

# FTSE Italia PIR PMI Index

v2.4



# Contents

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Section 1 Introduction .....	3
Section 2 Management responsibilities .....	5
Section 3 FTSE Russell Index policies .....	7
Section 4 Eligible securities .....	9
Section 5 Index qualification criteria .....	10
Section 6 Periodic review of constituents .....	12
Section 7 Changes to constituent shares .....	13
Section 8 Index maintenance .....	15
Section 9 Industry Classification Benchmark (ICB) .....	20
Section 10 Index calculation .....	21
Appendix A Index opening and closing hours.....	23
Appendix B Basket selection procedure .....	24
Appendix C Capping methodology .....	26
Appendix D Communications and notices .....	29
Appendix E Status of Index.....	30
Appendix F Further information .....	31

## Section 1

# Introduction

## 1. Introduction

- 1.1 The FTSE Italia PIR PMI Index is a benchmark index for the Italian equity markets belonging to the FTSE Italia Index Series, measuring the performance of Italian companies matching the personal savings plan (PIR) Law introduced in Italy in 2017 and modified in 2019. From 2018 to early 2020 it had the previous name of FTSE Italia PIR Mid Cap Index.
- 1.2 The index is derived from the FTSE Italia Mid Cap Index, described in the FTSE Italia Index Series Ground Rules, whose constituents are screened according to PIR requirements. The index has been created to be suitable for futures and options trading, as a benchmark index for Exchange Traded Funds (ETFs), and for tracking mid capitalisation stocks in the Italian market.
- 1.3 The FTSE Italia PIR PMI Index is market capitalisation weighted after adjusting constituents for float. Individual constituent weights are capped.
- 1.4 The FTSE Italia PIR PMI Index does not take account of ESG factors in its index design.
- 1.5 This document sets out the Ground Rules for the construction and management of the FTSE Italia PIR PMI Index. Copies of the Ground Rules are available from FTSE Russell, Borsa Italiana and on the websites [www.lseg.com/en/ftse-russell/](http://www.lseg.com/en/ftse-russell/) and [www.borsaitaliana.it](http://www.borsaitaliana.it). The rules will be available in English.
- 1.6 A FTSE Italia PIR PMI Price Index and a FTSE Italia PIR PMI Total Return Index are calculated in EUR in real time.
- 1.7 The base value of the FTSE Italia PIR PMI Index was set at the level of 10,000 at the close of trading on 30 December 2011.
- 1.8 These Ground Rules should be read in conjunction with the FTSE Italia Index Series Ground Rules.
- 1.9 FTSE Russell**

FTSE Russell is a trading name of FTSE International Limited, Frank Russell Company, FTSE Global Debt Capital Markets Limited (and its subsidiaries FTSE Global Debt Capital Markets Inc. and FTSE Fixed Income Europe Limited), FTSE Fixed Income LLC, The Yield Book Inc and Beyond Ratings.
- 1.10 IOSCO**
  - 1.10.1 FTSE Russell considers that the FTSE Italia PIR PMI Index meets the IOSCO Principles for Financial Benchmarks as published in July 2013.

Full details can be accessed at [www.iosco.org](http://www.iosco.org).

Details of FTSE Russell's Statement of Compliance with respect to the IOSCO Principles can be accessed using the following link:

[iosco Statement](#)

- 1.11 FTSE Russell hereby notifies users of the index that it is possible that circumstances, including external events beyond the control of FTSE Russell, may necessitate changes to, or the cessation of, the index and therefore, any financial contracts or other financial instruments that reference the index or investment funds which use the index to measure their performance should be able to withstand, or otherwise address the possibility of changes to, or cessation of, the index.
- 1.12 Index users who choose to follow this index or to buy products that claim to follow this index should assess the merits of the index's rules-based methodology and take independent investment advice before investing their own or client funds. No liability whether as a result of negligence or otherwise is accepted by FTSE Russell for any losses, damages, claims and expenses suffered by any person as a result of:
- any reliance on these Ground Rules, and/or
  - any inaccuracies in these Ground Rules, and/or
  - any non-application or misapplication of the policies or procedures described in these Ground Rules, and/or any inaccuracies in the compilation of the index or any constituent data.

## Section 2

# Management responsibilities

## 2. Management responsibilities

### 2.1 FTSE International Limited (FTSE)

2.1.1 FTSE is the benchmark administrator of the index.<sup>1</sup>

2.1.2 FTSE is responsible for the daily calculation, production and operation of the FTSE Italia PIR PMI Index and will:

- maintain records of the index weightings of all constituents;
- make changes to the constituents and their weightings in accordance with the Ground Rules;
- carry out the periodic index reviews and apply the changes resulting from the reviews as required by the Ground Rules;
- publish changes to the constituent weightings resulting from their ongoing maintenance and the periodic reviews;
- disseminate the indices.

2.1.3 The weights of constituents in the real time indices shall be used in the calculation of the end of day indices.

2.1.4 FTSE is responsible for monitoring the performance of the FTSE Italia PIR PMI Index throughout the day and will determine whether the status of the index should be Firm, Indicative or Held (see Appendix E).

2.1.5 FTSE is responsible for the Ground Rules and any other associated index methodology documents, and for approving all changes to the Ground Rules and any other associated index methodology documents.

### 2.2 Borsa Italiana

2.2.1 Borsa Italiana (BIt) operates the Euronext Milan e Euronext MIV Milan markets upon which all index constituents must trade.

2.2.2 BIt is responsible for the rules governing derivative contracts that trade on the IDEM market. Wherever possible, corporate actions in the index are treated so as to be consistent with the IDEM Derivatives Corporate Action Policy (Borsa Italiana Announcement nr. 18730 dated November 9 2011).

2.2.3 Specifically, BIt calculates the K factor used to adjust constituent weights to account for certain corporate actions (see rule 7.5) and specifies whether dividends should be classified as ordinary or extraordinary.

<sup>1</sup> The term administrator is used in this document in the same sense as it is defined in [Regulation \(EU\) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds](#) (the European Benchmark Regulation) and [The Benchmarks \(Amendment and Transitional Provision\) \(EU Exit\) Regulations 2019](#) (the UK Benchmark Regulation).

### **2.3 FTSE Italia Index Series Advisory Committee**

- 2.3.1 To assist in the oversight of the indices, FTSE Russell has established the FTSE Italia Index Series Advisory Committee.
- 2.3.2 The responsibilities of the Committee are to: discuss proposed changes to the Ground Rules for the FTSE Italia Index Series and the FTSE MIB Index and make recommendations for changes for subsequent approval by the FTSE Russell Index Governance Board; provide guidance on the development and construction of new Italian indices; and periodically review the Ground Rules for the FTSE Italia Index Series and the FTSE MIB Index at the frequency set out in those rules.
- 2.3.3 The Terms of Reference of the FTSE Italia Index Series Advisory Committee are set out on the FTSE Russell website and can be accessed using the following link:

[FTSE Italia Index Series Advisory Committee](#)

### **2.4 FTSE Italia Index Series Technical Committee**

- 2.4.1 The FTSE Italia Index Series Technical Committee has been established to advise on the periodic reviews of the index, to support the management of corporate actions affecting index constituents, to review changes to the Ground Rules and other methodology documents and to recommend other changes for subsequent review and approval by the FTSE Russell Index Governance Board.
- 2.4.2 The Terms of Reference of the FTSE Italia Index Series Technical Committee are set out on the FTSE Russell website and can be accessed using the following link:

[FTSE Italia Index Series Technical Committee.pdf](#)

### **2.5 Amendments to the Ground Rules**

- 2.5.1 These Ground Rules shall be subject to regular review (at least once a year) by FTSE Russell to ensure that they best reflect the aims of the index. Any proposals for significant amendments to these Ground Rules will be subject to consultation with FTSE Russell advisory committees and other stakeholders if appropriate. The feedback from these consultations will be considered by the FTSE Russell Index Governance Board before approval is granted.
- 2.5.2 As provided for in the Statement of Principles for FTSE Russell Equity Indices, where FTSE Russell determines that the Ground Rules are silent or do not specifically and unambiguously apply to the subject matter of any decision, any decision shall be based as far as practical on the Statement of Principles. After making any such determination, FTSE Russell shall advise the market of its decision at the earliest opportunity. Any such treatment will not be considered as an exception or change to the Ground Rules, or to set a precedent for future action, but FTSE Russell will consider whether the Ground Rules should subsequently be updated to provide greater clarity.

## Section 3

# FTSE Russell Index policies

## 3. FTSE Russell Index policies

These Ground Rules should be read in conjunction with the following policy documents which can be accessed using the links below:

### 3.1 Statement of Principles for FTSE Russell Equity Indices (the Statement of Principles)

Indices need to keep abreast of changing markets and the Ground Rules cannot anticipate every eventuality. Where the Ground Rules do not fully cover a specific event or development, FTSE Russell will determine the appropriate treatment by reference to the Statement of Principles which summarises the ethos underlying FTSE Russell's approach to index construction. The Statement of Principles is reviewed annually and any changes proposed by FTSE Russell are presented to the FTSE Russell Policy Advisory Board for discussion before approval by the FTSE Russell Index Governance Board.

The Statement of Principles can be accessed using the following link:

[Statement\\_of\\_Principles.pdf](#)

### 3.2 Queries, Complaints and Appeals

A constituent or prospective constituent company (or professional advisor acting on behalf of the company), a national organisation or a group of no fewer than ten users of the indices from different organisations acting in their professional capacity may appeal against decisions taken by FTSE Russell.

FTSE Russell's complaints procedure can be accessed using the following link:

[Benchmark\\_Determination\\_Complaints\\_Handling\\_Policy.pdf](#)

FTSE Russell's Appeal Process can be accessed using the following link:

[Appeals\\_Against\\_Decisions.pdf](#)

### 3.3 Index Policy for Trading Halts and Market Closures

3.3.1 Guidance for the treatment of index changes in the event of trading halts or market closures can be found using the following link:

[Index\\_Policy\\_for\\_Trading\\_Halts\\_and\\_Market\\_Closures.pdf](#)

### 3.4 Index Policy in the Event Clients are Unable to Trade a Market or a Security

3.4.1 Details of FTSE Russell's treatment can be accessed using the following link:

[Index\\_Policy\\_in\\_the\\_Event\\_Clients\\_are\\_Unable\\_to\\_Trade\\_a\\_Market\\_or\\_a\\_Security.pdf](#)

### **3.5 Policy for Benchmark Methodology Changes**

3.5.1 Details of FTSE Russell's policy for making benchmark methodology changes can be accessed using the following link:

[Policy for Benchmark Methodology Changes.pdf](#)

### **3.6 FTSE Russell Governance Framework**

3.6.1 To oversee its indices, FTSE Russell employs a governance framework that encompasses product, service and technology governance. The framework incorporates the London Stock Exchange Group's three lines of defence risk management framework and is designed to meet the requirements of the IOSCO Principles for Financial Benchmarks<sup>2</sup>, the European benchmark regulation<sup>3</sup> and the UK benchmark regulation<sup>4</sup>. The FTSE Russell Governance Framework can be accessed using the following link:

[FTSE Russell Governance Framework.pdf](#)

### **3.7 Real Time Status Definitions**

3.7.1 Please refer to the following guide for details of real time status definitions for indices which are calculated in real time.

[Real Time Status Definitions.pdf](#)

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<sup>2</sup> IOSCO Principles for Financial Benchmarks Final Report, FR07/13 July 2013.

<sup>3</sup> Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds.

<sup>4</sup> The Benchmarks (Amendment and Transitional Provision) (EU Exit) Regulations 2019.



## Section 4

# Eligible securities

## 4. Eligible securities

- 4.1 The FTSE Italia PIR PMI Index constituent shares are selected from the Italian constituents of the FTSE Italia Mid Cap Index and FTSE Italia Small Cap Index.
- 4.2 All Italian stocks, traded on Borsa Italiana's Euronext Milan e Euronext MIV Milan markets, except for savings shares (azioni di risparmio) and preferred shares, are eligible for inclusion in the FTSE Italia PIR PMI Index, provided that they will match the requirements of the PIR law.
- 4.3 Savings or preferred shares, however, may be eligible if the ordinary shares of a company are not listed or have consistently less liquidity than the savings or preferred shares.
- 4.4 Companies whose business is that of holding equity and other investments (e.g. Investment Trusts) classified by the Industry Classification Benchmark<sup>5</sup> as Closed End Investments (30204000) and classified by the Industry Classification Benchmark as Open End and Miscellaneous Investment Vehicles (30205000) will not be eligible for inclusion. For further details on the Industry Classification Benchmark (ICB), please visit [Industry Classification Benchmark](#)
- 4.5 Minimum voting rights**
- 4.5.1 Companies are required to have greater than 5% of the company's voting rights (aggregated across all of its equity securities, including, where identifiable, those that are not listed or trading) in the hands of unrestricted shareholders or they will be deemed ineligible for index inclusion.
- 4.5.2 The percentage of a company's voting rights in public hands is calculated as:

$$\frac{\text{The number of votes in the hands of shareholders that are unrestricted as determined by the application of FTSE Russell free float definitions}}{\text{The total number of votes conferred by the shares outstanding of all the company's voting securities including those that have not been admitted to trading on a regulated venue}}$$

**For example,** Company A has 100m listed Class A shares each conferring one vote, free float is 65%. It also has 300m unlisted Class B shares each conferring 10 votes.

The test to assess whether the listed Class A line has the required greater than 5% of the company's voting rights is as follows:

$$\frac{65\text{m (i. e. 100m Class A voting rights * 65\% float)}}{3.1\text{bn (i. e. 100m Class A + 3bn Class B)}} = 2.097\% \text{ of the company's voting rights in public hands}$$

<sup>5</sup> FTSE indices migrated to the new ICB classification system in March 2021.

## Section 5

# Index qualification criteria

## 5. Index qualification criteria

A candidate pool for index constituent selection is identified by examining all stocks using the following criteria:

### 5.1 Market capitalisation

The float-adjusted market capitalisation is determined through an Investable Weight Factor (IWF):

$IWF = 100\% - \text{Sum of the \% of shareholdings held by restricted shareholders}$

#### 5.1.1 Investability weighting

Constituents of the FTSE Italia PIR PMI Index are adjusted for free float and foreign ownership limits.

Further details on free float restrictions can be accessed using the following link:

[Free Float Restrictions.pdf](#)

#### A. Initial weighting

Free float will be calculated using available published information rounded to 12 decimal places. Companies with a free float of 5% or below are excluded from the index.

#### B. Quarterly updates

##### June updates

In June, a constituent's free float is updated regardless of size. No buffers are applied.

##### March, September and December updates

At the March, September and December quarterly updates, a constituent with a free float greater than 15% will have its free float updated if it moves by more than 3 percentage points above or below the existing free float. For example, Company A on a free float of 30% would trigger a change if its free float moved to above 33% or below 27%.

A constituent with a free float of 15% or below will be subject to a 1 percentage point threshold. For example, Company B on a free float of 8% would trigger a change if its free float moved to above 9% or below 7%.

Quarterly updates to free float will be applied after the close of business on the third Friday of March, June, September and December. The data cut-off for these quarterly changes will be the close of business on the last business day of January, April, July and October respectively.

#### C. Updates arising from corporate events

Free float changes resulting from corporate events will not be subject to the buffers as detailed above and will be implemented in line with the event. Full details of changes to constituent companies due to corporate actions and events can be accessed in Section 8.

- 5.1.2 Treasury shares are always excluded from the shares in issue, regardless of their size.
- 5.1.3 The primary sources of shareholder information for Italian companies are CONSOB (Commissione Nazionale per le Società e la Borsa) and issuers' official communications (annual report, quarterly reports and prospectuses).
- 5.1.4 The analysis is based on the total stake held by the ultimate shareholder. In the case of stock lending contracts or nominee holdings, the analysis is based on the owner of shares and not on the person/entity having the voting rights. In the case of shares lent to banks, the analysis is based on the owner of the shares and not on the bank, and is independent of the allocation of voting rights.
- 5.1.5 Shares with a free float of 5% or below are not eligible for inclusion in the index.
- 5.2 Liquidity**
- 5.2.1 Liquidity is measured by the stock's 6-month value traded in euro on Borsa Italiana order book markets, and by number of days traded.
- 5.3 New listings**
- 5.3.1 Newly listed shares are eligible for inclusion in the selection procedure providing they have traded a minimum of 20 days.
- 5.4 Shares outstanding**
- 5.4.1 The primary source of information is the Borsa Italiana Official List.
- 5.5 Selection criteria**
- 5.5.1 FTSE Italia PIR PMI Index comprises all Italian constituents in the FTSE Italia Mid Cap Index and the top 20 Italian constituents in the FTSE Italia Small Cap Index, as explained in Appendix B.
- 5.5.2 On a quarterly basis, at each standard review, FTSE Russell is checking that the cumulative weight of constituents incorporated outside of Italy does not exceed 30%.

## Section 6

# Periodic review of constituents

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## 6. Periodic review of constituents

### 6.1 Review dates

- 6.1.1 The index will be reviewed on a quarterly basis in March, June, September and December. Any constituent changes will be implemented after the close of business on the third Friday of the review month.
- 6.1.2 If the third Friday of the review month is a holiday, the preceding closing days prices will be used.
- 6.1.3 FTSE is responsible for publishing the outcome of the periodic review.

### 6.2 Steps for conducting a review

- 6.2.1 The underlying universe for the FTSE Italia PIR PMI Index is all Italian stocks included in the FTSE Italia Mid Cap Index and in the FTSE Italia Small Cap Index as effective at the review date. The basket selection procedure is detailed in the Appendix B.

### 6.3 Capping methodology

- 6.3.1 The constituents of the FTSE Italia PIR PMI Index are capped at the time of the quarterly reviews according to the methodology detailed in Appendix B.

## Section 7

# Changes to constituent shares

## 7. Changes to constituent shares

### 7.1 New issues

7.1.1 An index addition outside of a quarterly review is made only if the FTSE Italia Mid Cap Index and/or the FTSE Italia Small Cap Index are affected by an addition of an Italian constituent, because of a change in the FTSE MIB Index (triggering one or more FTSE MIB constituents moving to the FTSE Italia Mid Cap or one or more FTSE Italia Mid Cap constituents moving to the FTSE MIB Index) or because of a constituent deletion (triggering one or more FTSE Italia Small constituents moving to the FTSE Italia Mid Cap).

### 7.2 Deletions

7.2.1 Deletions outside quarterly reviews can occur due to deletions of an Italian constituent from the FTSE Italia Mid Cap Index or from the FTSE Italia Small Cap because of delisting, moving to the FTSE MIB Index or for other reasons such as suspensions or no longer meeting criteria for inclusion.

### 7.3 Suspended companies

If FTSE Russell becomes aware that a constituent is suspended, index treatment will be determined as follows:

- If a constituent is declared bankrupt without any indication of compensation to shareholders, the last traded price will be adjusted down to zero value and it will subsequently be removed from the index with appropriate notice (typically T+2).
- In all other cases, the constituent will continue to be included in the index for a period of up to 20 business days at its last traded price.
- If the constituent continues to be suspended at the end of that period (the suspension period), it will be subject to review. FTSE Russell will take into account the stated reasons for the suspension. These reasons may include announcements made by the company regarding a pending acquisition or restructuring, and any stated intentions regarding a date for the resumption of trading. If following review, a decision is taken to remove the constituent, FTSE Russell will provide notice (via an Informative Notice for those index series which are supported by the index notice service\*) of 20 business days (the notice period) that it intends to remove the constituent, at zero value, at the conclusion of the notice period\*\*. If the security has not resumed trading at the conclusion of the notice period, it will be removed with two days' notice.
- \*For the avoidance of doubt, constituents of those index series not supported by the index notice service will be removed at the conclusion of 40 business days, with two days' notice.
- \*\*If during the notice period further details are disclosed as to the reason for a company's suspension, those reasons (and any possible resumption of trade date) will be taken into account when determining if the company should remain on notice.

- If a suspended constituent resumes trading on or before the last business day of the notice period, the deletion notice will be rescinded and the constituent will be retained in the index. However, where the constituent resumes trading after the 40th business day of suspension, the constituent will continue to be removed from the index as previously announced but in these circumstances the deletion will instead be implemented at market value unless there are barriers that render a market value irreplicable. In this event, the company will continue to be removed at zero.
- If the notice period expires in the week preceding an index review, the company will be removed in conjunction with the index review.
- In certain limited circumstances where the index weight of the constituent is significant and FTSE Russell determines that a market-related value can be established for the suspended constituent, for example because similar company securities continue to trade, deletion may take place at the market-related value instead. In such circumstances, FTSE Russell will set out its rationale for the proposed treatment of the constituent at the end of the suspension period. The company would then be removed at that value at the end of the notice period.
- If a constituent has been removed from the index and trading is subsequently restored, the constituent will only be re-considered for inclusion after a period of 12 months from its deletion. For the purposes of index eligibility, it will be treated as a new issue.

## **7.4 Mergers/takeovers**

### **7.4.1 Mergers/takeovers between constituents**

If the effect of a merger or takeover is that one constituent in the FTSE Italia PIR PMI Index is absorbed by another constituent, the resulting company will remain a constituent of the appropriate index, and a vacancy will be created. The vacancy will be filled with criteria depending on the original index of the excluded constituent.

A) If the removed constituent was a FTSE Italia Mid Cap Index constituent, the new constituent added to the same index will enter the FTSE Italia PIR PMI Index.

B) If such new constituent was already a FTSE Italia PIR PMI Index constituent or if the removed constituent was a FTSE Italia Small Cap constituent, FTSE Russell will use the Reserve List composed as explained in Appendix B.

### **7.4.2 Mergers/takeovers between a constituent and a non-constituent**

If a non-constituent acquires a current constituent of the FTSE Italia PIR PMI Index, the latter will be removed from the index and will be replaced with a new constituent. The non-constituent acquiring company would be eligible for consideration if it qualifies in all other respects, activating a replacement in the FTSE Italia Mid Cap or in the FTSE Italia Small Cap. FTSE Russell will make an announcement detailing any index change.

7.4.3 Weights of the constituents are based on the closing price and the number of shares after the merger. When there is a merger, there will be a full rebalancing of the index.

7.4.4 Where a constituent company acquires a non-constituent for shares, or a combination of cash and shares, the shares of the constituent company will only be updated to reflect the merger when the acquired company is a FTSE Russell Universe member. Any share and/or free float update will be made giving appropriate notice. Where the acquired company is not a FTSE Russell Universe member the shares in the acquiring constituent company will be reviewed at the next quarterly review.

## Section 8

# Index maintenance

## 8. Index maintenance

The maintenance of the FTSE Italia PIR PMI Index consists of corporate actions\*, periodic revisions to the index and changes due to vacancies created by the deletion of constituents of the index. The maintenance activity is carried out by FTSE Russell with the objective of minimising the turnover among index constituents.

### 8.1 Divisor adjustments

8.1.1 In the event of an index change or corporate action resulting in a change to shares in issue or free float that affects the market capitalisation of the index, the divisor is adjusted to ensure continuity of the FTSE Italia PIR PMI Index.

8.1.2 The new divisor is obtained by dividing the new Adjusted Market Capitalisation by the Adjusted Market Capitalisation before corporate actions, then multiplying by the old divisor as in the following examples.

#### 8.1.3 Example of divisor adjustments

The example involves a change to the index performed at the end of the day, effective for the start of the following day (examples include change in shares in issue):

Index status at the end of day before divisor adjustments:

End of Day Index Market Cap	=	€ 249,254,750,824.2380
Index Value (unrounded)	=	28,350.0558811976000
Divisor	=	8,792,037.372651160

In this example there is a shares in issue update adjustment arising from the conclusion of a capital increase by a constituent that leads to a larger divisor amount:

Index status effective at the opening of the session **after** divisor adjustments:

Adjusted Index Market Cap	=	€ 268,049,338,945.3990
Index Value (unrounded)	=	28,350.0558811976000
New divisor	=	$(268,049,338,945.3990 / 249,254,750,824.2380) \times 8,792,037.372651160 = 9,454,984.500512940$

### 8.2 Number of constituents

8.2.1 The number of constituents in the index is not fixed.

### 8.3 Constituent pricing at periodic reviews

8.3.1 At periodic reviews, the prices applied to all constituents of the index are the closing prices of the third Friday of the rebalancing month.

On rebalancing days (usually Friday), when the closing auction price of one or more of the constituents in the FTSE Italia PIR PMI Index has not been set by the end of the closing auction session because there is no match in the market, FTSE Russell will use the latest traded price of the session.

In absence of trading during the whole session, FTSE Russell will use the latest traded price in the previous session.

If the constituent is suspended, FTSE Russell will use the closing auction price (in its absence, the latest traded price) set in the previous session, adjusted for any relevant corporate actions.

## 8.4 Share & IWF updates

8.4.1 All share and IWF changes are updated on a quarterly basis using the closing prices on the third Friday of March, June, September and December, to coincide with the expiry of derivatives of IDEM contracts. The index will be disseminated from the beginning of the next continuous trading session.

8.4.2 The number of shares in issue used is that shown on the Official List (net of treasury shares) at the cut-off date before the review (as announced every year by FTSE Russell), updated according to Rule 8.5.1.; the same cut-off date applies to IWF updates. In cases where constituents have a merger or a capital increase under way, the shares are the number of shares following the operation (adjusted by the adjustment coefficient in the case of capital increases, as explained subsequently), unless FTSE Russell decides to make an exception. In the case of capital increases subscribed by third parties without a right issue, FTSE Russell with the advice of the FTSE Italia Index Series Technical Committee may decide to include newly issued shares even before the update of the Blt Official List.

8.4.3 **Capping adjustments.** Capping adjustment factors are adjusted at each quarterly rebalancing. The capping numbers are calculated based on the closing prices on the **second Friday of March, June, September and December**, using the share & IWF numbers from the previous end of month (updated according to Rule 8.5.1).

8.4.4 The announcement of the Capping Adjustments to the new IWFs is made alongside the announcement of the new number of shares in issue at the close of trading, no later than the third business day before the effective date, by way of a technical notice.

## 8.5 Corporate actions

Event	Timing	Adjustment Factor	Divisor Adjustment
Intra quarter constituent change	Effective using End of Day prices	Adjustment to price. Adjustment to shares	Yes
Rights offering*	End of Day	Adjustment to price. Adjustment to shares	No
Special Dividend*	End of Day	Adjustment to price. Adjustment to shares	No
FTSE Italia Index Series Technical Committee assigned capital return*	End of Day	Adjustment to price.	Yes
Split and reverse split*	End of Day	Adjustment to price. Adjustment to shares	No
Spin-off*	End of Day	See section below	

\* At the occurrence of any of these events, the same adjustment methodology applied by Blt for stock options traded on the Blt Markets shall be applied to the FTSE Italia PIR PMI Index.

### 8.5.1 Quarterly updates

In June shares outstanding and free float updates will be implemented regardless of size (i.e. buffers will not be applied). Free floats will be rounded to 12 decimal places.

In March September, and December, shares outstanding and free float will be updated to reflect the following:

- Changes greater than 1% for cumulative shares in issue changes
- Changes greater than 3 percentage points for cumulative free float changes\*

\* A constituent with a free float of 15% or below will not be subject to the 3 percentage points threshold and will instead be updated if the change is greater than 1 percentage point. For example, Company B with a free float of 8% would trigger a change if its free float moved to above 9% or below 7%.



The March, September, and December updates will be triggered by available information and confirmed appropriately with the cut-off for new information occurring on the last business day of January, April, July and October, respectively.

### 8.5.2 Intra-quarter updates

Outside of the quarterly update cycle, shares and free float will be updated with at least two days' notice if occasioned by primary or secondary offerings IF:

- There is a USD 1bn investable market cap change related to a primary/secondary offering;

OR

- There is a resultant 5% change in index shares related to a primary or secondary offerings AND a USD 250m investable market cap change.

These changes will be implemented after the close on the day that the subscription period closes, assuming two days notice can be provided; if two days' notice cannot be provided prior to the end of the subscription period, the change will still proceed with two days' notice and will be implemented at the earliest opportunity.

### 8.5.3 Rights issues

A. On the ex-date, in order to keep the weight of the constituent stable, the number of shares for the constituent will be adjusted by dividing it by the K factor produced by Blt, with no divisor adjustment. Blt calculates the K factor as  $P(\text{ex})/P(\text{cum})$ , the ratio of the theoretical share price ex-rights and the latest share price cum right as set out in the IDEM Derivatives Corporate Action Policy available at:

[www.borsaitaliana.it/derivati/corporateactions/nuovacorporateactionpolicy.en\\_pdf.htm](http://www.borsaitaliana.it/derivati/corporateactions/nuovacorporateactionpolicy.en_pdf.htm)

In the case where a warrant or convertible bond is included in a capital increase, the K factor is calculated using the theoretical value of the warrant and convertible bonds. For more details refer to the IDEM Derivatives Corporate Action Policy.

B. At the end of the subscription period, if the capital increase results in a change greater than 10% of the outstanding shares, the FTSE Italia PIR PMI Index will adjust the shares upon receipt of an announcement by the company regarding the number of shares subscribed at the end of the subscription period. If the Official List has been updated prior to this announcement, it will be used to adjust the shares outstanding. In case of capital increases assisted by a banking guarantee where a portion of shares were not subscribed to, FTSE may increase the share number for the whole amount, in order to avoid the need of subsequent reviews in a short period of time.

C. At a quarterly rebalance, the shares outstanding for a constituent that is conducting a capital increase assisted by a banking guarantee may be updated at the review, prior to the end of the subscription period, to avoid the need to adjust the index again soon after the review.

### 8.5.4 Highly dilutive right issues

Where a rights issue is deemed Highly Dilutive, defined as rights issues where the K factor produced by Blt is below 0.30, and there is no rolling settlement of the rights\*, the below treatment will be followed: On the ex-date, two additional temporary lines will be added to the index:

- 1) a separate temporary line to track the market value of the rights using the rights line market price; and
- 2) a temporary dummy line at a fixed value to reflect the subscription cash.

The shares in issue of the existing ordinary line, of the rights line and of the dummy line will be adjusted so that the index weight immediately prior to the rights issue ex-date is maintained at the open of the ex-date. Once trading of the rights has concluded, the rights line will be priced using the theoretical rights value based on the ordinary line price until the conclusion of the subscription period. (if negative, the price will be set at zero).

Upon receipt of an announcement by the company regarding the number of shares subscribed to and being issued, the two temporary lines will firstly be amalgamated into the ordinary line with no divisor change.

Then, the shares in issue number will be increased with a minimum of two days' notice, to reflect the actual number of shares issued in the rights issue. This share increase will be implemented at market price.

\* Highly Dilutive Rights issues with a rolling exercise of rights will be implemented in accordance with Sections A and B above.

### 8.5.5 Treatment of extraordinary dividends

**Definition** – In order to ensure coherent treatment with IDEM traded derivatives, Borsa Italiana rules for adjustments on the IDEM market will be followed. More precisely, Borsa Italiana shall take account of distributions of dividends, in cash or in kind that the company classifies as additional with respect to dividends derived from the distribution of the normal profits for the year or with respect to the normal dividend policy. If the company does not classify dividends, Borsa Italiana may consider dividends to be extraordinary that are characterised by elements establishing their additional nature with respect to the company's normal dividend policy and shall immediately inform the market.

For adjustment purposes, Borsa Italiana may consider as extraordinary the whole dividend or just a part thereof.

Further information regarding the business rules relating to extraordinary dividends can be found in the publication entitled Corporate Action Policy (please refer to Borsa Italiana Announcement nr. 18730 dated November 9 2011).

**Treatment** – Extraordinary Dividends are treated in accordance with Borsa Italiana's practice, using generally accepted rules of financial equivalence. The adjustment coefficient, rounded to eight decimal places, is calculated as follows:

$$K = (P_{cum} - D_{ord} - D_{ext}) / (P_{cum} - P_{ord})$$

**P<sub>cum</sub>** = the share's closing price on the day preceding the detachment of the extraordinary dividend

**D<sub>ord</sub>** = amount of the possible ordinary dividend

**D<sub>ext</sub>** = amount of the extraordinary dividend

The last traded price for the constituent and the number of shares in the index are adjusted using the K factor produced by Blt and, consequently, there is no divisor adjustment. The index treatment implies that the cash received from a special dividend is reinvested into that stock and the overall weight of the constituent in the index remains the same.

The number of shares in the index will be updated to its actual value at the next planned or extraordinary review. In case the constituent is affected by a corporate event prior to the review, the number of shares will be reverted back to its actual value before the application of the event terms.

### 8.5.6 Splits and reverse splits

In the case of a split or a reverse split, the closing price and the number of outstanding shares are modified by applying the appropriate Adjustment Factor (called the K factor). The divisor remains unchanged.

### 8.5.7 Extraordinary revision: additions and deletions to the index

A. Any changes to the constituents of the index are conducted using closing prices for all constituents after the close of trading on the day before the ex-date.

B. An index addition generally will be made only if a vacancy is created by an index deletion or if an Italian company is added to FTSE Italia Mid Cap because it is excluded from the FTSE MIB (in this case the constituent excluded from the FTSE Italia Mid Cap Index will be as well excluded from the FTSE Italia PIR PMI Index).

FTSE Russell may at any time elect for a shorter announcement periods for extraordinary revisions or rebalancing, subject to the market being promptly informed.

### 8.5.8 Capping factors

FTSE Russell reserves the right to adjust the capping factors should there be an extraordinary market event outside the quarterly rebalance, such as an addition to and/or deletion from the index or conditions altering

the respect of PIR Law requirements. The market will be notified of any capping factor alterations via press releases announcing the upcoming index change, two-to-three business days before the event.

#### **8.5.9 Spin-offs**

After a FTSE Italia PIR PMI constituent spin-off both companies are included in the index, as long as they remain constituents of FTSE Italia Mid Cap or FTSE Italia Small Cap.

At the subsequent quarterly review the number of constituents will be moved back to 80.

The notification period for spin-offs is dependent on the corporate action. The announcement, however, is made as soon as practicable according to the timetable of the corporate action, with at least three days notice where possible.

## Section 9

# Industry Classification Benchmark (ICB)

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## 9. Industry Classification Benchmark (ICB)

### 9.1 Classification structure

9.1.1 The FTSE Italia PIR Mid Cap Index constituents are classified into Industries, Supersectors, Sectors and Subsectors, as defined by the Industry Classification Benchmark (ICB).

9.1.2 Details of the Industry Classification Benchmark are available from FTSE Russell and published on the FTSE Russell website ([www.lseg.com/en/ftse-russell/](http://www.lseg.com/en/ftse-russell/)) and can be accessed using the following link:

[ICB](#)

## Section 10

# Index calculation

## 10. Index calculation

### 10.1 Prices

- 10.1.1 The FTSE Italia PIR PMI Index uses prices from actual trades on the electronic share trading platform of the Borsa Italiana during Official Market Hours.
- 10.1.2 The last index value is calculated using Closing Auction prices or, if there is no Closing Auction price for a particular constituent, the last price traded as at the end of the Continuous Trading phase.
- 10.1.3 Borsa Italiana's closing price is used by Borsa Italiana's Market Supervision division in the calculation of K factors to be applied to the index for corporate actions. Borsa Italiana's Reference price plays no part in the FTSE Italia PIR PMI Index calculation.

### 10.2 Calculation frequency

- 10.2.1 The FTSE Italia PIR PMI Index is calculated on a real-time basis in EUR.

### 10.3 Methodology

- 10.3.1 The FTSE Italia PIR PMI Index is calculated using a base-weighted aggregate methodology. This means the level of an index reflects the total float-adjusted market value of all of the constituent stocks relative to a particular base period. The total market value of a company is determined by multiplying the price of its stock by the number of shares in issue (net of treasury shares) after adjusting for float. An Indexed number is used to represent the result of this calculation in order to make the value easier to work with and track over time. The index is calculated in real time.

### 10.4 Index calculation

The FTSE Italia PIR PMI Index value  $I_t$ , at time  $t$ , is calculated using the following formula:

$$I_t = M_t/D_t$$

Where  $M_t$  = total free float adjusted market capitalisation at time  $t$ , equal to:

$$M_t = \sum_i p_{it} \times q_{it} \times IWF_{it}$$

And

$p_{it}$  = The last traded price, at time  $t$ , of the  $i^{\text{th}}$ -share. Where the shares of one of the constituents are suspended, the index is calculated using the price of the latest trade concluded before the suspension.

$q_{it}$  = Number of shares in the index. The number of shares in issue for the security  $i^{\text{th}}$ , as defined in these Ground Rules, net of treasury shares.

$IWF_{it}$  = Investable Weighting Factor (adjusted for capping) for the  $i^{\text{th}}$  share.

$D_t$  = Value of the index divisor at time  $t$ .

## 10.5 Total return indices

10.5.1 The FTSE Italia PIR PMI index is additionally calculated as a total return index. The total return index includes dividend income based on ex-dividend adjustments. The total return calculation for the FTSE Italia PIR Mid Cap Index calculation can be expressed as:

$$TRI_t = TRI_{t-1} * CI_t / [CI_{t-1} - (AD_t / D_t)]$$

Where:

t = time period t.

TRI<sub>t</sub> = Total Return Index at time t.

CI<sub>t</sub> = Capital Index at time t.

CI<sub>t-1</sub> = Capital Index at time t-1.

AD<sub>t</sub> = Aggregate dividend effective at time t.

D<sub>t</sub> = Divisor at time t.

Note the formula **(AD<sub>t</sub>/D<sub>t</sub>)** is the XD adjustment for an index.

### Aggregate dividend

The aggregate dividend **(AD<sub>t</sub>)** represents the sum of the dividend payments of all stocks included in the index:

$$AD_t = \sum_{i=1}^n ad_{i,t} * n_{i,t} * f_{i,t}$$

Where:

ad<sub>i,t</sub> = the actual dividend of stock i on day t.

n<sub>i,t</sub> = the number of shares issued and outstanding on day t.

f<sub>i,t</sub> = the investability weight of stock i on day t.

## 10.6 Dividend yield

The dividend yield for a stock is calculated as follows:

**Stock Annual Dividend/Stock Price = Stock Yield (%)**

The dividend yield for an index is calculated as follows:

**Dividend Mkt Cap/Index Mkt Cap = Index Yield (%)**

### Notes:

1. Dividend Market Capitalisation is the sum of the stock dividend market values within the index e.g. annual dividend x shares x weight. Dividends will need to be converted into euro if different, using the ECB exchange rate as of the cum day.
2. Index Market Cap is the net market cap for the index.

## Appendix A

# Index opening and closing hours

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Index	Open	Close
FTSE Italia PIR PMI Index	09:00.00	17:40.00*

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### Notes:

- \* Subject to receipt of final closing prices.
- The indices will be calculated on all business days of the year, except those defined as market holidays according to the Borsa Italiana market calendar.
- Timings are CET.

## Appendix B

# Basket selection procedure

1. Start from the universe of all eligible shares:

- (a) Italian constituents of FTSE Italia Mid Cap Index (i.e. issued by companies incorporate in Italy);
- (b) Italian constituents of the FTSE Italia Small Cap Index.

The two baskets should be the ones resulting after the quarterly review updates, with shares in issue and free float as on the scheduled cut-off date.

2. All a) shares will be included in the basket .

The selection of the 20 b) shares is based on the procedure below.

Create a file where for each share (period: last two quarters ending in the cut-off date announced every year by FTSE Russell) there are:

- share name,
- shares in issue net of treasury shares (as at the review cut-off date)<sup>(1)</sup> -  $S_i$
- free float (as at the review cut-off date)<sup>(1)</sup> -  $FF_i$
- average of daily<sup>(2)</sup> official prices (vwap) of the last month -  $P_i$
- total euro turnover in the period<sup>(3)</sup> on Borsa Italia, order book trading –  $T_i$
- number of days of listing in the period -  $d_i$

<sup>(1)</sup> In case of a non constituent the shares in issue number will be taken from Blt Official List; the free float will be based on the information available at the review cut-off-date

<sup>(2)</sup> calculated on days with trading only (in the event of no trading during the entire period, the cut-off date official price – equal to the latest available value – will be used)

<sup>(3)</sup> trading on Blt order book, for shares admitted to listing in the last two quarters, the initial 5 days of trading are excluded

3. For each share compute the adjusted market capitalisation:  $AMC_i = S_i \times FF_i \times P_i$

4. For each share compute the Alpha parameter as the ratio between adjusted market capitalisation and daily turnover:  $\alpha_i = AMC_i / (T_i / d_i)$

5. Liquidity filter: remove those shares with an Alpha larger than 1,000

6. Compute the Market Alpha parameter as the ratio between the universe adjusted market capitalisation and the universe daily turnover:  $\alpha_{MK} = \sum_i AMC_i / \sum_i T_i / d_i$ . The universe here should be intended as the one made of all Italian constituents of the FTSE Italia Small Cap index.

7. Compute for each share the ILC (indicator of liquidity and adjusted capitalisation) parameter as the sum of the adjusted market capitalisation and the product of daily turnover by the Market Alpha:  $ILC_i = AMC_i + (\alpha_{MK} \times T_i / d_i)$  and rank the universe according to this metrics

8. The basket selection will be based on the ILC ranking with a buffer of +/-2. Current basket constituent shares will be removed from the basket should they rank 23rd or below, and will be replaced by non-constituent shares with the highest ranking. Should a non-constituent share would rank 18th or above, it would will enter the basket, replacing the constituent share with the lowest ranking.

9. In the review results announcement, a list of the first five eligible companies outside the selected baskets, ranked by ILC (the Reserve List) will be added.



10. Intra-quarter extraordinary revision may be triggered only by changes in the FTSE Italia Mid Cap Index, FTSE Italia Small Cap Index. In such cases, the choice of the share to be removed/added to the index will be based on the above mentioned Reserve lists, in the published ranking order.

## Appendix C

# Capping methodology

The FTSE Italia PIR PMI Index is subject to a two-level capping, aimed at ensuring its compliance:

- to PIR-Law requirements, mandating a minimum 3.5% (cautionary increased to 5%) weight of companies not included in FTSE MIB or FTSE Italia Mid Cap (ITMC);
- to UCITS concentration requirements, mandating that no shares would have a weight exceeding 10% and that the sum of all shares above 5% is not exceeding 40%.

### Step 1 – PIR Capping

- Check whether the sum of the 20 constituents originating from FTSE Italia Small Cap (ITSC) reaches 5%.
- If the sum is 5% or higher, move to Step 2.
- If the sum is below 5%, calculate the ITMC factor as  
$$F_{ITMC} = (\text{sum of ITSC shares adjusted capitalisation} \times 19) / (\text{sum of ITMC shares adjusted capitalisation})$$
- Multiply every ITMC constituent adjusted capitalisation by  $F_{ITMC}$  while keep constant ITSC constituents adjusted capitalisation
- Move to Step 2

### Step 2 – UCITS Capping

- The algorithm is applied to each constituent of the FTSE Italia PIR PMI Index that requires capping.
- The Constituent Capping Factor  $c_i$  is given by:

$$c_i = \frac{Z}{I \times (p_i \times s_i \times f_i)} \sum_{j \in J} (p_j \times s_j \times f_j)$$

Where,

$i$  denotes the security to be capped.

$j$  denotes an uncapped security.

$J$  is the subset of securities that are uncapped.

$p_k$  is the official closing price of the  $k^{\text{th}}$  security.

$s_k$  is the number of shares in issue of the  $k^{\text{th}}$  security.

$f_k$  is the free float factor of the  $k^{\text{th}}$  security.

$I$  is the percentage of the index represented by all uncapped constituents.

$Z$  is the percentage capping level.

3. Any constituents whose weights are greater than 10% are capped at 10%. The weights of all lower ranking constituents are increased correspondingly. The weights of lower ranking constituents are then checked and if they exceed 10% they are also capped at 10%. This process is repeated until no constituent weight exceeds 10%.
4. If the total index weight of those companies whose individual weights exceed 5% is greater than 40% in aggregate, the procedure moves to 5. below. Otherwise no further capping is required.
5. Capping the largest company at 10% - If more than one company was capped at 10% in 3., then weights of all subsequent companies previously capped at 10% are changed in accordance with the rules detailed below. For example, if the second largest company is capped at 10% its weight will be reduced to 9% as detailed below. Thus only one company will have a 10% weight in the index.

6. Capping the second largest company at 9% - If the weight of the second largest company is greater than 9% the company's weight is capped at 9% and the weights of the remaining companies are increased correspondingly.

Following this procedure if the total index weight of those companies whose individual weights exceed 5%, is **NOT** greater than 40% then no further capping is required.

However, if the total index weight of those companies whose individual weights exceed 5%, **IS** greater than 40% then the procedure moves onto 7 below.

Please note: Where the 40% threshold is breached we move to 7 below even if the second largest company has not been capped.

7. Capping the third largest company at 8% - If the weight of the third largest company is greater than 8% the company's weight is capped at 8% and the weights of the remaining companies are increased correspondingly.

Following this procedure if the total index weight of those companies whose individual weights exceed 5%, is **NOT** greater than 40% then no further capping is required.

However, if the total index weight of those companies whose individual weights exceed 5%, **IS** greater than 40% then the procedure moves onto 8 below.

Please note: Where the 40% threshold is breached we move to 8 below even if the third largest company has not been capped.

8. Capping the fourth largest company at 7% - If the weight of the fourth largest company is greater than 7% the company's weight is capped at 7% and the weights of the remaining companies are increased correspondingly.

Following this procedure if the total index weight of those companies whose individual weights exceed 5%, is **NOT** greater than 40% then no further capping is required.

However, if the total index weight of those companies whose individual weights exceed 5%, **IS** greater than 40% then the procedure moves onto 9 below.

Please note: Where the 40% threshold is breached we move to 9 below even if the fourth largest company has not been capped.

9. Capping the fifth largest company at 6% - If the weight of the fifth largest company is greater than 6% the company's weight is capped at 6% and the weights of the remaining companies are increased correspondingly.

Following this procedure if the total index weight of those companies whose individual weights exceed 5%, is **NOT** greater than 40% then no further capping is required.

However, if the total index weight of those companies whose individual weights exceed 5%, **IS** greater than 40% then the procedure moves onto 10 below.

Please note: Where the 40% threshold is breached we move to 10 below even if the fifth largest company has not been capped.

10. Capping the sixth largest company at 4% - If the weights of the sixth largest company and any lower ranking companies are greater than 4% those companies' weights are capped at 4% and the weights of lower ranking companies are increased correspondingly.

The process then moves to 11 below.

Following the application previous capping actions, the weights of each company are checked. If the total index weight of those constituents whose individual weights exceed 5% is greater than 40% in aggregate, then further capping is required and the sequence from 5 to 10 is repeated.

Constituents are capped using prices as at the close of business on the second Friday in March, June, September and December and shares in issue and free float adjusted for corporate actions as at the Monday after the third Friday. The capping is implemented after the close of business on the third Friday of March, June, September and December.

## Appendix D

# Communications and notices

Event	Timing	Days Notice
Constituent change stemming from a quarterly review	Effective using end of day prices	12 business days – Technical Notice
Share changes stemming from the quarterly reviews	Effective using end of day prices	2 business days – Technical Notice
Capping changes stemming from the quarterly reviews	Effective using end of day prices	2 business days – Technical Notice
Intra quarter constituent change	Effective using end of day prices	2 business days – Technical Notice
Share and/or IWF changes stemming from a tender offer	Effective using end of day prices	2 business days – Technical Notice
Constituent changes stemming from a tender offer	Effective using end of day prices	2 business days – Technical Notice
Treatment of a rights issue	End of last <i>cum</i> day	On ex date
Changes resulting from a spin-off	End of day	2 business days notice where practicable

(For the sake of clarity, the wording “business days” refers to unaffected days between the announcement and the implementation date (both excluded): 2 business days means for example announcement on Friday, implementation from start of trading of Wednesday.)

## Appendix E

# Status of Index

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The FTSE Italia PIR Mid Cap Index is calculated on a real-time basis in EUR.

For further details of real time definitions please refer to the following guide:

[Real Time Status Definitions.pdf](#)

The official opening and closing hours of the FTSE Italia PIR Mid Cap Index series are aligned with those of Borsa Italiana markets and are set out in Appendix A. Variations to the official hours of the Indices will be published by FTSE.

The FTSE Italia PIR Mid Cap Index is calculated and published on all days when Borsa Italiana is open for trading.

(For clarity, the value Borsa Italiana adopts for the settlement of FTSE Italia PIR Mid Cap derivatives is based on constituents' auction prices; the value may not coincide with the FTSE Italia PIR Mid Cap initial values).

## Appendix F

# Further information

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A Glossary of Terms used in FTSE Russell's Ground Rule documents can be found using the following link:

[Glossary.pdf](#)

Further information on the FTSE Italia PIR Mid Cap Index is available from FTSE Russell.

For contact details please visit the FTSE Russell website [www.lseg.com/en/ftse-russell/](http://www.lseg.com/en/ftse-russell/) or contact FTSE Russell client services at [info@ftserussell.com](mailto:info@ftserussell.com).

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