

AMENDMENTS TO THE RULES OF EUROT LX

T2S

MANAGEMENT OF CORPORATE ACTIONS ON FLOW

FINE TUNING

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

The new Rules will enter into force in occasion of the migration of Monte Titoli's settlement system from EXPRESS II platform to the T2S platform.

1. MANAGEMENT OF CORPORATE ACTION ON FLOW

The adoption by Monte Titoli of T2S settlement platform led to the application of international standards in the management of the so called corporate actions.

Borsa Italiana and CC&G have revised the respective rules and, following a consultation with market and post trading participants intend to change their provisions.

At present the discipline of EuroTLX Market reflects Borsa Italiana Market, alignment that is held in order to allow fungibility of contracts between the different trading platforms.

Therefore, with a view of continuity the discipline under discussion is amended as follows:

	Current Rules	Rules with T2S
Guaranteed Domestic Segment	Reference to the settlement system discipline (which in turns refers to Borsa Italiana Market Rules)	Reference to the <u>central counterpart discipline</u> (which in turns refers to the adjustments made by the settlement system)
NON Guaranteed Domestic Segment	Rules of conduct for Market Intermediaries provided by EuroTLX (according to which Market Intermediaries must attribute to the counterparty coupons and refunds taking as reference the intended settlement date of the	<u>Reference to the adjustments made by the settlement system</u> ; if the settlement system does not make corrections the rule of conduct is confirmed

	individual contracts concluded on the EuroTLX Market, adjusted of any economic and fiscal effects)	
Guaranteed International Segment	Reference to the ccp discipline (which in turns refers to the adjustments made by the settlement system)	Nothing changes
NON Guaranteed International Segment	Rules of conduct for Market Intermediaries provided by EuroTLX (according to which Market Intermediaries must attribute to the counterparty coupons and refunds taking as reference the intended settlement date of the individual contracts concluded on the EuroTLX Market, adjusted of any economic and fiscal effects)	<u>Reference to the adjustments made by the settlement system</u> ; if the settlement system does not make <u>adjustments</u> the rule of conduct is confirmed

As noted the rules of the settlement system provide that in case of fails on financial instruments affected by corporate actions in case of distributions (eg. coupon detachment, payment of dividends, distribution of rights or shares in connection with capital increases, script dividend) and of transformation (eg. mergers, divisions, incorporations, splits, compulsory conversions, redemptions) settlement instructions are managed on the basis of international standards¹.

International standards provide also that, in case of failed transactions on financial instruments in relation to which the corporate event provides the right to express a choice by

¹ In case of failed transactions on financial instruments affected by "distribution":

- the failed original transaction remains in the system and Monte Titoli on the record date, after the close of settlement the next day, inserts a new instruction intended to acknowledge the other party the monetary amount not perceived (ie financial instruments not recognized) in order to restore the economically equivalence of the original transaction;
- as indicated in the rules of Monte Titoli, the new settlement instructions will take into account the assignment ratios defined by the issuer and / or value of the coupon / gross dividend.

In case of failed transactions on financial instruments affected by "transformation":

- the failed original transaction is canceled by Monte Titoli, which, on the record date, after the close of settlement the next day, inserts a settlement instruction on the instrument arising from the transaction;
- as indicated in the rules of Monte Titoli, the new settlement instructions will take into account the assignment ratios defined by the issuer.

the in bonis counterparty², the subject in bonis may exercise the option provided by the corporate action on the purchased security (so called buyer protection).

This possibility is specified in the market rules, and the modality of execution complies with the practice of Italian financial markets.

2. FINE TUNING

The adoption by Monte Titoli of the TARGET2 – Securities platform (T2S) as a central platform of settlement, is reflected on the regulatory structure of settlement services.

Specifically, the T2S platform offers both matching and settlement services of the transactions, supplementing existing activities carried out by Monte Titoli through two distinct pre-settlement (X-TRM) and settlement (EXPRESS II) platforms and allows clearing members to forward directly settlement instructions.

However, participation in T2S does not preclude CSDs to have their own pre-settlement system, for the routing of transactions to T2S, which Euro TLX intends to continue to rely on, in order to route the contracts concluded in its markets for the settlement in Monte Titoli. This allows the so called Straight To Process of market transactions to the post trading, ensuring the matching of the relevant settlement instructions, thanks to an integrated process of validation and enrichment.

Therefore, the current market model is confirmed:

- With reference to the operation on not guaranteed markets, the participant-settlement agent is obliged to participate directly or indirectly in the X-TRM system and the regulation specifies that, in case the participant makes use of a settlement agent (so called indirect participation) will be the latter having to participate - on his behalf - to X-TRM.
- As regards the operation of guaranteed markets, EuroTLX will keep checking only the direct or indirect membership to the clearing system, which manages the participation to the settlement on the basis of its rules.

On this point, please note that, as of today, CC&G will use the X-TRM system for the enrichment and the determination of the balances of the contracts which settle in Monte Titoli and for their subsequent routing to T2S, as well as for the enrichment of the contracts that settle in the ICSD. Consequently, as further specified in the regulation of CC&G, general participants and eventually their settlement agents are required to participate to the X-TRM for the above services.

It is understood that Euro TLX, immediately after the conclusion of contracts, will continue to transmit to X-TRM, on behalf of the market participants, the information relating to contracts for the purposes of their settlement and, where envisaged, to the CCP.

Please be informed that the timing for the routing from the X-TRM system to T2S of settlement instructions for not guaranteed instruments have changed. The routing of contracts will take place the day before the intended settlement date (ISD-1), instead of in real time.

² Fail on option rights derived from the payment of capital increase and any other instrument which is connected to the rights distribution, including dividend option.

During the migration to T2S platform it is not required for existing market participants to update the participation requirements, for which the current mode of access to settlement systems is not subject to change. Any changes must be communicated according to the usual timing and methods.

The full text of Rules as amended will be available on the website.

Amendments are shown below.

TITLE 3. MARKET INTERMEDIARIES

CHAPTER 1 GENERAL PROVISIONS

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Article 3.3 Condition for admission and continued eligibility

1. The admission of Market Intermediaries to trading shall be subject to verification by EuroTLX, in accordance with objective non-discriminatory criteria, of fulfilment of the following conditions on a continuing basis:

- a. the adequacy of the technological systems used for trading and associated activities with respect to the nature of the activities carried out and the number and types of interconnections with the markets, and their compatibility with the electronic data processing and telecommunication support systems adopted by EuroTLX for the operation of the markets;
- b. sufficient staff with adequate professional qualifications in relation to the types of activity carried out and the number and types of interconnections with the markets;
- c. adequate internal procedures and controls for trading activity, including, inter alia, to ensure compliance with the rules of conduct set out in art. 3.12.5 and 3.15;
- d. adequate clearing and guarantee and settlement procedures, including, inter alia, to ensure compliance with the rules of conduct set out in article 3.4, where applicable.

2. The Market Intermediaries may entrust the management of technological systems to third parties, subject to the conditions laid down in the guidance to Rules 3.3(2)

[The entry into force of the disposition regarding the management of technological systems to third parties, referred to in article 3.3, paragraph 2 and related guidelines will be communicated with subsequent Notice]

3. The admission of Market Intermediaries shall also be subject to verification, according to the segments in which they intend to trade, of:

- a) direct or indirect participation in the settlement system, as set out in Guidance to Rules 7.1 and direct or indirect participation in their accessory systems (trade-checking systems);
- b) membership in the clearing and guarantee system referred to in Guidance to Rules 7.3.

Guidance to Rules 3.3 (1)

Requirements for participation

1. For the purpose of complying with the conditions referred to in art. 3.3, Market Intermediaries must attest that:
 - a. their trading staff know the rules and operating procedures of the market and the technical instruments for trading and have adequate professional qualifications;
 - b. persons acting as Liquidity Providers for EuroTLX financial instruments, in addition to satisfying the requirements specified above for traders, must know the rules governing and the manner of performing the activity of Liquidity Providers and the related technical instruments;
 - c. they have ensured the presence of a compliance officer who must have an in-depth knowledge of these Rules. The compliance officer shall also be entrusted with relations with EuroTLX's trading supervision office. Market Intermediaries shall send EuroTLX the name of a compliance officer, who must be on call during trading hours. To ensure the continuity of the function in the absence of the compliance officer, Market Intermediaries shall send, in advance or on a case-by-case basis, the name of a deputy using the forms and functionalities available on EuroTLX's website.
 - d. they have adequate systems, procedures and controls for trading activity and adequate clearing and guarantee and settlement procedures;
 - e. they have an internal IT unit that is adequate in terms of number, experience and specialisation of its staff members to guarantee the continuous and prompt functioning of the trading and settlement systems used, taking into account the degree of automation of their internal procedures and any recourse made to outsourcing. Market Intermediaries shall also send EuroTLX the name of an IT contact person, who must be on call during trading hours. To ensure the continuity of the function in the absence of the IT contact person, Market Intermediaries shall send, in advance or on a case-by-case basis, the name of a deputy at the e-mail address: supervision@eurotlx.com.

1-bis Market intermediaries, for the purpose of complying with the conditions referred to in Article 3, letter a), shall attest that:

i) in case of direct participation in the settlement system, the participation to the X-TRM system service;

ii) in case of indirect participation in the settlement system, the participation to the X-TRM system service on his behalf of the intermediary participating in the settlement service.

2. When carrying out the trading activity and associated activities, the Market Intermediary shall avail itself of technological systems which are adequate for the interaction with the electronic data processing and telecommunication support systems of the market, for which EuroTLX has issued a conformance certification (so called conformance test). Where the Market Intermediary avails itself of systems which are different from those for which EuroTLX has issued the conformance certification, such systems shall pass the conformance evaluation (so called conformance test). Such evaluation takes place in accordance with the manner and time limits indicated in the Trading Service Manual. For the execution of the conformance test the subscription of specific General Conditions for the supply of services is requested.

3. Market Intermediaries may use a third party and/or a group company to perform the activities referred to in these Guidance to Rules provided they remain fully accountable for compliance with all the obligations of the Rules and control and coordinate the activities performed by the persons referred to above. Market Intermediaries must inform EuroTLX accordingly. The agreement between the Market Intermediary and the third party/group company must provide for the possibility of EuroTLX, or its appointees, verifying compliance with the requirements laid down in the Rules directly on the premises of the third party and/or the group company the Market Intermediary uses.

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Article 3.7 Indirect participation in settlement system

1. In the case of indirect participation in the settlement system, i.e. where an Market Intermediary uses another Intermediary to settle its contracts, the Market Intermediary and the other Intermediary must send EuroTLX a declaration containing:
 - a. an undertaking by the Intermediary participating in the settlement system to settle contracts concluded in the market by the Market Intermediary up to the time of withdrawal from the agreement **together with the attestation referred to in guidance 3.3 (1) paragraph 1-bis;**
 - b. an authorisation for the Market Intermediary, if any, to be suspended by EuroTLX, at the request and on the responsibility of the Intermediary participating in the settlement system, without EuroTLX being required or entitled to verify the appropriateness of such suspension or its conformity with any understandings between the Market Intermediary and the participating Intermediary.

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TITLE 7 CLEARING, GUARANTEE AND SETTLEMENT

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Guidance to Rules 7.5

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 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.***

An individual buy-in process may also cover more than one contract (or more than one bilateral balance) provided that they are executed on the same financial instrument with the same Market Intermediary, and that for each contract, the above period of time has elapsed without non-delivery of securities.

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Article 7.6 Adjustment procedures for corporate events

1. In the event that contracts are not settled within the prescribed time limits and a corporate event occurs in the meantime:
 - a) the discipline provided in the rules of the clearing and guarantee system referred to in article 7.3 shall apply to the contracts of the **domestic guaranteed and** international guaranteed EuroTLX segment;
 - b) The discipline provided in the following Guidance to Rules shall apply to the contracts of the domestic ~~guaranteed and~~ non-guaranteed and the international non-guaranteed EuroTLX segment.

Guidance to Rules 7.6

*Where the contracts of the non-guaranteed international and the domestic non-guarantee EuroTLX segments are not settled within the prescribed time limits and a corporate event occurs in the meantime, **the procedures provided by the settlement system are applied. If the settlement system does not provide the management of relevant corporate action** the Market Intermediaries shall deliver the securities ex coupon or ex repayment to the counterparty based on the original settlement date of each contract executed on the EuroTLX market, adjusted to reflect any financial or tax effect.*

In the case of corporate action which provide the possibility to for the in bonis buyer the right to express a choice, the buyer may request the in malis seller to exercise the option derived from the corporate action concerning the instrument purchased (so called buyer protection), notifying it to EuroTLX.

For the purpose of buyer protection request, the form available in the website of the settlement system shall be used. Also, the counterparties, directly or through the intermediaries that settle respectively on their behalf, shall insert in the settlement system the settlement instruction on the resulting and possibly cancel the original settlement instruction.

~~Where the contracts of the guaranteed domestic EuroTLX segment are not settled within the prescribed time limits, adjustments are carried out by the settlement system based on criteria which minimise the distortion effects of the event and discourage the late delivery of cash or securities. Specifically, when a coupon detachment or a repayment occurs, the seller shall deliver the securities ex coupon or ex repayment and pay the buyer a cash amount equal to the coupon or the amount repaid it has not received. In the case of partial repayment by means of reduction of the par value of the bond, the quantity originally traded must be proportionally adjusted.~~