviews, like audits on physical securities and DCV's vaults every quarter. The results of the report are provided to the Vigilance Committee (composed of DCV's participants) and to the SVS.

DCV appointed Ernst & Young to undertake a Type II ASA 3402 report, to review and assess DCV's controls. The report was completed and no exceptions were found. The process included testing and assessing 30 process identified controls during the period 1 June to 30 November.

Staff Training

There is a specific budget allocated to staff training, which is distributed across the different areas and the budget has been over spent in the past two years. A one-day general training session is provided to each new employee and each area provides training for each specific role. In addition, the human resources area developed an e-learning course to assess the employees' knowledge of the companies' policies.

Training courses and scholarships are available but must be sponsored by the head of each area.

There is no policy to rotate employees across the organisation although each employee has a back-up in case of unavailability.

Clearing controls

All transfers of securities by DCV must be completed in book-entry form. Any physical securities to be settled through DCV must first be delivered to DCV for deposit. There is typically not more than a one-day deposit period for securities. Procedures vary in accordance with the securities: transfer deeds are used for stocks and different forms of endorsement in the case of registered/bearer debt securities. DCV is not involved in the payments' clearing, which is carried out by the Combanc clearinghouse or less frequently via the Central Bank's RTGS payment system.

Participants can verify that instructions initiated by them have been accurately carried out through on-line contacts with DCV. DCV provides user interface via GUI, File Transfer or SWIFT Messaging. No negative balances are permitted in securities accounts. Securities can only be transferred and made available to purchasers following notification of the delivery of the payment from the Santiago Stock Exchange clearinghouse to DCV (shares) or from the seller of such securities to DCV (other types of securities).

Reporting

DCV maintains an on-line system which allows participants to view their current custody position in the depository in real time. DCV has completed development of a system which will allow clients of DCV participants whose assets are held in a separate sub-account to view their positions directly at DCV via the internet.

Digital Signature

Participants who require ownership certificates can issue them locally but a digital signature is needed to have access to the information. The use of this measure is extended to different options of DCV's system in order to guarantee the investors information safety.

Data processing controls

DCV has a range of controls to assure its own business continuity and to guard against operational risk. Access control policies are in force, with passwords and user profiles, to ensure data integrity. The technology engineer in charge of each platform must keep all records as stated by policy and the audit department reviews these parameters periodically. Any changes in software must follow a software change procedure, which includes documentation and authorisation prior to installation. Production problems are monitored closely and system engineers are on-call at all times. Duties are segregated, with the technology department in charge of information security, the Operation IT department in charge of computer operations and the systems department in charge of applications developments.

The data centre, with restricted access requiring electronic ID cards, has an environmental control system, for temperature, humidity, smoke, movement and fire, which is triggered automatically. DCV contracts an "ethical hack" of its systems on a regular basis.

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Interfaces
DCV links with CCLV and Combanc via SWIFT although these are not on 15022 standards. The link with the BCS is via file exchange. All links have back-ups and there are regular connectivity tests with all entities that link to DCV.

The Central Bank of Chile (BCCh) and DCV are working on the implementation of messaging with ISO 15022 standards in the settlement process of the BCCh's transactions.

Disaster Recovery/Business Continuity Procedures

Looking for a high standard to guarantee the availability of the Critical Business Services and safeguard the physical safety and integrity of staff, DCV developed the Business Continuity Management System by strengthening their governance arrangements and committing efforts under the framework of the norm BS25999, which provides guidelines for international good practices on business continuity.

On 1 October 2013, the BSI Group granted the Business Continuity Plan Certificate to DCV based on British Standards BS 25999. The BSI is considered one of the main organisations certificating entities on disaster recovery and business continuity standards. DCV also completed an ISO 22301 certification for business continuity management in May 2014.

DCV defines in its vision, that the DR and BC are strategic priorities for the business development. Its goal is "to be the last component of the financial system that stops operating and the first to be recovered", regardless of the nature of the incident.

Accordingly, DCV maintains a high level of governance represented by the company's directors and the senior management, with specific roles and responsibilities that includes organisational and functional structures, represented by the owners of the process and Emergency Committees in the position of the Business Continuity Official, dedicated exclusively to BCP.

Under this line, a key tool that DCV provides is the Business Internal Analysis, the Business Continuity Plan and the Disaster Recovery and Crisis Management Plan and the Incident Management plan, amongst other.

The incident management requires counting with properly informed and trained personnel to act timely, in order to manage a crisis and avoid a major disaster that would cause a high impact event for their staff, installations, products or services. DCV undertakes regular tests to make sure the plan is operation and to identify areas for improvement.

As part of the continuous improvement of Business Continuity Management System and given the relevance of the services that provides to the market, DCV has initiated the process of strengthening the Plan of Communications, the alignment of strategies according to the business time objectives and the constant review of the High Management in the BC area.

Details

DCV has two different internet providers in order to guarantee the continuity of its services and a quick back up connection in case an issue affects the service to one of them.

The Disaster Recovery plan includes the use of two alternate sites in Santiago (separated by around 10 kms). Both sites are hot and DCV switches production from one site to the other on a regular basis. Both sites are subject to strict access controls.

Testing is undertaken once a year and the tests are audited by the internal and external auditors. The disaster recovery plan was also tested in a real-live event during the earthquake of February 2010. There were no losses in data or delays in processing as a result of this event.

On 28 January 2011, DCV activated a further contingency site at DTCC's premises in the USA. The new contingency site is in addition to the two operating sites that DCV maintains in Santiago, Chile and replaces the previous site held in Concepcion, Chile. The change follows a new IT strategy developed by DCV after the 2010 earthquake. The project was developed in two stages:

- Stage I – Set up of the infrastructure that allows a recovery time of 2 hours for 70% of the processing capabilities and a loss of five minutes.
- Stage II – Started in March 2011 and consists of reaching 100% of processing capabilities and a reduction of the loss time from minutes to seconds (to be completed).

During the last few years, DCV has developed a Business Continuity Plan (BCP), in order to minimise the risks and be able to continue to operate in the event of a major disaster. As part of the Business Continuity Plan improvement, in 2009 the DCV began the Disaster Recovery Plan (DRP) and Crisis Management Plan (CMP) build up project, including elements such as Activation Committees, Incident Categorization Time (ICT), Disaster Categorization Sheet, business objective periods and recovery procedures among others.

In 2009, DCV created the Integral Risk Management Committee, which is formed by members of each management area. The objective of the committee is to coordinate all those activities associated to the Information Security, Operational Risk and Business Continuity. Additionally, the Business Continuity Officer position, who reports to the Operational Risk area, has been created.

An important component of the BCP is the execution of the Test Plan, which provides for the improvement and validation of the effectiveness of the alternate procedures before a contingency scenario.

The following list details some of the most relevant tests carried out during Test Plan:

-Production Site Alternation
-Evacuation Plan
-Power Outage
-Back up facilities
-Back up staff (for critical areas/positions)

The last test to the High Value Payments System (RTGS) was executed on 13 August 2014 with the participation of the central bank (Banco Central de Chile – BCCH), the Large-Value Automated Clearinghouse operator (COMBANC) and the CCP (CCLV Contraparte Central). It was aimed:

- To validate that the processes associated with SPAV are not affected when the technological processing of each participant is run from their back up site;
- To validate the ability of each participant to move to their back-up site under stress conditions, and operate alternative technology services that support the technological processing; and
- To validate connectivity and availability of technological elements from the back-up site.

Depository Liability

DCV accepts liability for direct losses caused by the depository's errors, omissions or fraud (not including force majeure events), including failures in the depository's systems, and reconciliation errors (through the fault of the depository only). There is a possibility that this limited level of liability could be open to challenge, especially given the high level of accountability that DCV has with participants. DCV accepts liability for direct losses caused by the depository's errors, omissions or fraud (not including force majeure events), including failures in the depository's systems, and reconciliation errors (through the fault of the depository only). There is a possibility that this limited level of liability could be open to challenge, especially given the high level of accountability that DCV has with participants.

Systems Performance

DCV reported 99.95% system availability for 2013. DCV has adopted a policy of maintaining system capacity based on resource usage levels. Systems cannot exceed a 35% usage and there is a 30% reserve for unexpected volume increases.

Operational Risk - Key indicators
Control objectives identified by the CSD match standard objectives Yes
Key controls and procedures are identified by the CSD Yes
Independent evidence exists that key controls and procedures have operated effectively through the last year Yes

Material errors have been identified

No

CSD on CSD (Credit) Risk

Summary

DCV has outbound links with DTC in the USA, and Clearstream in Luxembourg. It also has two-way DVP links with Euroclear Bank, DECEVAL in Colombia, Indeval in Mexico and Cavali in Peru. It also holds accounts at Citibank and Deustche Bank NY.

CSD - CSD Links

DCV has had an account with Clearstream Banking International since August 2007. In December 2007, DCV received authorisation to become a participant in DTC and the account was activated in May 2008. DCV supports custody services for the stocks that represent ADRs on Chilean companies traded in the US market as well as for BDRs on Chilean companies traded in Sao Paulo Stock exchange through accounts opened by custodian banks hired by the US/Brazilian banks issuing the ADRs and BDRs accordingly.

In April 2008, DCV signed a contract with Citibank as Global Custodian in order to provide custody services in all the countries where Citibank is present.

In 2009, DCV opened an account with the global custodian Deutsche Bank NY for the custody of ETFs, which are traded in the local market (Bolsa de Valores Extranjeros de la Bolsa de Comercio de Santiago). It also opened a DVP two-way link with Euroclear Bank in June 2011 for the custody and settlement of international securities.

Also, DCV has accounts at DECEVAL, the Colombian CSD, and CAVALI, the Peruvian CSD as part of the exchange's integration project called MILA.

In November 2012, DCV and Indeval, the CSD in Mexico (Indeval), launched a new link whereby Chilean investors are able to safekeep Mexican securities through DCV's account at Indeval. Likewise, Indeval has also opened a direct account at DCV to safekeep Chilean securities on behalf of Mexican investors.

In this regard, DCV has also indicated that this link would become even more relevant once Indeval joins the Mercado Integrado Latinoamericano (MILA) or Latin American Integrated Market project.

Processing Cycles

N/A

CSD on CSD (Credit Risk) - Key indicators

International Links: List of international links established and/or planned by the CSD

USA: DTC
Mexico: Indeval
Belgium: Euroclear Bank
Colombia: DECEVAL
Peru: Cavali
Luxembourg: Clearstream

Governance and Regulation

Management and governance of the depository

DCV is a private business corporation, licensed on 19 March 1993 under Laws 18876 and 18046. The Superintendencia de Valores y Seguros (SVS) has given DCV the legal authority to act as a CSD and this organisation also supervises DCV.

The DCV Board of Directors has 11 members, all of whom represent a shareholder group. There are no independent directors. The Directors are responsible for setting policies, prices, changes to rules and internal regulations, business plans and they also confirm the inclusion of new participants, confirm suspension of participants, and agree on new types of participants and new types of securities to be eligible for the depository.

DCV's management currently has 4 internal committees, which determine and assess the controls, as follows:

Audit and Operational Risk Committee: supervise the internal audit work; analyse reports by external auditors as well as official letters and circulars from the Superintendence of Securities and Insurance; analyse financial statements; learn of the transactions between related parties; inform the Board about conflicts of interest and suspicious conducts and frauds; determine the performance of special audits.
Establish the procedures for operational risk management; inform the Board, the Surveillance Committee and others about the risks inherent to the operation and the mitigation plans adopted.

Technology and Processes Committee: analyse the strategies in relation to technology and operations; review the methodologies and processes established; verify each year's technological investment plan inserted within the IT strategic plan.

Business Committee: analyse and suggest business initiatives to the Board, modifications to the services and fees, and other initiatives inserted in the strategic plan.

Settlement and Human Resources Committee: Learn and approve DCV's remuneration and benefit policy; define the parameters, criteria and variables for the estimation of the incentives annual plan, and verify compliance with same

There is also an external committee, established under Law 18,876, as follows:

- Vigilance Committee: Consists of five representatives appointed by the annual general assembly of participants. This committee is responsible for monitoring and verifying the performance of the company and must report to the annual assembly of participants.

Regulatory and independent examination of the depository

The Securities Market Law (LMV) of 1981 established the legal framework for the securities market in Chile and authorised the SVS to supervise the market and securities companies. Law 18876 of Deposito y Custodia de Valores, 1989, governs the establishment and operation of depository institutions in Chile. These are special corporations, with exclusive objectives. The SVS is responsible for authorising DCV's operations and must approve its statutes, internal controls and review contracts with depositors. DCV is the only central securities depository in Chile, but there is no legal barrier to the establishment of other depositories. DCV is responsible for enforcing compliance with the law and its own rules.

Internal controls and procedures for safeguarding investments

DCV has well-defined internal control objectives and related internal control procedures. Its management structure supports controls for operational risks, data processing and business continuity control systems and mechanisms to protect the assets of participants.

If a participant's account is blocked for any reason, such as insolvency, etc., securities of a participant's clients would be accessible to the owner, but not to the depository's creditors.

By law, a Participants' Committee (Vigilance Committee) is responsible for reviewing the performance of DCV, in particular its risk and audit aspects. The Board of Directors is ultimately responsible for risk policy and procedures and the Board receives reports from internal audit, the Vigilance Committee and external auditors on the financial and operational status of DCV.

External financial audits are conducted twice a year, and an external operational audit is done annually. Ernst & Young are the external financial auditors. In addition, the regulatory authorities perform a financial audit each quarter and, on demand, may conduct an operational audit. Each year a plan is agreed upon for internal financial and operational audits. Third parties can also audit internal procedures and controls and clients can request audits to be performed by their own auditors at any time.

Other legal protection mechanisms

DCV maintains a complete list of rules and procedures governing the rights and obligations of participants. These are easily available, through e-mail, web-site or letter. All changes are proposed to and agreed with participants before being approved by the Board. All participants are subject to the same rules and procedures and all participants are covered by a standard participant agreement. Non-residents are not included in the current rules. DCV has powers of enforcement, which include suspension of the participant's rights to undertake specific functions and termination of all participation in DCV. No enforcement has been taken since DCV was established.

About the Depository

Name and Address

Deposito Central de Valores SA
Av. Apoquindo 4001, 12th floor.
CP 7550162, Las Condes
Santiago, Chile

Website

www.dcv.cl

Date of establishment

19 March 1993

Date commenced operations

September 1995

Legal status

Special purpose private company

Type of legal entity

Private for-profit

Regulated by

Superintendencia de Valores y Seguros

Is use of the CSD required?

Segregation of Assets at the Depository

Depository assets from participants

Yes

Participant assets from clients

Yes

Eligible Securities Depository under SEC Rule 17f-7

System of central handling of securities

Yes

Regulated by a financial regulatory authority

Yes

Holds assets of all participants on equivalent terms

Yes

Identifies and segregates participant assets

Yes

Periodic reports to participants

Yes

Periodic examination by a regulator or independent accountant

	Settlement	Safekeeping
By Law	Yes	Yes
By Market Practice	Yes	Yes

How securities are held

N/A

Domestic eligible participants

24 Banks, 44 Brokers, 6 Pension Funds, 53 insurance companies, 25 Mutual funds, 2 government organisations, 1 CCP (CCLV), 3 stock exchanges and 10 others.

Foreign eligible participants

4 foreign CSDs

Ownership

Banks 27%, pension funds 27%, stock exchanges 26%, DTCC Holdings (US CSD) 10%, Life Insurance Companies 9% and others 1%.

Yes

Internal Safety Measures

Participant Eligibility Criteria

Minimum Capital Standards

No

Financial Aspects

Ability to raise capital/borrow

Yes

Committed lines of credit in place

Yes

Publish audit financials

Yes

Services Provided

Matching

Pre-matching services

Yes

Matching services

Yes

Comments

In 2012 DCV launch its new transaction comparison service via Omgeo’s Central Trade Manager (CTM) This facilitate and computerize the comparison tasks after the negotiation (“matching post-trade”) and before the settlement (“pre-settlement”) of a trade.

Clearing

Clearing services

Take lien on stock held

No

Central Bank Guarantee

No

Other third party guarantee

No

Third party insurance

Yes

Safeguard Facilities

Offsite Backup

Yes

Disaster Recovery

Disaster Recovery Plan

Yes

Back-up power generator

Yes

UPS (Uninterruptible power supply)

Yes

No

Comments

Clearing services for brokers are provided by the exchange

Securities Settlement

Book-entry settlement

Yes

Fails management

Yes

Comments

CCLV for on-exchange transactions

Cash Settlement

Internal cash settlement

No

Stock Lending

Securities lending for fails coverage

No

Asset Servicing

Notifications

Yes

Securities processing

Yes

Paying agent

No

Central registrar

No

Proxy voting services

No

Communications

Electronic communications

Yes

Reporting Services

Electronic reporting

Yes

Reporting of every movement

Yes

Regular statement of securities deposited

Yes

Comments

On-line reporting

Definition

-

Definitions

Public Rating. This assessment has been compiled from information provided by third parties and the CSD and has been verified by Thomas Murray analysts during an on-site visit to the CSD. The report has been reviewed by the CSD. The ratings that have been assigned to the risks that are reviewed in the report have been determined by Thomas Murray analysts and approved by the Thomas Murray Rating Board. The ratings have been assigned in accordance with the process outlined in the published methodology as developed by Thomas Murray and on the basis of information confirmed by Thomas Murray analysts during a site visit to the CSD.

Publication Date

The publication date represented here is June 2014. This is the date that the assessment report has been reviewed by third parties that may include the CSD (for proprietary assessments). The report is updated on an on-going basis throughout the year as new information is received and should be read in conjunction with the relevant newsflashes issued since the publication date.

RISK EXPOSURE DEFINITIONS

Asset Commitment Risk - The period of time from when control of securities or cash is given up until receipt of countervalue. This risk concerns the time period during which a participant's assets, either cash or stock, are frozen within the CSD and payment system pending final settlement of the underlying transaction(s). Following settlement, the risk period is extended until the transfer of funds and stock becomes irrevocable. It excludes any periods when assets, cash or stock, are

RATING SCALE	
AAA	Extremely low risk
AA+	Very low risk
AA	
AA-	
A+	Low risk
A	
A-	
BBB	Acceptable risk
BB	Less than acceptable risk
B	Quite high risk
CCC	High risk
N/R	No rating has been given due to insufficient information

committed to a market participant including brokers, banks and custodians, not caused by CSD processing.

Liquidity Risk - The risk that insufficient securities and or funds are available to meet commitments; the obligation will be covered some time later. This is where for certain technical reasons (e.g., stock out on loan, stock in course of registration, turn round of recently deposited stock is not possible) one or both parties to the trade has a shortfall in the amount of funds (credit line) or unencumbered stock available to meet settlement obligations when due. These shortfalls may lead to settlement 'fails' but do not normally lead to a default.

Counterparty Risk - The risk that a counterparty (i.e., a participant) will not settle its obligations for full value at any time. This is simply the total default of a direct participant of the CSD. This is the event when a participant is unable to meet its financial liability to other participants. This risk only goes as far as direct participants of the CSD and excludes clients of direct participants that default on liabilities to such participants, even if such a default should systemically cause the direct participant to subsequently default.

Asset Safety Risk - The risk that assets held in custody at the CSD may be lost or misappropriated, either due to a default or an omission, misuse, or breakdown of controls (legal, operational or other). The CSD should protect against the risk of loss of assets of the participant or their clients due to an insolvency, the CSD’s negligence, misuse of assets, fraud, poor administration, inadequate recordkeeping or other failure to protect a participant’s assets. Asset segregation at the CSD and/or the domestic custodian by account structure and naming convention, assertion of liens, form and nature of securities (e.g. dematerialised, physical, bearer, registered), certain key concepts in local law (e.g. recognition of nominees), reconciliation of holdings, vault controls and the nature and placing of client cash deposits, are all factors taken into consideration in the assessment.

Asset Servicing Risk - The risk that a participant may incur a loss arising from missed or inaccurate information provided by the depository, or from incorrectly executed instructions, in respect of corporate actions and proxy voting. This risk arises when a participant places reliance on the information a depository provides or when the participant instructs the depository to carry out an economic transaction on its behalf. If the depository fails either to provide the information or to carry out the instruction correctly then the participant may suffer a loss for which the depository may not accept liability. The depository may provide these services on a commercial basis, without statutory immunity, or it may provide the service as part of its statutory role, possibly with some level of protection from liability. This risk is likely to become much higher when international securities are included in the service.

Financial Risk - The ability of the CSD to operate as a financially viable company. This risk concerns the financial strength of the depository and if its financial resources are sufficient to meet the on-going operation of the organisation. This risk also includes where the CSD may act as central counterparty, or otherwise acts in a Principal capacity.

Operational Risk - The risk that deficiencies in information systems or internal controls, human errors or management failures will result in losses. The risk of loss due to breakdowns or weaknesses in internal controls and procedures. Internal factors to be considered in the assessment include ensuring the CSD has formalised procedures established for its main services. The CSD should have identified control objectives and related key controls to ensure operation and proper control of established procedures. Systems and procedures should be tested periodically. There should be external audit processes in place to provide third-party audit evidence of the adequacy of the controls.

Governance & Transparency Risk - The risk that deficiencies in the way that the CSD is governed and managed will result in losses. The risk of loss due to poor governance and management arrangements and inadequate disclosure of information. The issues relate to the way that the depository is operated by directors and management, who have a responsibility to ensure that it operates according to the rules and regulations and the relevant securities market laws and to ensure that the market has adequate and timely information on a fair and equivalent basis. Factors to be considered in the assessment include ensuring the Board arrangements provide for high standards of governance, management operates to a high standard, participants are kept informed and able to equally provide their input to the CSD management, and the market has equal access to relevant and timely information.

CSD on CSD Credit Risk - the risk that a CSD is taking when linking to another CSD. The credit risk that a CSD is taking when linking to a peer group CSD, i.e. the risks a domestic CSD is taking in either providing a service for a foreign CSD or using a foreign CSD as a local service provider (host CSD). The risks arising from using these links to make cross-border settlements or to hold securities in a non-domestic CSD have not been assessed as part of this risk.

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Names of analysts available on request.

	any such information.

Report Date

Chile

11 September 2014