



CHILE

Depository Review and Risk Evaluation Service

Chile DCV

Proprietary Assessment
Publication Date: November 2010

Support Bank(s)



Instruments Supported

Equities	Corporate Debt	Money Markets	Government Debt
Yes	Yes	Yes	Yes

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. Currently, all stock exchange transactions related to fixed income and money markets instruments and equities are cleared and settled through the depository.

94.9 % of the securities on deposit with DCV are held in dematerialised form. Money Markets Securities (IIF - Instrumentos de Intermediación Financiera) are fully dematerialised, while some infrastructure bonds (bonos de infraestructura), commercial papers (efectos de comercio) and mortgage bonds issued by only one bank, which are still held in physical form. Equities are in immobilised form since the issuer is responsible for the safekeeping

Risk Summary	Risk
Overall Risk	A+
Asset Commitment Risk For off exchange transaction settlements, the asset commitment period for sales can range from a few minutes to 7.5hrs (9.00am to 4.30pm), while there is no asset commitment risk for purchases. For on exchange transaction settlement, the asset commitment period for sales is generally around 2.5 hrs, and approximately an hour for purchases.	AA
Liquidity Risk Liquidity Risk within the settlement systems of DCV is medium-low, due to the absence of broad based securities lending facilities. Net securities settlement for brokers on exchange transactions is on a multilateral basis, which enhances the liquidity efficiency of the netting process. Cash settlement for on-exchange transactions is also on a	A+

 Current mode: **Edit**

multilateral net basis.	
<p>Counterparty Risk</p> <p>In the case of bilateral settlement, the mechanisms used by the DCV, the Stock Exchange and participants result in effective DVP, reducing counterparty risk. In the case of multilateral settlement, however, the lack of standard risk control measures, particularly for the net financial settlement, means that counterparty risk is significant for transactions settled in this way. The separation of the movement of securities from the movement of funds by the stock exchange contributes to an increase in Counterparty Risk.</p>	A
<p>Asset Servicing Risk</p> <p>The depository provides corporate action information via its proprietary electronic system 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 depository and could therefore be subject to delays and errors in manual input.</p>	A+
<p>Financial Risk</p> <p>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 a comprehensive insurance. Although its capital base appears to be low relative to other CSDs with a comparable business base, DCV can call for additional capital from its shareholders. DCV has been consistently profitable for several years and there have been no reported operational losses during the past three years.</p>	AA-
<p>Operational Risk</p> <p>Management systems, internal controls, frequent reporting to senior management and external audits reduce Operational Risk exposure.</p>	A+
<p>CSD on CSD Credit Risk</p> <p>DCV has had an account at Clearstream Banking International since August 2007, with DTC (USA) since December 2007, and with Indeval (Mexico) since August 2008. DCV is currently in the process of opening accounts at CAVALI and DECEVAL due to the Integration Markets project to be initiated in November 2010.</p>	Links Exist

 Current mode: **Edit**

Asset Commitment Risk

Summary

For gross settlement of off-exchange transactions, the asset commitment period for sales generally averages around 1.5 hours, but could be as high as 7.5hrs (9.00am to 4.30pm), while there is no Asset Commitment Risk for purchases. For on-exchange transaction settlement, the asset commitment period for sales is generally less than 2.5 hrs, although it can be as high as 3.5 hours and is generally 1.5 hour for purchases.

Processing Cycles

Securities and cash settle through separate systems linked through an electronic link known as 'Switch'. Switch is operated by the Combanc clearinghouse. DCV settles securities, while cash settlement can take place either via the Combanc Clearinghouse or the Central Bank's RTGS system (LBTR). The vast majority of payments related to securities transactions settle through the Combanc Clearinghouse.

DCV operates two separate processes, one for on-exchange and another for off-exchange or OTC transactions. On-exchange trades in Equity and Debt settle on a multilateral net basis for securities and multilateral net basis for cash, while off-exchange transactions settle on a trade-for-trade basis throughout the day between 9.45am and 4.30pm for DVP settlements and between 9.00am and 6.30pm for FOP settlements. Equities settle on a T+2 cycle, fixed income securities on a T+1 cycle. Money market instruments on a T+0 cycle.

- Off-Exchange (OE) and OTC Settlements

For OE and OTC trades, both the seller and the buyer input the transaction details in the DCV system where DCV pre-matches transactions on TD in several intra-day batches run every few minutes. Once matched, the trades are designated as 'compared' and assigned a transaction number which is used in the subsequent processing of the transaction.

On settlement date, the buyer submits a payment transaction to Combanc for the amount of the trade. Once received by Combanc, they (Combanc) notify DCV via electronic message to block the required security position in the seller's account. When this is done, the trade is re-designated with a 'verified' status within the DCV system, otherwise, it is designated as 'pending balance'.

Once the trade is designated as verified, DCV transfers the securities to a transitory account at DCV and notifies Combanc. Once cash settlement takes place within Combanc (seller receives the funds), DCV will execute a transfer of the securities to the buyer's account.

On-Exchange Equities

Securities and cash settlement occurs on a multilateral net basis. Clearing of cash settlements is executed by the clearing house operated by the Santiago Stock Exchange using accounts with commercial banks.

On SD-1 at 8.30am, the Stock Exchange sends trade details to the DCV system, by way of an electronic file. On the morning of SD (from 9.00am until 11.00am), DCV moves the net debit position in each security of each participant to a transitory holding account in the name of the seller, in order to ensure sufficiency of securities for settlement. The Stock Exchange Clearinghouse calculates the net financial obligations on a multilateral basis for each broker and informs the brokers of their obligations. Brokers that have a net obligation must deliver the required funds to the bank account of the Stock Exchange Clearinghouse by 11.00am on SD via the Combanc system.

On SD, the Stock Exchange verifies with DCV that participants with a net obligation to deliver securities have sufficient position segregated within their account. Once the Stock Exchange clearinghouse verifies that brokers with net cash payment obligations have delivered the required funds to the Clearinghouse account, it instructs the DCV system to transfer the securities. Once the movement of securities has been confirmed complete, the Stock Exchange clearinghouse initiates payment transfers to the accounts of brokers with net credit cash positions via the Combanc system. This generally occurs between 30 minutes and one hour following the transfer of securities.

In the event that the multilateral netting process results in a securities delivery obligation and the seller does not have sufficient securities in its account, the transaction is registered in a 'pending' status. The DCV periodically runs the verification process to update the status of the transaction and of the securities position.

If by 11.00am on SD the seller does not have sufficient securities available to cover its net obligation, the Exchange's clearinghouse will remove trades from the multilateral net until sufficient positions exist to satisfy all obligations. Trades removed from the netting process are set up to settle on a TFT basis. If the buyer does not have sufficient funds to cover its net payment obligation the Stock Exchange clearinghouse will remove the broker from the netting process and its trade will settle on a gross basis.

 Current mode: **Edit**

-On-Exchange Fixed Income Settlements:

On-Exchange fixed income multilateral net settlement obligations are sent by the Santiago Stock Exchange on trade date between 6.00pm and 6.30pm. Fixed income transactions settle on a T+1 cycle, but otherwise the settlement day processing is the same as the one used for On-Exchange equity transactions.

-On-Exchange Money Market instruments:

For money market trading, the Stock Exchange closes trading at 1.20pm. At 1.30pm DCV receives a file of netted transactions from the Stock Exchange’s clearinghouse. For money market settlement, securities obligations are netted on a bilateral basis with payments being netted on a multilateral basis. DCV blocks positions from 2.30pm until 3.00pm. At this time, brokers should have completed payment to the Clearinghouse bank to meet their settlement obligations. Once positions are blocked and payments have been received, security positions are transferred followed by the release of funds at approximately 3.30pm. The result is an asset commitment period for both securities and funds of less than one hour. Once securities positions have been moved, participants are free to make redeliveries to third parties.

Cash

Cash settlement for On-Exchange transactions takes place through the settlement account of the Santiago Stock Exchange clearinghouse with a commercial bank. Transfers between this account and the accounts of those banks acting on behalf of brokers in the system take place in electronic form via the Combanc clearinghouse.

Cash settlement of Off-Exchange transactions takes place on a gross basis. This occurs through the Combanc system in the majority of cases, however, the option to use the RTGS process directly with the Central Bank also exists.

According to Law (20,345) on Clearing and Settlement of Financial Instruments, cash settlement must be conducted through payment systems authorised/regulated by the Banco Central de Chile (BCCh).

Asset Commitment Periods

The asset commitment period for Off-Exchange sales varies depending on the availability of the counter value in the system, but it can range from a few minutes to 7.5 hours. There is no asset commitment risk for purchases, as payment is made only after the securities have been blocked at DCV. On average, securities are blocked for 1.5 hours until the receipt of payment.

For On-Exchange equity and fixed income trades, securities are blocked throughout the morning as they become available until 11.00am on SD and settlement of cash occurs between 12.00pm and 12.30pm For money market instruments, payment takes place from 2.30pm, having an asset commitment period of between 30 minutes and 3.5 hours for sales and around 30 minutes for purchases as securities settlement takes place immediately after the cash settlement with prior blocking of securities.

Irrevocability

Securities are irrevocably committed to the settlement processing 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 settlement can not be unwound under any circumstance.

Asset Commitment Risk - Key Indicators			
<i>Irrevocable commitment to the processing cycle</i>			
	<i>Transaction Type</i>	<i>Start</i>	<i>Finish</i>
<i>Securities</i>	Exchange trades (equities and fixed income)	11.00am SD 2.30pm SD	11.30am SD 3.00pm SD
	Money markets	2:30am SD	3.30pm SD
	OTC DVP	9.45am SD	4.30pm SD
	OTC FOP	9.00am SD	6.30pm SD

 Current mode: **Edit**

Cash	Exchange trades (equities and fixed income)	11.00am SD	12.30pm SD
	Money Markets	2.30pm SD	3.00pm SD
	Off-Exchange	9.45am SD	4.30pm SD

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. In the case of On-Exchange transactions, delivery

Securities processing cycle outlined

In the case of Off- Exchange transactions which settle on a trade for trade basis, securities are transferred on a gross basis in the DCV system during its business operations from 9.30am to 6.30pm. Participants enter each trade separately in the DCV system where they are matched and a reference number is assigned. This reference number is used when the trade is entered into the Combanc system by the seller. The Combanc system sends a message to DCV to determine if the required securities position is available. DCV verifies that the securities are in place, puts a block on them and advises the Combanc system. The purchaser is then advised and once acknowledgement of payment is received, DCV automatically updates its records, and makes the securities available to the purchaser.

For On-Exchange transactions where settlement of securities occurs on a net basis, securities are first blocked, financial settlement is executed through the Stock Exchange Clearinghouse on a multilateral net basis and then securities are delivered on a multilateral net basis for equities and debt and on a bilateral net basis for money market securities.

Cash processing cycle outlined

Cash settlement can take place via either the Central Bank's RTGS System (LBTR) or via the Combanc Clearinghouse which is used for the vast majority of settlements.

 Current mode: **Edit**

Liquidity Risk

Summary

Liquidity risk within the settlement systems of DCV exists due to the absence of an extensive securities lending market. Net securities settlement for brokers for On-Exchange transactions is on a multilateral basis, which enhances the liquidity efficiency of the netting process.

Processing Model

All gross 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 3 with bilateral net settlement of securities followed by multilateral net settlement of cash.

Fails Management

DCV does not operate any fails management procedures. In spite of this the settlement rate approaches 100%. For on-exchange transactions, the exchange has the prospect of levying fines or suspension on its members as a tool to prevent fails. The exchange also maintains a Guarantee Fund which can be utilised in the event of a failure.

Should a participant (or participants) have insufficient position in a security to settle their net obligation, transactions are removed from the net settlement process until all net obligations can be satisfied. The funds associated with those transactions are also removed from the net processing. The transactions which are removed from the net are set up to settle on a trade-for-trade basis.

Credit Facilities

Credit facilities for market participants seem to be readily available without restrictions on credit for foreign investors. Settlement banks are able to extend credit to their clients in accordance with their agreement. Foreign Investors may hold temporary or intra-day overdrafts provided they are regulated by an overdraft agreement and backed by a promissory note.

The central bank also provides a repo facility for participant banks to obtain funds intra-day. For instance, the initial funding in Combanc's system takes place via a repo with the central bank.

Securities Lending

Stock lending is permitted within the market but loans are contracted external 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).

Law 20,345 on Clearing and Settlement of Financial Instruments provides a legal framework for the implementation of a centralised securities lending system.

Registration Model

In the case of stocks, for the initial immobilisation of securities, 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 the DCV. Re-registration of an issue typically takes one day, as defined by company law. In this case, the securities are available for onward delivery the next business day. 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 the DCV are registered in the depository's name at the issuing company. DCV allows participants to open sub-accounts under the participant's master account to permit securities to be held in the name of the beneficial owner.

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 at September 2010, 94.9% of the securities deposit at DCV are in dematerialised form; the rest are in immobilised form. No


Current mode: Edit

physical transfers of securities are supported. As a percentage of total issuance, the amount of eligible securities partially or totally held in DCV is in excess of 95%. As the second part of Capital Market reform, high value financial instruments are to be issued in dematerialised form with the approval of the bill by the Congress.

As at September 2010, the value of all securities held in DCV was USD 241 billion. It represents an increase of 14.2 % compare to the same month of the year 2009

The trade volumes for 2010 (September 2009 in parentheses) are as follows:

Equities: 1,220,366 (976,270)
 Fixed Income: 284,998 (320,068)
 Money Markets: 989,066 (1,496,222)
 Total: 2,494,430 (2,792,560)

Deposit and Withdrawal of securities

Through different regulations, the use of the 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 the pension funds must be safe kept 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.

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

Comments

-

Credit Facilities

 Current mode: **Edit****Central bank money used to settle cash elements of trades**

No

Credit facilities provided by the CSD

No

Credit facilities provided by commercial banks

Yes

Comments

-

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

Stock lending by commercial banks/ brokers is limited. It is most commonly used by pension funds as lenders and brokers as borrowers.

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.

 Current mode: **Edit**

Counterparty Risk

Summary

In the case of bilateral settlement, the mechanisms used by the DCV, the Stock Exchange and participants result in effective DVP, reducing counterparty risk. In the case of multilateral settlement, however, the lack of standard risk control measures, particularly for the net financial settlement, means that counterparty risk is significant for transactions settled in this way. The separation of the movement of securities from the movement of funds by the stock exchange contributes to an increase in Counterparty Risk.

Participant Counterparty Risk

DCV does not control the DVP. Securities and cash settlements take place on a linked basis, but the DVP is controlled by a mechanism called Switch (operated by Combanc) for off-exchange transactions and by the Santiago Stock Exchange for on-exchange settlements.

Brokers are exposed to the stock exchange for over an hour a day since they need to transfer securities at the stock exchange's account by 11.00am and funds are not transferred by the exchange until around 12.30pm for equities and corporate bonds. For money market instruments, the exposure is between 2.30pm and 3.30pm. There is also exposure to Banco de Credito e Inversiones (BCI) and the Banco Bice, which are the two banks used by the stock exchange to execute the financial settlement of transactions. These two banks currently have long-term domestic credit ratings of AA which imply a strong financial position in the local market.

Banks 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.

Risk Containment Model

DCV conducts a rolling T+2 settlement cycle for equities, T+1 for fixed income instruments and T+0 for money market instruments. DCV does not operate as an automated securities clearinghouse and has no direct relationship with the Central Bank of Chile. The relationship to the country's large value payment clearing system (Combanc) was established by domestic banks in December 2005.

The mechanisms in place for bilateral settlement provide a functional equivalent to DVP, limiting to a significant degree counterparty risk. For bilateral transactions, there is a matching process in DCV and then a blocking of securities. On the payment side, the vast majority of settlements occur through the Combanc system. Further, DCV provides a mechanism whereby the buyer can be sure the securities are in place and ready to be delivered before transferring the funds to the bank of the selling broker.

In using the Combanc payment clearing system, banks obtain the cash to collateralize their position by doing a REPO with the Central Bank using is a Chilean Government Bond. The relationship between the collateral participants post at the Central Bank and the limits in the system is as follows; each bank first establishes the bilateral limits to each of its counterparties. With this information, the system informs the bank (participant) of the amount of guarantees they need to pledge in order to support those limits. The amount of guarantees is based on the largest bilateral limit multiplied by 11.5% (guarantee factor).

Participants in the Combanc system post guarantees from 8:30 – 9:35am. N.B. There is no opportunity to increase your their limits intraday by posting additional collateral. Payments between the bank participants in the Combanc system settle against their cap intraday and then are settled at the end of the day on a net basis at the Central Bank.

The risk model was designed to cover 1,15% Lamfallusy criteria, which means that guarantees cover the failure of the largest multilateral debit position plus 15%. Because of the application of the model, the actual coverage is about Lamfallusy plus 60% according to their back-testing. The Multilateral limit for each Participant is 10% of the total bilateral limits they have received. In the case of a default, 1. The guarantees of the defaulting participant are used, 2. The guarantees of their counterparties are used; pro-rata to the relative size of the limit they have extended to that participant.

Bank clients have payments credited to their accounts throughout the day and are therefore insulated from the risk sharing taken on by the domestic banks using the system.

Book-entry movement of securities occurs when payment is released by the purchaser.

For on-exchange equity and debt transactions, which settle on a rolling T+2 and T+1 cycles, respectively, securities and payments settle on a multilateral net basis. Once all the required security positions have been identified and blocked and all payments are in place, the net securities positions are transferred within DCV's system. Payments associated with the settlement process are made utilizing a commercial bank account in the name of the Santiago Stock Exchange. The Stock Exchange Clearinghouse uses two banks for this purpose, one for equities and debt transactions, and another for money market transactions. It is the practice of the Santiago Stock Exchange to only use large domestic banks with a high rating for this purpose in order to reduce the risk associated with clearing these payments through a commercial bank. Payments are made from this bank account approximately one hour following the transfer of the securities. During this time, those participants who have delivered securities are exposed to Counterparty Risk associated with the Santiago Stock Exchange and the commercial banks they use are part of the settlement process.

 Current mode: **Edit**

For money market transactions which settle on a rolling T+1 basis, securities settle on a bi-lateral net basis while payments settle on a multilateral net basis. As is the case with equity and debt transactions, Once all the required security positions have been identified and blocked and all payments are in place, the net securities positions are transferred within DCV's system. Payments associated with the settlement process are made utilizing a commercial bank account in the name of the Santiago Stock Exchange. Payments are made from this bank account approximately one hour following the transfer of the securities. During this time, those participants who have delivered securities are exposed to Counterparty Risk associated with the Santiago Stock Exchange and the commercial banks they use are part of the settlement process.

Delivery Versus Payment

For off-exchange transactions, the vast majority of payments associated with securities transactions flow through the Combanc system although the option exists to use the Central Bank directly for the payment leg of trade settlement. While movement of securities and the related payment are linked, they occur in separate systems and generally occur a few seconds apart. The DVP is similar to BIS model 1 with gross settlement of securities and cash.

For on-exchange settlements, the stock exchange coordinates the movement of securities and cash by instructing DCV to transfer the securities once it has received the funds in its accounts at two commercial banks. Cash settlement takes place after the securities have been delivered with a minimum 30-minute gap difference. Although the transfers are linked they are not simultaneous. The DVP is similar to model 3 with net settlement of securities and cash.

Role of Central Counterparty (CCP)

The Chilean Congress passed the Clearing and Settlement of Financial Instruments Bill on 6 June 2009 (Law 20345), which complements the Securities Market Law (Law 18,045). The new piece of legislature introduces the concept of central counterparty (CCP) and establishes the rules to which CCPs are subject to.

The CCP called CCLV initiated its operation in Chile in September 2010 for on-exchange transactions. For those transactions cleared through CCLV, CCLV will send the information to DCV for the transactions executed between CCLV and DCV's participants, when it acts as CCP (if a participant chooses to settle through a CCP), or transactions executed between participants when it acts as clearinghouse (if the participant chooses to settle through a clearinghouse).

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 228,000 in capital and those wishing to trade on behalf of clients require USD 560,000. 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, broker-dealers, stockbrokers, mutual funds, investment funds, foreign investment funds, pension funds, insurance companies, stock exchanges, other companies authorised by the DCV. The Board of Directors of DCV may authorise other companies to participate.

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

Participant Concentration

Information on individual participants is not available to assess concentration by the most active institutions. The following provides a breakdown, by type of institution, of the percentage by value of transactions processed as at December 2008.

Percentage by value

Brokers: 74%

Banks: 9%

Pension Funds: 8%

Investment and Mutual Funds: 13%

Insurance Companies: 2%

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 Santiago Stock Exchange and Combanc, monitor the financial status of their participants.

The Santiago Stock Exchange monitors the intra-day exposure of the brokers and takes a collateral requirement based on the value of their positions. Combanc also monitors the intra-day exposure of banks and set limits based on their initial collateral and the caps set by the remaining participants in the system.

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

 Current mode: **Edit**

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 will then be 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 stock exchanges manage some guarantees for brokers. There are different types of guarantees collected by the exchanges:

- *Legal guarantee – It is generally an insurance policy or it can be constituted in securities for an amount equivalent to USD 170,000.
- *Guarantee to operate in the exchange – Stock exchanges have a lien on the broker’s share in the stock exchange which amounts to USD 2,500,000.
- *Clearing and settlement guarantee – This guarantee is constituted in securities and depends on the value of transactions
- *Specific transactions guarantee (e.g. short sales, derivatives, etc) – it varies depending on the balances and the results of these operations and it is constituted in securities.

The guarantees are established in the Title XXII of the Securities market Law. There are no guarantee funds as such. The guarantees are assessed on a daily basis according to the market value of securities and a haircut is applied based on their volatility.

Counterparty Risk - Key indicators
Capacity of CSD Agent
Surveillance of participants by CSD No
Settlement assurance With the introduction of the Combanc payment system, in December 2005, the settlement of securities and cash is near simultaneous in a Delivery versus Payment environment. Following the introduction of DVP in the market, settlement is similar to BIS model 1, with gross settlement of securities and cash. For gross settlement, the blocking of securities takes place until the associated payment is processed via the Combanc payment system. In the case of multilateral net settlement (for equities only) measures to limit the settlement risk are lacking. There are no limits or controls on the accumulation of net debit obligations and no guarantee fund. If a participant fails to make securities available sufficient to cover its net obligation, pending transactions are removed from the multilateral net settlement to the extent required to complete the netting successfully.
Participation criteria N/A
Minimum Capital (local currency) N/A
Size of Guarantee Fund - (Name, local currency, Euro and USD - (millions)) N/A
Does the CSD act as a central counterparty No
Comments -

   **ab** Current mode: **Edit****Participant Concentration (Local Currency Millions)****Value of transactions in the market by top 10% of participants**

70%

Volume of transactions by top 10% of participants

59%

Volume of largest individual participant

13%

 Current mode: **Edit**

Asset Servicing Risk

Summary

DCV Registros, a wholly owned subsidiary of DCV, provides corporate actions information via its proprietary electronic system 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 information is physically delivered to the depository and could therefore be subject to delays and errors in manual input.

DCV is not involved in the processing of corporate actions. It only provides shareholder information upon request of the issuer.

Information processing

DCV Registros actively collects corporate action information from issuers, the three stock exchanges and the press. While the processes 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. 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 participants via the proprietary electronic system on record date. Participants 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. 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 2/3s of the equity issuers in Chile.

DCV Registros has accounts with two commercial banks (BCI and Banco de Chile) for the payment of corporate actions. Payment is received by the issuer between 24 and 48 hours before payment date in accordance with the agreement in place with the issuer and it is electronically distributed on PD to the holders' account. 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's 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 September 2010 DCV

 Current mode: **Edit**

Registros organized and participated in 178 shareholders' meetings. As at September 2009, DCV Registros organized and participated in 177.

Other services

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

Asset Servicing Risk - Key indicators
<i>Information processing</i>
Securities covered Equities, corporate and government debt
Information sources used Issuers, stock exchanges & press
Information provided in English No
<i>Number of Events during last full year</i>
Dividends 135 (September 2010)
Interest & Redemptions N/A
Corporate actions 158 (September 2010)
Notification via Proprietary electronic system
SWIFT message types No
Notification within Same day
Information processing comments The interest and redemption figure is included in dividends and corporate actions.
<i>Instruction processing</i>
Use of depository Not used
Settlement on due date N/A
Optional corporate actions supported Yes
Cash account credited N/A
Central paying agent No
Entitlements based on N/A

  **ab** Current mode: **Edit****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

Proxy voting services comments

-

 Current mode: **Edit**

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 insurance. Although its capital base appears to be low relative to CSDs with a similar business base, DCV can call for additional capital from its shareholders. 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. The depository is subject to annual third party audits by Price Waterhouse Auditores y Consultores Ltda and periodic external audits by the participants' Vigilance Committee (with the participation of other external auditors) and also by the Superintendencia de Valores y Seguros

Financial and other Resources

Capital Structure

The ownership of the DCV is as follows: 27% Sociedad Interbancaria de Depósito de Valores S.A. (Banks), 27% Inversiones DCV S.A. (Pension Funds), 9% DCV Vida S.A. (Life Insurance Companies), 20% Bolsa de Comercio de Santiago, Bolsa de Valores (Santiago Stock Exchange), 6% Inversiones Bursátiles S.A. (Santiago Electronic Stock Exchange), 1% others and 10% DTCC Holdings LLC

Shareholders' capital plus reserves was USD 9.2 million at end of September 2010 (USD 6.1 million in September 2019). It included USD 8.4 million paid-in capital, USD -1.1 interim dividends USD 1.9 million of 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 a unit of account that is calculated on a daily basis relative to the CLP based on the inflation rate in the last two months.}

DCV's policy is to distribute 50% of each year's profits in the form of dividends to its shareholders.

Earnings Performance

DCV has been 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 2009, DCV reported net profits of USD 1.9 million. 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. 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 discounts of fees.

DCV budgets its annual fees and discounts based on a 24% profitability.

DCV has adjusted its fees in several occasions and made a fee reduction of 17.5% during 2009.

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. The total committed overdraft lines are around USD 0.3 million.

Insurance

DCV is required by law to have an 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 September 2009, DCV's insurance coverage was USD 150 million.

The current insurance policy is valid for the period 31 October 2009 to 31 October 2010.

The DCV carries insurance in the form of a Banker's Blanket Bond (BBB) for USD 150 million with a USD 150,000 deductible. In addition to that DCV have a terrorism policy for USD 30 million and the electronic fraud coverage is up to USD 150 million

 Current mode: **Edit**

In order to cover an other risk, DCV have another insurance policies:

1. Errors and Omissions Policy (Financial Institutions Professional Indemnity).

- Coverage: USD 5 million
- Deductible: USD 100,000

2. Directors and Offices

- Coverage: USD 2 million
- Deductible: USD 50,000

3. Buildings and contents

- Coverage: USD 15 million

The policies cover the operation of DCV and the subsidiary DCV Registros.

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 93% 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 currently investing in new facilities which will contribute to enhanced BCP capabilities and has recently invested in upgrades to their systems capacity and applications architecture. DCV's capital investments seem to be well within their financial capability.

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	-	-	27
Life Insurance Companies	-	-	9
DTCC Holdings LLC	-	1	10

Comments

Others: Pension Funds (30%) and Insurance Companies (10%)

DTCC in the U.S. acquired a 10% equity investment in DCV, and will join DCV's Board of Directors.

 Current mode: **Edit**
Statistics

	Capital structure Local Currency
Issued capital	3,400,156,000
Surplus	-
Reserves	(349,442)
Retained earnings	508,623,000
Total	3,559,337,000

Comments

Statistics (in CLP) as at 31 December 2009

Lines of stock

	2006	2007	2008	2009	2010
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	72,539	88,635.5	96,122	100,002	116,967

Comments

Value of securities under custody in CLP billions.

Equities

	2006	2007	2008	2009	2010
Market Value	19,585	33,378	19,714	26,649	41,004
% 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 billion.

Fixed Income

	2006	2007	2008	2009	2010
Market Value	31,917	30,592	42,324	42,732	46,579
% 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 billion.

 Current mode: **Edit**

Money Markets

	2006	2007	2008	2009	2010
Market Value	21,036	24,666	29,920	30,641	29,384
% 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 billion.

Expenses

	2006	2007	2008	2009	2010
Expenses as % total operating revenue	87%	-	-	-	-

Comments

-

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 on to the Board of Directors.

The Board of Directors and 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

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 done automatically each night to reconcile securities and positions. If differences are identified, 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, zone is monitored by security guards, access is restricted and includes 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 and Information Security functions.

As at October 2009, 81% 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 in agreement with what was defined by the regulator (Superintendencia de Valores y Seguros), through its Circular N° 1939.

DCV's Corporate Government for Risk Management is made up of the Audit and Risk Committee. Both committees are formed by members of the Board and Managers of the company, who provide general outlines of the risk management. Operacional Risk Management Committee is formed by 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.

The 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:

 Current mode: **Edit**

-Context set up. Consist in setting up basic parameters through which the operational risk management will be carried out.
-Risks Identification. Involves the definition of the risk factors, that could initiate a threat execution associated to a process.
-Risk Analysis. This is about Risk assessment, which considers the impact associated to this risk and the probability that this 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 in 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. Likewise, during the year 2008 materialized the commitment to segregate the risk management functions and audit, situation that caused the creation of the area of Operational Risk.

The audit group designs an audit plan for the year. It is not involved in testing the controls surrounding new systems developments although they were involved in the latest capacity upgrade that took place in the fourth quarter of 2007 due to the delays experienced on 10 August 2007 as a result of a large volume increase.

The audit plan is designed every year and presented to the Board in March for approval. It is however adjusted throughout the year depending on the needs and the events that take place. Priority is given through a software based on 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 an 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. It has appointed Deloitte and Touche to execute audits on physical securities and DCV's vaults every quarter. The results of the report are provided to the Vigilance Committee, which is composed by DCV's participants, and to the SVS.

Additional audits are also undertaken by external audits in the event of a major systems upgrade or development. During 2007, the Vigilance Committee appointed KPMG to review and audit the changes made to the system as a result of the capacity upgrade. It appointed Deloitte to conduct the audit for 2008.

DCV appointed Ernst & Young to undertake a SAS-70 report Type II, to review and assess DCV's controls. The report was completed in early 2009 and no exceptions were found. The process included testing and assessing the 250 key controls out of 550 identified controls during the period 1 June to 30 November 2008.

The SAS 70 type II project for 2009 considers the processing period from June until November 2009. Most of the business processes assessed they year before were part of this period review. Notwithstanding the above, there is only one change at processing level, which is the addition of one new objective for the FLI service (Chilean Central Bank Intraday Settlement Facility).

Finally, the regulatory authority, SVS, executes annual audits from 2004, mainly focusing on reconciliations, the counting of physical securities, and the dematerialisation processes. During 2007, the SVS also closely monitored DCV's capacity systems development in order to make sure that no delays would take place again if there was a major volume increase. The SVS has a specialised team that undertakes the audits. They execute risk audits and claims audits, activity that both of them carried out during the month of September of 2008.

Staff Training

There is a specific budget allocated to staff training, which is allocated across the different areas. However, the budget is not fully spent every year. A one-day general training is provided to each new employee and each area provides training for each specific role.

Training courses and scholarships 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

 **Current mode: Edit**

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. This system is expected to be available for use in the second semester 2008.

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 for an "ethical hack" of its systems on a regular basis.

Disaster Recovery/Business Continuity Procedures

DCV has been developing its Business Continuity Management by encouraging its governance, methodologies and policies. This approach will help DCV set up mechanisms that will enable the company to maintain services up and running in case of potential operation failures.

During 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.

During the last years DCV has developed a methodology, the Business Continuity Plan (BCP), which provides the company a clear and transparent answer about those risks to which the company is exposed.

An important component of the BCP is the execution of the Test Plan, which allows to improve and validate the effectiveness of the alternate procedures before a contingency scenario.

The following list details some of the most relevant tests carried out during 2009

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

During 2010, DCV has been working on improving its BCP plan, which is based in best market practice standards and it has been aligned with DCV's Operational Risk Management methodology. In particular, in respect of the identification and assessment of risks-threats with a crossed business process and service approach. In addition, DCV has integrated its current BCP with the Disaster Recovery and Crisis Management Plan.

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

  **ab** Current mode: **Edit**

possibility that this limited level of liability could be open to challenge.

Systems Performance

DCV reported 99.8% system availability for 2007. DCV has adopted a policy of maintaining system capacity at a level 3 times the highest volume peak. As a result of a volume spike on 10 August 2007 DCV has undertaken a revision of its application architecture to enhance its processing capability. DCV posts its operating results on its website.

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
Comments -

 Current mode: **Edit**

CSD on CSD (Credit) Risk

Summary

DCV has had an account at Clearstream Banking International since August 2007, with DTC (USA) since December 2007, and with Indeval (Mexico) since August 2008. DCV is working on opening accounts at Deceval Colombia and CAVALI Peru as part of the integration project to be initiated in November 2010.

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, through accounts opened by custodian banks hired by the US banks issuing the ADRs.

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 September 2008, DCV became a participant in Indeval.

In 2009, DCV opened an account with the global custodian Deutsche Bank NY for the custody of ETF, which are traded in the local market (Bolsa de Valores Extranjeros de la Bolsa de Comercio de Santiago).

Currently, DCV is opening accounts at DECEVAL, the Colombian CSD, and CAVALI, the Peruvian CSD as part of the exchange's integration project called MILA. The project is expected to start in January 2011 although CAVALI announced it is suspending its participation until the congress approved a new capital gains tax law.

Processing Cycles

N/A

CSD on CSD (Credit Risk) - Key indicators

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

Luxembourg: Clearstream

USA: DTC

Mexico: Indeval

Planned:

Argentina: CVSA

Peru: CAVALI (currently in the account opening process)

Colombia: DECEVAL (currently in the account opening process)

European Central Bank logo



ECB Monetary Operations

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 Current mode: **Edit**

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 10 members, all of whom represent a shareholder group. 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 3 internal committees, which determine and assess the controls, as follows:

-Executive Committee: Meets on a weekly basis and it is composed by the general manager, the IT manager, the financial manager, the legal counsel, the legal manager, the controller deputy head and the operations and customer services manager.

-Audit Committee: Meets on a quarterly basis and it is composed by 3 Board members, the general manager, the IT manager, the financial manager, the legal counsel and the controller Deputy Head.

-Information Security Committee: It consists of senior managers and the security officer.

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

-Vigilance Committee: It 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 the DCV and must approve its statutes, internal controls and review contracts with depositors. The DCV is the only central securities depository in Chile, but there is no legal barrier to the establishment of other depositories. The DCV is permitted to establish a clearinghouse for clearing and settlement purposes, but to date none has been started. The DCV is responsible for enforcing compliance with the law and its own rules. A wide range of institutions are allowed to open accounts at the DCV, including securities brokers, dealers, banks, institutional investors, pension funds, stock exchanges, the central bank, mutual funds, insurance companies, investment funds for foreign capital and non-financial companies.

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. PriceWaterhouseCoopers 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 audit. 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. The 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 the DCV was established.

 Current mode: **Edit**

<p>About the Depository</p>			<p>Segregation of Assets at the Depository</p>											
<p>Name and Address Deposito Central de Valores SA Av. Apoquindo 4001, 12th floor. CP 7550162, Las Condes Santiago, Chile</p>			<p>Depository assets from participants Yes</p>											
<p>Website www.dcv.cl</p>			<p>Participant assets from clients Yes</p>											
<p>Date of establishment 19 March 1993</p>			<p>Eligible Securities Depository under SEC Rule 17f-7</p>											
<p>Date commenced operations September 1995</p>			<p>System of central handling of securities Yes</p>											
<p>Legal status Special purpose private company</p>			<p>Regulated by a financial regulatory authority Yes</p>											
<p>Type of legal entity Private for-profit</p>			<p>Holds assets of all participants on equivalent terms Yes</p>											
<p>Regulated by Superintendencia de Valores y Seguros</p>			<p>Identifies and segregates participant assets Yes</p>											
<p>Is use of the CSD required?</p> <table border="1"> <thead> <tr> <th></th> <th>Settlement</th> <th>Safekeeping</th> </tr> </thead> <tbody> <tr> <td>By Law</td> <td>Yes</td> <td>Yes</td> </tr> <tr> <td>By Market Practice</td> <td>Yes</td> <td>Yes</td> </tr> </tbody> </table>				Settlement	Safekeeping	By Law	Yes	Yes	By Market Practice	Yes	Yes	<p>Periodic reports to participants Yes</p>		
	Settlement	Safekeeping												
By Law	Yes	Yes												
By Market Practice	Yes	Yes												
<p>How securities are held N/A</p>			<p>Periodic examination by a regulator or independent accountant Yes</p>											
<p>Domestic eligible participants 26 Banks, 40 Brokers, 5 Pension Funds, 41 insurance companies, 19 Mutual funds, 3 non-financial companies, 13 private corporations, and 3 stock exchanges.</p>														
<p>Foreign eligible participants N/A</p>														
<p>Ownership Banks 30%, pension funds 30%, stock exchanges 29%, Life Insurance Companies 10%, and others 1%. Ownership is also open to foreigners.</p>														

Internal Safety Measures

Services Provided

<p>Participant Eligibility Criteria</p>			<p>Matching</p>		
<p>Minimum Capital Standards No</p>			<p>Pre-matching services Yes</p>		
<p>Comments -</p>			<p>Matching services Yes</p>		

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<p>Financial Aspects</p>	<p>Comments</p> <p>-</p>
<p>Ability to raise capital/borrow Yes</p>	<p>Clearing</p>
<p>Committed lines of credit in place Yes</p>	<p>Clearing services No</p>
<p>Publish audit financials Yes</p>	<p>Comments Clearing services for brokers are provided by the exchange</p>
<p>Take lien on stock held Yes</p>	<p>Securities Settlement</p>
<p>Central Bank Guarantee No</p>	<p>Book-entry settlement Yes</p>
<p>Other third party guarantee No</p>	<p>Fails management Yes</p>
<p>Third party insurance Yes</p>	<p>Comments</p> <p>-</p>
<p>Comments</p> <p>-</p>	<p>Cash Settlement</p>
<p>Safeguard Facilities</p>	<p>Internal cash settlement No</p>
<p>Offsite Backup Yes</p>	<p>Comments</p> <p>-</p>
<p>Comments</p> <p>-</p>	<p>Stock Lending</p>
<p>Disaster Recovery</p>	<p>Securities lending for fails coverage No</p>
<p>Disaster Recovery Plan Yes</p>	<p>Comments</p> <p>-</p>
<p>Back-up power generator Yes</p>	<p>Asset Servicing</p>
<p>UPS (Uninterruptible power supply) Yes</p>	<p>Notifications Yes</p>
<p>Comments</p> <p>-</p>	<p>Securities processing Yes</p>
	<p>Paying agent No</p>
	<p>Central registrar No</p>
	<p>Proxy voting services No</p>
	<p>Comments</p> <p>-</p>
	<p>Communications</p>
	<p>Electronic communications Yes</p>

	Comments
	-
	Reporting Services
	Electronic reporting
	Yes
	Reporting of every movement
Yes	
Regular statement of securities deposited	
Yes	
Comments	
On-line reporting	

Definitions

Proprietary Assessment. This assessment has been compiled from information provided by third parties including the CSD, believed to be accurate and reliable at the time of publication. The CSD has verified the information contained in the assessment and has reviewed and commented on the assessment. The assessment grades assigned to the risks reviewed in the report have been determined by Thomas Murray analysts and approved by the Thomas Murray Rating Board. The assessments have been assigned in accordance with the process outlined in the published methodology as developed by Thomas Murray and on the basis of information given by third parties.

<p>Publication Date</p> <p>The publication date represented here is November 2010. 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 newflashes issued since the publication date.</p> <p>RISK EXPOSURE DEFINITIONS</p> <p>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 committed to a market participant including brokers, banks and custodians, not caused by CSD processing.</p> <p>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.</p> <p>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.</p> <p>Asset Servicing Risk - The risk that a participant may incur a loss</p>	<p>RATING SCALE</p> <table border="1"> <tr> <td>AAA</td> <td>Extremely low risk</td> </tr> <tr> <td>AA+</td> <td rowspan="3">Very low risk</td> </tr> <tr> <td>AA</td> </tr> <tr> <td>AA-</td> </tr> <tr> <td>A+</td> <td rowspan="3">Low risk</td> </tr> <tr> <td>A</td> </tr> <tr> <td>A-</td> </tr> <tr> <td>BBB</td> <td>Acceptable risk</td> </tr> <tr> <td>BB</td> <td>Less than acceptable risk</td> </tr> <tr> <td>B</td> <td>Quite high risk</td> </tr> <tr> <td>CCC</td> <td>High risk</td> </tr> <tr> <td>N/R</td> <td>No rating has been given due to insufficient information</td> </tr> </table> <p>Contact:</p> <p>Thomas Murray Depository Service Horatio House, 77 – 85 Fulham Palace Road LONDON, W6 8JA</p> <p>Tel: +44 (0) 20 8600 2300 Fax: +44 (0) 20 8741 7468</p> <p>E-mail: depositoryservice@thomasmurray.com Web-site: www.thomasmurray.com</p>	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
AAA	Extremely low risk																				
AA+	Very low risk																				
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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.

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.

Names of analysts available on request.

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Report Date

Chile

29 December 2010