



**NOTICE
n. 379**

22 March 2019

EuroTLX

Sender: **EuroTLX SIM**

Target Company: ---

Object: **Communication of EuroTLX Rule Book entry into force on the 20 May 2019**

Text

Please be informed that changes to the Rules of EUROTLX illustrated in the present Notice have been approved.

The new Rules will enter into force on the **20 May 2019**.



AMENDMENTS TO EUROT LX RULEBOOK

SETTLEMENT OF CONTRACTS ON A NET BASIS

The amendments illustrated in the present Notice will come in to force on **20 May 2019**, subject to the positive outcome of the tests of the X-TRM Service.

The Rules to the market are amended in order to provide, for non-guaranteed contracts executed on the Cert-X and Equity segments, the forwarding to the settlement service operated by Monte Titoli (T2S) aggregated according to the so-called model "bilateral netting", which will continue to operate with the ICSD.

In particular, the X-TRM service is provided to acquire such contracts and carry on with the to the calculation of bilateral net balances by aggregating the transactions: (i) concluded between the same counterparties (negotiators) (ii) concerning the same ISIN, (iii) same settlement date and (iv) separately concluded on own account / third party account. It should be noted that the calculation of the bilateral net balance is aimed exclusively at minimizing the number of settlement instructions to be forwarded to the settlement service (so-called "settlement netting").

(Article 7.1 and related guideline)

In the meantime the rules of conduct of the intermediaries are reviewed. In particular, the current rules on monitoring the operation of the so-called "Bilateral netting process" are generalized. It is provided that operators are equipped with effective forms of control for monitoring the contractual positions taken on the market, ensuring the orderly conduct of negotiations and the final settlement of contracts concluded. Consequently, within the Guidelines there are some obligations for operators for this purpose (internal procedures that allow the reconciliation of contracts concluded on the market with bilateral net balances forwarded to the settlement service and the identification of non-regulated contracts). .

(article 3.11 and new guideline; articles 3.14, 7.4, 8.11, 8.12, 8.13, 8.14)

The updated texts of the EuroTLX Market Rules will be published on EuroTLX website <https://www.eurotlx.com/it>

The changes of the Market Rules are shown below.

Rulebook

Definitions

Bilateral Netting ~~arrangement that allows to aggregate the contracts in financial instruments cleared and settled according to Euroclear Bank and Clearstream Banking Luxembourg rules.~~

Break Up	cancellation of a Settlement Instruction in Fail which incorporates instructions that may be settled and contemporaneous entry of two new balances of trades (or OTC Instructions), one of which may be settled and the other which remains in Fail.
Market Instruction	a settlement instruction sent by X TRM to Euroclear Bank or Clearstream Banking Luxembourg, corresponding to a bilateral balance settlement instruction; it may exceptionally correspond to a single settlement instruction (to enter a traded quantity or reverse trade).
OTC Instruction	a settlement instruction having as object traded quantities to be settled with a settlement system, entered in the systems of Euroclear Bank or Clearstream Banking Luxembourg by an Market Intermediary following a break up of a Market or OTC Instructions.

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Section 4 Rules of conduct

Article 3.11 Rules of conduct for Market Intermediaries

1. Market Intermediaries shall refrain from acts that may prejudice the integrity of the markets. *Inter alia* they may not:

- a. commit acts that are likely to give a false or misleading impression to other market participants;
- b. carry out transactions, whose objective is not to transfer ownership of the EuroTLX financial instruments traded or to modify their exposure to the market;
- c. commit acts that may prevent the maintenance of the liquidity of the market and/or make it difficult for Liquidity Providers to fulfil their commitment;
- d. carry out, directly or through a nominee, transactions under a prior agreement for the execution and offsetting thereof.

1.b Market Intermediaries must adopt effective forms of control in order to monitor the contractual positions taken on the market and avoid situations that could hinder the orderly conduct of trading and the regular settlement of contracts with settlement systems. Market intermediaries must implement precise strategies in order to ensure the settlement of contracts within the envisaged deadlines.

In order to comply with the conditions set out in this article, Market Intermediaries must, furthermore, satisfy the provisions within the Guidelines.

2. The Liquidity Providers applying a market making strategy through algorithmic trading techniques on one or more financial instruments, other than those for which they have already undertaken the obligations laid down in article 6.4, at the occurrence of the conditions indicated in Regulation 2017/578/EU, must inform EuroTLX, and include this financial instrument between what operating in accordance with the provisions of article 6.4, in accordance to such Regulation.

3. Market Intermediaries trading financial derivatives on commodities must inform EuroTLX

of the positions held, with the procedures and the schedule indicated in the guidance to the Rules 3.11.

Guidance to Rules 3.11 (1)

Monitoring of positions to be settled

1. In order to ensure the monitoring of the contractual positions taken and to ensure the settlement of contracts traded in the unsecured classes, the Market Intermediaries must adopt internal procedures that allow:

- a) the reconciliation of the contracts concluded on the market with the bilateral net balances forwarded to the settlement service;**
- b) the identification of unsettled contracts;**
- c) for the instruments of the international non-guaranteed classes, upon request of EuroTLX, enter settlement instructions aimed at maximizing the settlement of contracts concluded, according to the criteria specified by the specific Technical Communication.**

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~~Article 3.14 Rules of conduct for Market Intermediaries in the non-guaranteed international EuroTLX segment and to the EuroTLX^{Quote} segment, international class~~

~~1. Market Intermediaries trading on the non-guaranteed international EuroTLX and on EuroTLX^{Quote} segment, international class, shall ensure:~~

- ~~1) proper process of Bilateral Netting;~~
- ~~2) reporting and management of fails and containment of the risk of contagion;~~
- ~~3) identification of trades to be still completed.~~

~~2. To meet the objectives as per paragraph 1 above, Market Intermediaries shall observe the following Guidance to Rules as well as any relevant Technical Communication.~~

~~Guidance to Rules 3.14~~

~~1. Market Intermediaries shall report:~~

- ~~1) the list of Settlement Instructions, in the manner set out in the relevant Technical Communication;~~
- ~~2) ad hoc information following specific requests requested by EuroTLX.~~

~~2. Market Intermediaries shall report the information under points 1 and 2 above, regarded essential for the correct monitoring and management of Fails by EuroTLX, within the timeframe and in the manner set out by a relevant Technical Communication or otherwise communicated by EuroTLX.~~

~~3. Market Intermediaries shall:~~

- ~~a) adopt and maintain organizational measures deemed adequate, having regard to their business profile, to contain the occurrence of Fails, as regards their number, quantities traded and their duration;~~
~~b) work towards prompt resolution of any Fails generated by themselves;~~
~~c) upon request by EuroTLX, perform break up to allow to settle transactions that may be so settled, according to the criteria set out in the relevant Technical Communication.~~

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Title 7 Clearing, guarantee and settlement

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Guidance to Rules 7.1 (1)

Matching and clearing systems

The daily clearing and settlement is X-TRM.

The designed settlement systems are the systems managed by:

-Monte Titoli, or by other CSDs using the T2S platform with which is possible cross-CSD settlement, as defined in the Monte Titoli Settlement Service Regulations,¹ operating for the financial instruments of the domestic classes;

-Euroclear and Clearstream Banking Luxembourg, operating for the financial instruments of the international classes.

The contracts concerning:

- the instruments of the Equity and Cert-X Segments, non-guaranteed domestic classes, concluded on the same trading day are aggregated in bilateral net balances;

- the instruments of the international non-guaranteed classes are aggregated in bilateral balances that separately take into account purchases and sales.

The calculation criteria for the balances indicated above are defined in the X-TRM Service Instructions.

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Article 7.4 Bilateral netting

1. Without prejudice to the cases referred to in Article 7.1, paragraph 4 Contracts related to financial instruments traded on the international non-guaranteed EuroTLX segment and on the EuroTLX^{Quote} segment, international class, as per article 4.1 are settled through the bilateral netting settlement services generated by the X-TRM bilateral netting system.

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Guidance to Rules 7.5 4 (1)

¹ The entry into force will be announced with a subsequent Notice

Activation timing of the buy-in procedure

*Compliant Market Intermediaries can start the buy-in procedure on the sixth day subsequent to the settlement day (S+6) in the case of a contract (or a bilateral balance, in the case of bilateral netting) covering a financial instrument which belongs to the **non guaranteed classes** domestic guaranteed and non guaranteed international and domestic segments. The request of initiation of the mandatory execution (buy-in) procedure shall take account of the eventual buyer protection and of the features of the financial instrument.*

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Section 4 Oversight of Settlement of Transactions under Bilateral Netting

Article 8.11 Monitoring of the Risk of Contagion

~~1. EuroTLX shall monitor the Settlement Instructions in Fail under the Bilateral Netting regime with respect to the regulation governing transactions on the non-guaranteed international EuroTLX segment and on the EuroTLX^{Quote} segment, international class. To that end it shall refer to the time and quantity limits to identify such Settlement Instructions that, alone or combined with other Settlement Instructions, may pose the issue of the risk of contagion.~~

~~2. EuroTLX shall perform the relevant controls, as per par. 1 above, on the basis of data and information provided by Euroclear Bank and Clearstream Banking Luxemburg and the Market Intermediaries. EuroTLX may request Market Intermediary to provide data and/or information or to perform Break Up.~~

Article 8.12 Blocking of Trading of an Market Intermediary on the non-guaranteed international EuroTLX segment

~~1. EuroTLX may decide to block an Market Intermediary from trading on the non-guaranteed international EuroTLX segment if such Market Intermediary turns out unable to ensure a full and correct performance of its obligations under the present Rule Book or any other relevant Technical Communication, and such continued non-performance may prejudice the proper process of bilateral netting, reporting or management of fails.~~

Article 8.13 Blocking of Trading of a Market Intermediary on guaranteed financial instruments

~~1. On central counterparty's request referred to in Article 7.3, EuroTLX may decide to block a Market Intermediary from trading temporarily on all guaranteed financial instruments referred to in article 6.4.~~

~~2. In case central counterparty referred to Article 7.3 asks to proceed immediately, EuroTLX decides the block of trading as soon as possible and decides to cancel the contracts, executed on the EuroTLX Market, by the Market Intermediary whose activity has been blocked, for the period of time between the reception of the request from Cassa di Compensazione & Garanzia and the technical effectiveness on the market of such decision.~~

Section 4 5 Management of Technical Failures

Article 8.10 ~~8-14~~ General Conditions

1. EuroTLX shall examine the maintenance of an adequate and efficient IT infrastructure by implementing exact and continued controls of the IT systems:

- a) of the market, with particular reference to the trading and matching of orders;
- b) Market Intermediaries' connection to the market;
- c) employed to disseminate trading-relevant information;
- d) related to ~~bilateral netting~~ monitoring of bilateral net balances and consequent processes;**
- e) related to post-trading.

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