

Monte Titoli

Operating rules for Settlement Services and related activities

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The Italian text shall prevail over the English version



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PART 1 - GENERAL PROVISIONS

TITLE 1 - REGULATORY FRAMEWORK AND DEFINITIONS

Article 1 - Definitions

1. For the purposes of the present rules, the definitions set out below shall have the following meaning:

«Buyer»: the participant receiving securities;

«Agent bank»: the subject appointed to carry out cash settlement, by one or more participants (the so-called “Intermediaries Using Agent banks”), who do not hold cash settlement accounts or who do not intend to use them;

«Collateral»: the financial instruments admitted to the Settlement Service eligible for autocollateralisation mechanisms referred to in this Rules

«Central counterparties» shall mean the parties set out in Article 2, point (1) of EU regulation no. 648/2012 on OTC derivatives, central counterparties and trade repositories;

«General Conditions for the Provision of Services»: the General Conditions Part I pertaining to all services provided by any companies belonging to Borsa Italiana Group, Monte Titoli included, and the General Conditions Part II pertaining to specific services provided by Monte Titoli.

«CSDR» shall mean EU regulation no. 909/2014 of the European Parliament and the Council of 23rd July 2014, on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation 236/2012, and its subsequent amendments and integrations and the related implementation acts and guidelines;

«T2S Data»: Transactional Data¹ and the CSD Static Data² as defined in the FA;

¹ *Transactional Data: means the information that T2S creates and stores through the execution of a business process event, where the content of the information defines that event. This includes but is not limited to inbound and outbound XML messages, all types of settlement instructions and all data that T2S generates for the life cycle of the instruction (e.g. securities positions) and static data maintenance instructions. This is also referred to as Dynamic Data in the Schedules and in other documentation.*

² *CSD Static Data: means the business information, specific to a CSD in T2S that T2S requires to process the Transactional Data related to that CSD. This includes but is not limited to T2S system users, conditional securities parameters, message subscriptions, attribute domains that are specific to the CSD or relevant Central Bank, report subscriptions, securities account reference data, party reference data, cross-CSD settlement parameterisation, assignment of securities accounts to limits, and CSD-specific attributes for Securities Reference Data.*

«DCP» Markets, Central Counterparties and the other entities authorized by Monte Titoli and or by other T2S CSDs, to connect directly to the T2S platform³;

«Italian Legislative Decree 210/01»: Italian Legislative Decree no. 210 of April 12, 2001, entitled “Attuazione della direttiva 98/26/CE sulla definitività degli ordini immessi in un sistema di pagamento o di regolamento titoli” [“Enactment of Directive 98/26/EC on settlement finality in payment and securities settlement systems”], as amended;

«Instructions»: operating provisions enacting this Rules

«Operating documents»: *T2S User requirements* issued by the Eurosystem and the other documents containing technical and functional specifications of services, e.g. Service Manuals and Operatig Guide, issued by Monte Titoli;

«Settlement Instructions » transfer orders related to transactions to be settled within the Settlement System or within the foreign Settlement System; the transfer orders related to the transactions to be settled within the Settlement System are defined as “intra-CSD” settlement instructions when the instructions must be settled between two Participants at Monte Titoli, and “cross-CSD” when the instructions must be settled between a Participant at Monte Titoli that is not a Foreign CSD in T2S, and a participant of another Foreign CSD in T2S;

«Automatic collateralisation facilities»: the process that, based on the parameters communicated to Monte Titoli by Participants, automatically identifies the securities to be used as collateral;

«Markets»: the regulated markets and multilateral trading facility authorised under European Directive 2004/39/CE;

«Participant»: the subject adhering to the Settlement Service provided by Monte Titoli;

«Indirect Participant»: the legal person that enters into an agreement with a Participant to the Settlement Service for the payment and settlement of transactions, and that is known to Monte Titoli under the conditions set out in article 6, paragraph 4;

«DCP Participant»: the participant authorized by Monte Titoli to connect directly to the T2S platform, without Monte Titoli acting as a technical interface for the connection to the platform;

«X-TRM Participant»: the subject adhering to the X-TRM service;

«Bank of Italy - Consob Provision»: the provision dated 22 February, 2008, issued by the Bank of Italy and Consob, enacting Consolidated Law on Finance⁴;

³ DCP : means a T2S User, which has been authorised by its Contracting CSD or Central Bank to access T2S directly to use T2S Services, i.e. without the need for the Contracting CSD to act as a technical interface.

«CSD Rules»: the Centralised Administration Services regulation adopted by Monte Titoli pursuant to Article 81(2) of Consolidated Law on Finance;

«Operating Rules or Rules»: this document that provides for the organization and functioning of the Settlement Service and ancillary services offered by Monte Titoli, pursuant to article 69 of CLF.

«Settlement Service or Service»: the settlement services, managed by Monte Titoli and operated by means of T2S platform, providing settlement for non-derivative financial instruments that are admitted to the centralised administration system and that allows for the cash settlement in euro or other currencies admitted to T2S;

«Settlement System» or «System»: the Settlement Service;

«X-COM Collateral Management Service or X-COM Service»: Monte Titoli service for the management of Collateral transactions, the forwarding of the instructions to the Settlement Service and management of the collaterals;

«X-TRM service»: the Service, managed by Monte Titoli, providing for the submission of settlement instructions to Settlement System according to Part 4 Title II of this Operating Rules;

«TARGET2 System»: the European automatic system for gross settlement of payments in real time regulated by the European Central Bank's Guideline of December 5, 2012 (ECB/2012/27);

«Market management companies»: the companies which organise and manage the Markets;

«Foreign Central Securities Depositories (CSDs)» shall mean the entities that engage in business activities similar to the central securities depository and/or settlement services provided by Monte Titoli subject to equivalent forms of supervision to those provided for by Italian law;

«Consolidated Law on Banking (CLB)» shall mean Legislative Decree no. 385 of 1 September 1993, as amended;

«Consolidated Law on Finance (CLF)» shall mean Legislative Decree no. 58 of 24 February 1998, adopted pursuant to Articles 8 and 21 of Law no. 52 of 6 February 1996', as amended;

«Seller»: the participant delivering securities.

Article 2 - Regulatory frameworks

1. The present Rules, , have been adopted pursuant to Article 46 of the Bank of Italy - Consob Provision, as amended, issued by the Bank of Italy, in

⁴ The Provision dated February 22, 2008 is applicable until the authorization decision of Monte Titoli pursuant to the CSDR, as required by Article 59 of the current Provision dated August 13, 2018.

agreement with Consob (the Italian authority responsible for regulating the Italian securities), under Article 69(1) of CLF.

2. The Settlement Services is carried out by Monte Titoli in accordance with the provisions of these Rules and the T2S Framework Agreement, as well as the provisions of Article 30 CSDR.
3. These Rules govern the Settlement Services and the following instrumental and related activities:
 - a) the Foreign Settlement Service;
 - b) the X-TRM Services;
 - c) the IT Services;

Article 3 - Organisational principles and risk limitation provisions

1. Monte Titoli provides the activities under the present Operating rules without discrimination and by means of procedures defined on a general basis.
2. Monte Titoli adopts and maintains robust corporate governance tools in accordance with the organisational requirements set out by the CSDR.
3. Monte Titoli avails itself of IT and organisational tools, including internal control systems, which enable it to protect and ensure the physical and logical security of the data concerning the services rendered, as well as the continuity and correctness of data processing.
4. Monte Titoli equips itself with procedures for the recovery, reinstatement and reactivation of data processing procedures to ensure service continuity, in accordance with applicable regulations.
5. Monte Titoli stores, for a period of ten years, data concerning the processing of the Settlement Service and relating and instrumental activity safeguarding their integrity and confidentiality.
6. In order to ensure the orderly and continuous performance of the Settlement Service, Monte Titoli provides continuous monitoring of the data processing cycles as well as a dedicated support service for participants to meet any information requirements.

Article 4 - Elements of the contracts between Monte Titoli and Participants

1. Relations between Monte Titoli and Participants concerning the provision of the settlement services and the related and ancillary activities are governed by the general conditions of contract established by Monte Titoli in accordance with Articles 1341 and 1342 of the Italian Civil Code. Such general conditions comprise these Rules, the Instructions and the General Conditions for the Provision of Services, including the related Annexes, which Participants accept on signing the request for services.

2. Among other things, contracts between Monte Titoli and Participants shall govern:
 - a) the duration of the contract, the methods and timeframes of withdrawal;
 - b) the procedures for Monte Titoli to send communications to Participants;
 - c) the rules for amending the general conditions;
 - d) the liability of Monte Titoli;
 - e) the fees for the services
 - f) the rules for resolving litigations.

PART 2 - SETTLEMENT SERVICE

TITLE 1 - GENERAL CRITERIA OF THE SETTLEMENT SERVICE

Article 5 - Characteristics of the Settlement Service

1. The Settlement Service cover:
 - a) the acquisition of the settlement instructions;
 - b) the matching;
 - c) the settlement of transactions.
2. Acquisition, matching and settlement occur in T2S and may cover settlement instructions between Participants in Monte Titoli, different from Foreign CSD in T2S, or between a Participant in Monte Titoli different from a Foreign CSD in T2S, and a participant in another CSD in T2S. T2S allows for the settlement of Settlement Instructions pursuant to decree n. 210/2001 (enacting settlement finality).
3. The acquisition of the settlement instructions takes place:
 - a) through the X-TRM Service offered by Monte Titoli; or
 - b) through systems connected to the T2S platform, operated by:
 - b.1) Markets and Central Counterparties acting as DCP and the Foreign CSDs, that input Settlement Instructions on behalf of their own participants and/or members by means of the power of attorney that shall be notified to Monte Titoli.
 - b.2) DCP Participants, different from Central Counterparties that input Settlement Instructions related to transactions to be settled on their own account or on their own account and on behalf of third parties.
 - c) through the X-COM Service offered by Monte Titoli.
4. Securities are settled on the participants' accounts, opened at Monte Titoli.
5. Cash settlement in euro takes place on the accounts of the participants or agent banks dedicated to processing of settlement in T2S.

Article 6 - Participants and methods of participation

1. The following entities may participate in the Settlement Service:
 - a) Italian, EU and non-EU banks, pursuant to article 1, paragraph 1 of Italian Legislative Decree 385/93;
 - b) Italian investment firms (SIM) and EU and non-EU investment firms;
 - c) Italian asset management companies (SGR) provided by article 1, paragraph 1 lett. o) of CLF, with the exception of the provisions of article 36 paragraph 2 of CLF;

- d) Stockbrokers entered in the single national roll provided for in article 201 of CLF;
- e) central banks;
- f) foreign CSD entities;
- g) central counterparties;
- h) financial intermediaries entered in the register kept by the Bank of Italy referred to in Article 106 of the CLB and authorised to exercise the activities provided for in article 1, paragraph lett. c) and c)-bis of Legislative Decree as well as, to the limited extent of the activity on derivatives, authorized to the activity provided for in article 1, paragraph 5, lett. a) and b) of CLF;
- i) Poste Italiane S.p.a.;
- j) Cassa Depositi e Prestiti
- l) Italian Ministry of Finance.

1-bis Participation of issuers – different from entities referred to in paragraph 1 – which are admitted to the Centralized Administration Service as Intermediaries pursuant to the article 13(1), letter g), of the Banca d'Italia - Consob Provision, is also allowed limited to the settlement of free-of-payment transfer. The acquisition of Settlement Instructions related those transfer happens with the technical functionalities described in the Instructions.

2. Save as referred to in Article 46(3) of the Banca d'Italia - Consob Provision mentioned in paragraph 1 above, participation can be in one's own name and on one's own behalf or in the name and on behalf of third parties, using the corresponding securities accounts opened in the Centralised Administration Service.
3. Subjects participating in Settlement systems also on behalf of third parties can use, for this purpose, one or more securities accounts opened, within the Centralised Administration Service, for the third parties on behalf of whom they are acting.
4. Participants referred to in paragraph 3, may ask for the recognition its customers as Indirect Participant as long as the following conditions are met:
 - a) the customers fall under one of the categories referred to in paragraph 2;
 - b) the Participants use one or more securities accounts, opened within the Centralised Administration Service, dedicated exclusively to the settlement of instructions pertinent to the customer that need to be recognised as an Indirect Participant;
 - c) the client identification data that the Participants intend to recognise as Indirect Participants, and any possible amendments, are known by Monte Titoli to have been communicated by the Participant to Monte Titoli for this purpose, using the methods described in the instructions.

5. In the evaluation of admission of the entities referred to in paragraph 1, lett. f), Monte Titoli takes into account, where relevant, the authorization requirements provided by the relevant regulatory framework.

Article 7 - Requirements for participation in the Settlement Services

1. In order to participate in the Settlement system, the subjects as per Article 6 (1) must continuously:

- a) have a securities account at Monte Titoli;
- b) for cash settlement, have accounts dedicated to the processing in T2S, or use an agent bank as per Article 9;
- c) have an organisational structure as well as technological and IT systems that ensure the smooth, continuous and efficient management of the relations and activities arising from participation in the Settlement Services. To this end, they must have properly qualified and skilled personnel and notify to Monte Titoli the name of the person responsible for the proper functioning of the internal services and for the Participant DCPs that of the person responsible for connection to T2S;
- d) for the connection to the Settlement Services, avail themselves of the X-TRM Service and/or other direct connection systems to the T2S platform that are adequate, compatible and suitable for interacting with the Settlement Services and use the technical protocols and standards established for sending the communications relative to the Settlement Instructions to be settled. To check this requirement, Participants carry out the tests arranged for/required by Monte Titoli and notify it of the results.

2. Participant DCPs must also:

- a) equip themselves with business continuity plans, in the event of unavailability of their own systems for connection to the Settlement Services, which are similar to those provided for in the regulations currently in force for critical processes;
- b) stipulate a specific agreement with one of the *Network Service Providers*⁵ indicated by the ECB;
- c) send Monte Titoli the certification released by the ECB which attests the suitability of their connection, where relevant;
- d) notify the name of the person in charge of and responsible for the

⁵ *T2S Framework agreement Schedule 1 «Network service provider»: means a network service provider (NSP) that has concluded a Licence Agreement with the Eurosystem to provide Connectivity Services to T2S. It is a business or organisation providing the technical infrastructure, including hardware and software, to establish a secure and encrypted network connection that permits the exchange of information between T2S Actors and T2S.*

connection to T2S platform if they resort to third parties (outsourcing) for the purpose of managing technological and connection systems, comply with the provisions of Article 6.

3. Participants using an agent bank for cash settlement, pursuant and according to condition provide in Article 9 must, in the event of withdrawal from the agreement with the agent bank, of the exclusion or suspension of the latter from the TARGET2 system, arrange for prompt substitution, advising Monte Titoli in a timely manner.

Article 8 - Requirements for the T2S connection systems different from X-TRM

1. Pursuant to Article 5 (3), letter b), the acquisition of the settlement instructions can take place through direct connection systems to T2s platform which ensures:
 - a) the integrity, accuracy and completeness of data concerning the transactions to be settled, adopting appropriate technical measures;
 - b) adoption of technical measures for information security and processing continuity as per article 3;
 - c) that each individual Settlement Instruction sent to the Settlement Service is identified in such a way as to allow the control its univocal nature, and its correct order;
 - d) authentication procedures are applied by means of transaction check digits that guarantee the correct origin and the integrity of the data received;
2. Participants authorized by Monte Titoli to act as DCP, allow Monte Titoli, or its representatives, to perform in-house checks on the adequacy, suitability and compatibility of the system of connection and interaction with T2S and the requirements of the Regulations. The DCP Participant must have at its office of adequate documentation regarding the architecture, functionality, operating procedures and service levels.
3. Monte Titoli reserves the right to limit the number of participants that a DCP Participant can connect to T2S in the cases of (i) persistent technical problems affecting a significant number of participants and / or if (ii) the Participant DCP not able to change their systems in order to make them compatible with updates made by T2S.
4. The Participant DCP may use connection systems developed on its behalf by third parties suppliers or connection systems of other DCP Participants. In such cases the DCP Participant concerned must notify Monte Titoli and shall allow Monte Titoli to perform the in-house verification of the adequacy of the technological infrastructure with the person on which it relies. The DCP Participant must maintain adequate documentation regarding the architecture, functionality, operating procedures, service levels, controls and contractual

guarantees for the activities performed by third parties, including other DCP Participants.

Article 9 - Requirements for agent banks

1. Participants may use specifically appointed agent bank
2. In the case of cash settlement through an agent bank, the latter must:
 - a) have accounts for cash settlement referred to in Article 5, paragraph 5;
 - b) confirm to Monte Titoli its acceptance of its appointment by the participant, by means of a letter, with which the agent bank simultaneously undertakes to notify Monte Titoli of any withdrawal with no less than five days' notice;

Article 10 - Application to participate in the Settlement Services

1. Entities wishing to participate in the Settlement Services shall submit to Monte Titoli duly signed Services Application, together with the relevant participation documentation.
2. After ensuring that the participation requirements have been met, and the supporting documents submitted are complete and in good order, Monte Titoli shall notify the applicant of its admission to the Service and date of commencement of the relationship or the reasons of the rejection, taking into account the provisions of Article 33 CSDR.
3. Participants are required to pay fees for the services provided in the amount, with the frequency and within the time limits established by Monte Titoli on the basis of transparent and non-discriminatory criteria published on Monte Titoli's website. Litigation concerning the above-mentioned fees is subject to the exclusive jurisdiction of the Italian judges of the Court of Milano.
4. With reference to credit matured by Monte Titoli towards Participants deriving from the provision of the Settlement Service and the related and instrumental activities, Monte Titoli may exercise the right of retention on the securities recorded in the own account of Participants or the pertaining proceeds, within the limit of the amount of the outstanding credit. The procedure for exercising the right of retention are described in the Instruction to the Rules.

Article 11 - On-going Eligibility for Participation

1. Participants shall ensure continued compliance with the subjective and objective requirements set out in Articles 7 and 8 and shall immediately communicate any circumstance likely to affect the participation requirements from which may descend the suspension or exclusion from the Service.
2. Participants shall notify, in the forms and time frames specified in the Instructions, any change in the operating conditions to which the information submitted upon

filing the Service Application relate.

Article 12 - Cases of exclusion, suspension and penalisation

1. Monte Titoli excludes from the Settlement system:
 - a) participants undergoing an insolvency procedure as defined in the decree n. 210/2001;
 - b) participants declared insolvent with an order issued by Consob in agreement with Bank of Italy under Article 72 of CLF;
 - c) participants no longer belonging to the categories indicated in Article 6;
 - d) participants that, repeatedly, do not comply with the operational procedures set forth in the present operating rules and/or in the operational documents or that conduct themselves in ways incompatible with the normal and proper operation of the Settlement Service.
2. An excluded participant may not enter new Settlement Instructions in the Settlement Service.
3. Monte Titoli suspends from the Settlement system participants, other than the Bank of Italy and the Economy & Finance Ministry, who:
 - a) do not meet the requirements as per Article 7;
 - b) do not comply with the conduct rules and/or operational procedures laid down in the present rules and/or in the operational documents or who in any case conduct themselves in ways incompatible with the normal and proper operation of the Settlement systems.
4. A suspended participant may not enter new Settlement Instructions in the Settlement system.
5. In order to ensure the orderly performance of the Service and the protection of investors, Monte Titoli takes the measures necessary to ensure the management of the positions that refer to the Participants suspended or excluded according to the preceding paragraphs.
6. Monte Titoli shall promptly notify measures suspension or exclusion adopted, and any regulations issued pursuant to the preceding paragraph to the Participants to the Settlement Service, management company of the Markets, Central Counterparties, Bank of Italy and Consob. These communications are made in the manner provided for in Article 16.
7. In order to guarantee the proper use of the settlement process and minimise

uncovered positions, Monte Titoli has the right to apply penalties to participants, other than the Economy & Finance Ministry and the Bank of Italy, who originated transactions which remained unsettled as of the end the gross settlement cycle on the intended settlement date, due to a lack of either cash and/or securities.

The definition of the penalty system is contained in the Instructions.

Article 13 - Conduct Rules

1. Participants shall:

- a) comply with these Rules, the Instructions and the Operating Documents and the General Terms and Conditions for the Provision of Services;
- b) act fairly, diligently and professionally, both vis-à-vis the other Participants and the Agent Banks, and both in their fulfilments towards Monte Titoli and the use of IT systems;
- c) operate with the utmost diligence to ensure the adequate and correct operation of the connection systems to the Settlement Services;
- d) participate in the tests organised/requested by Monte Titoli and report the relevant outcome;
- e) promptly inform Monte Titoli of any circumstance known to them, including any technical malfunctioning of their systems which jeopardises or may jeopardise the regular operation of the T2S Settlement Services.
- f) promptly issue the settlement instructions relating to their operation and that of third parties;
- g) refrain from performing any action which may jeopardise the regular operation of the Settlement Services.

2. Participants are liable to Monte Titoli for the behaviour of their own employees and collaborators.

3. To ensure the proper operation of the Settlement Services, in particular for the purpose of processing Settlement Instructions as provided in article 24, Participants shall monitor the provisions in their securities and cash accounts.

4. Without prejudice to the preceding paragraphs, DCP Participants shall also:

- a) adopt necessary measure to ensure that their connection system with the

- T2S platform functions properly at all times⁶;
- b) ensure that they are able to manage the information required for their operations with T2S;
 - c) ensure prompt and efficient interaction with Monte Titoli and the Eurosystem in particular as regard the DCP certification and crisis management⁷.
 - d) promptly notify:
 - i. any error in the T2S Data received and/or sent to/from T2S, for the purpose of article 22(4) of the FA;
 - ii. any technical malfunctioning of the T2S connection systems and their subsequent reactivation, including any cases of disconnection from T2S decided by the Eurosystem, pursuant to Article 36(2) of the FA;

Article 14 - Assessment activities

1. In order to check compliance with the provisions of the Rules or the Instructions and, more in general, to ensure the performance of the management duties of the Settlement Services, Monte Titoli may:
 - a) ask the Participants for any useful information or document about their activities in the Settlement Services;
 - b) call the representatives of the Participants to obtain clarifications about specific conduct or situations;
 - c) carry out checks at the Participants' premises.
2. Participants shall ensure that Monte Titoli is able to carry out the checks set out in Article 8, paragraph 4, at third parties' premises, if any.

Article 15 - Financial instruments admitted to the Settlement system

1. Financial instruments admitted to the Settlement Service are those held in the Participants' accounts, opened at Monte Titoli and managed by Monte Titoli directly or through links with Foreign CSDs on the basis of agreements contracts, in accordance with the CSD Rules.
2. Monte Titoli may limit the admission to the Settlement Services of the financial instruments referred to in the previous paragraph where Market Specific Attributes (MSA) exist or restrictions have been set out by the Foreign CSDs with

⁶ *article 11(3) of Framework Agreement "The Contracting CSD shall provide in its rules or contractual terms for an obligation to be imposed on its DCPs to use reasonable efforts to ensure that their connectivity with the T2S Platform functions properly at all times".*

⁷ *article 12 (3) del Framework Agreement "Without prejudice to Article 1(4), in all matters covered by the subject matter of this Agreement, and without prejudice to its provisions, the Eurosystem can interact in particular with the Contracting CSD's DCPs for the purposes of managing the technical connections to T2S, DCP Certification in user testing and crisis management*

which the financial instrument is centralised (issuer CSD), and subject to prior notice to the Participants.

Article 16 - Service information notices

1. Monte Titoli provides, with frequency depending on the type of data, information notices concerning, among other things:
 - a) financial instruments admitted to the Settlement system;
 - b) financial instruments which can be used as collateral with Bank of Italy;
 - c) Participants;
 - c-bis) Indirect Participant Subjects;
 - d) Foreign CSDs
 - e) calendar and operating hours
 - f) currencies in which it is possible to make cash settlements in T2S;
 - g) terms of reference and methods of application of the penalties;
 - h) time limits within which Monte Titoli on behalf of Market Management Companies and Central Counterparties sends Settlement Instructions to the Settlement Service;
 - i) indication of the Market Management Companies or the Central Counterparties that allows for the change management of Settlement Instructions entered in the Settlement Service and/or concluded in their Systems but input by Participants
2. The information is transmitted to participants, the Bank of Italy and to Consob by means of electronic information notices.
3. Information notices concerning the items indicated in letters e), f), g) of paragraph 1 are sent to the Bank of Italy and Consob with due advance notice.

TITLE 2 - OPERATIONS OF THE SETTLEMENT SERVICES

Article 17 - Phases the Settlement Services

1. The Settlement Service includes the following operational phases:
 - a) acquisition of the settlement instructions;

- b) matching of the settlement instructions;
 - c) settlement.
2. The functioning of the Service is detailed in the Operating Document User Requirements Document, approved by the ECB Governing Council and available on the following website:
<http://www.ecb.europa.eu/paym/t2s/about/keydocs/html/index.en.html>

Article 18 - Acquisition of Settlement Instructions

1. Settlement instructions are acquired by the Settlement Service from:
 - a) individual transactions (DVP o FOP);
 - b) bilateral netting of securities and cash balances;
 - c) securities and cash balances, netted via interposition of a central counterparty.
2. During acquisition, the Settlement Services checks:
 - the completeness of the settlement instruction and its formal correctness to ensure the ensuing processing by the Services; and
 - the matching of the settlement instruction data with personal data found in T2S (common static data), as well as with any restrictions, including the matching of the financial instruments involved with the provisions of Article 15.
3. The validated instructions are forwarded to the subsequent phases of the service. Non-validated settlement instructions are rejected.
4. The settlement instructions can establish that the settlement:
 - It is connected to the settlement of linked instructions; or
 - is conditional on the occurrence of specific conditions outside T2S (Conditional Securities Delivery CoSD)⁸.
5. Participants may also specify:
 - the possibility of a partial settlement, within the limits allowed by the T2S system's functionalities; and
 - the rule priority of the settlement instruction entered, within the limits allowed by the functionalities of T2S and taking into account that Monte Titoli assigns priority to the settlement of transactions in which the

⁸ *Conditional securities delivery in T2S refers to a procedure in which the final posting of securities and/or cash is dependent on the successful completion of an additional action or event external to T2S and confirmed by an administering party.*

counterparty is the Italian Ministry of Finance, monetary policy transactions and those concerning transfer of collateral by the Bank of Italy and, subsequently, those coming from market management companies.

6. Participants are informed of the result of the validation process.

Article 19 - Matching of Settlement Instructions

1. The matching is carried out to check that declarations pertaining to the same settlement instruction correspond to each other based on specific matching keys, with respect to settlement instructions entered.
2. The T2S system supplies the Participants with complete disclosure regarding the status of the settlement instructions entered and the settlement instructions entered by the counterparty awaiting matching (allegement).
3. Unmatched settlement instructions are cancelled from the T2S system 20 days after the foreseen date of settlement.
4. The matching checks referred to in paragraph 1 cover the mandatory matching fields, but may also regard the non-mandatory matching fields.
5. Unmatched settlement instructions may be changed by the Participants, but only for the status indicators.

Article 20 - Cancellation of the settlement instructions

1. Settlement instructions may be unilaterally cancelled by the Participant who has entered them up to the time of the matching, on condition that the settlement instructions were not entered as non-changeable.
2. Matched settlement instructions may be cancelled bilaterally, with the consensus of both Participants, or upon request of an entity acting on their behalf, subject to the prior submission to Monte Titoli of the relevant mandate.
3. The cancellations are sent by the Participants with the methods and the time frames provided for in the Instructions. They then go through the acquisition and, if referred to matched settlement instructions, matching phases. When the cancellations are matched, the original settlement instructions are cancelled.
4. Market management companies and Central Counterparties may ask Monte Titoli to block these functionalities with regard to their settlement instructions, according to the methods and conditions provided for in the operating rules for these systems and in accordance with the provisions for T2S.

5. Cancellations may also be entered by Monte Titoli at the request of the Participants and in the other cases established by the Rules, in accordance with the provisions above.
6. CoSD settlement instructions may only be cancelled by Monte Titoli.
7. Settlement instructions that have not been matched within the time frames in Article 25, paragraph 3, or are no longer valid (651), are automatically cancelled from T2S.
8. Participants are informed of the progress and outcome of the cancellation process and of any automatic cancellation, pursuant to the previous paragraph.

Article 21 - Hold of the settlement instructions

1. The Participant may hold the settlement of the settlement instructions entered by it so as not to subject them to settlement, or hold the proposing again of the settlement instructions not regulated, also partially, until there is a specific release, on condition that these settlement instructions have not been entered as non-changeable.
2. Market Management Companies and Central Counterparties may ask Monte Titoli to block the use of this functionality with regard to their settlement instructions, according to the methods and conditions provided for in the operating rules for these systems and in accordance with the provisions for T2S.
3. The settlement may also be put on hold by Monte Titoli, at the request of the Participants and in the other cases established by the Rules, in accordance with the provisions above.

Article 22 - Input into the Settlement System and irrevocability of the transactions

1. The settlement instructions to be settled are considered to be “input” in the Settlement System pursuant to article 2, paragraph 2 of Legislative Decree 210/2001 when validated in T2S (SF1).
2. Settlement Instructions cannot be revoked by a Participant or a third party from the time of their matching in T2S. (SF2), without prejudice for bilateral cancellation of Settlement Instructions provided under article 20 (2).
3. The transfer of securities and cash become final from the time of the debiting of the cash, or of the securities when settlement of cash is not provided. (SF3)
4. In the case of an obvious technical error, at the request and under the

responsibility of the Markets Management Companies and/or of the Central Counterparties, Monte Titoli will carry out those transmitted transactions within the context of the procedures for managing errors, in observance of the contents of the Italian Legislative Decree 210/01.

5. In the case where an insolvency procedure is started against a Participant or against an Indirect Participant Monte Titoli promptly activates the operational procedures indicated in the Instructions with the aim of managing the settlement instructions attributable to the insolvent entity. These procedures include:
 - a) in the case of an insolvent Participant, the block: i) on the acquisition of new settlement instructions in the Settlement System that are attributable to the insolvent Participant; and ii) on amendments to settlement instructions already in the Settlement System that are attributable to the same entity;
 - b) in the case of an insolvent Indirect Participant, the block on the acquisition of settlement instructions in the Settlement System that are attributable to the insolvent Indirect Participant that is already entered in the X-TRM Service;
 - c) the cancellation of the intra-CSD settlement instructions attributable to the insolvent subject from the Settlement System, according to the procedure and the deadlines set out in the Instructions; and
 - d) the settlement suspension (hold) of the cross-CSD settlement instructions attributable to the insolvent subject in the Settlement System, according to the procedure and the deadlines set out in the Instructions;

In the case of an insolvent Indirect Participant, which belongs to one of the categories under article 6, paragraph 1, letters a) and b), the Settlement Service Participant that settles transactions on behalf of the Indirect Participant may, under its own responsibility, send new settlement instructions to be drawn on the accounts pursuant to article 6, paragraph 4, letter b), for the exclusive purpose of exercising retention and security rights, within the limits provided by law.

6. The provisions referred to in paragraphs 1 and 2 shall apply to securities transfer orders.
7. The finality and irrevocability of cash transfer orders are governed by the provisions of the TARGET2 System, as provided for in Guideline ECB 2015/930 of 2 April 2015 amending Guideline ECB/2012/27 on a Trans-European Automated Real-time Gross settlement Express Transfer system (TARGET2). Monte Titoli gives information of the above in the Communications Service referred to in Article 16.
8. Insolvency procedures referred to in paragraph 5 shall take into account the coordination of the moments of finality and irrevocability of transfer orders of securities and cash.

Article 23 - Automatic mechanism for posting collateral

1. The Participants in Settlement Service and/or their Agent Banks that have previously communicated their intention to avail themselves of the automatic mechanisms for posting Collateral must, with the methods and time frames provided for in the Instructions, the securities accounts for collateralisation and the exposure limits to be considered in the settlement process.
2. The activation of the collateralisation mechanisms causes the automatic generation of settlement instructions by the Settlement Services. The settlement instructions arising from the collateralisation are settled jointly with the original settlement instructions, relative to which the mechanism for posting collateral was activated (linked instructions).

Article 24 - Processing of the settlement instruction

1. The settlement process includes a night-time and a day-time phases. In each phase the settlement instructions are processed on a gross basis.
2. In each phase, according to the eligibility criteria of the settlement instructions, Monte Titoli settles:
 - the new settlement instructions entered before the beginning of the settlement phase during the night-time phase and in real-time during the daytime phase, including the FOP instructions for realignment and those resulting from any corporate actions; and
 - settlement Instructions that remain unsettled in the previous phase;
3. The settlement instructions are processed through the following steps:
 - a) check on the settlement status of the instruction;
 - b) check on the counterparties' securities and cash accounts capacities. This includes verifying whether resources are available as a result of the collateralisation, as well as checking any exposure limits set by the Participant or its Agent Bank in the TARGET2 system;
 - c) If there is securities and cash capacity, T2S settles the securities by debiting the Seller and crediting the Purchaser with the amount of the transaction.
4. If a number of settlement instructions are handled jointly in the same phase for reasons of optimisation, T2S makes the checks referred to in letter b) of the previous paragraph, based on the net balance following such instructions. If there is not enough capacity to settle the net balance, T2S identifies the instructions that cannot be settled and then, taking into account their characteristics:
 - checks the possibility of settling them through a collateralisation process, in the case of cash deficit;
 - checks the possibility of partially settling them, in the case of securities

deficit.

5. Settlement instructions that have not been handled because of insufficient securities or cash are proposed again in the subsequent phase of the same settlement day, until they are settled or cancelled by common agreement of the parties.
6. Participants may change the settlement instructions that have been proposed again, including partially, but only with regard to the status indicators, on condition that those settlement instructions have not been entered as non-changeable.

Article 25 - Sequence of the settlement instructions processing

1. To improve the efficiency of the settlement process, TS2 implements optimisation mechanisms aimed at maximising its outcome.
2. If several transactions make use of the resources available on the same securities or cash account, the optimisation process takes into account the priority criteria for management of the settlement instructions referred to in Article 24, paragraph 5. In the case of equal priority, the transactions with the earlier settlement date are settled first within the functioning limits of T2S platform.

Article 26 - Management of non-settled settlement instructions (CAoF)⁹

1. Monte Titoli may change or cancel the settlement instructions that have not been settled at the established settlement date and concern financial instruments involved in corporate actions or, in relation to such instructions, it may enter additional settlement instructions aimed at rectifying the distorting impacts of the event. The operating methods for management of these settlement instructions are set out in the Instructions.

Article 27 - Cross CSD settlement

1. If the settlement instructions are to be settled between a Participant in Monte Titoli, different from another CSD in T2S and a Participant in another CSD in T2S (cross CSD), T2S automatically carries out the movements between the securities accounts of the Participants involved, of the Investor CSD and of the Issuer CSD.

⁹ It should be noted that the management capabilities of the Corporate Action on Flow for OTC transactions will be activated after the migration to the T2S platform. The release date of these features will be announced in a subsequent notice.

2. Monte Titoli does not establish the possibility of carrying out a cross CSD settlement if the CSD Issuer is outside of T2S, unless both investor CSDs have in place a link with another CSD in T2S (technical issuer CSD) so that the realignment of with the Issuer CSD outside T2S is not necessary.

Article 28 - Disclosure regarding the progress of the process

1. If requested by the Participants, Monte Titoli makes available the events that change the balance in their securities account, supplying in real time the settlement status of each transaction being processed, all the information useful for monitoring it, as well as the settlement of the whole transaction. This disclosure is made available through the direct link channel to T2S, or through the X-TRM Service.
2. *If requested by the Participants, Monte Titoli also makes available to the Participants and/or to the Agent Bank the cash balance disclosure. This disclosure is processed and made available, according to the format and with the channels indicated in the Services Manuals.*¹⁰

PART 3 - ACTIVITIES RELATED TO THE SETTLEMENT SERVICE

TITLE 1 – FOREIGN SETTLEMENT SERVICE

Article 29 - Service characteristics

1. Monte Titoli may participate in foreign settlement services operated by Foreign CSD outside T2S to settle transactions on behalf of its participants.
2. The transactions are settled on own accounts or, where possible, third party accounts opened by Monte Titoli in other settlement systems and the payment systems used by the same, or through a bank, according to the rules and modalities of the foreign settlement system.
3. Settlement Instructions are sent to Monte Titoli by participants to the Foreign Settlement Service through the X-TRM Service and by Monte Titoli to foreign settlement systems takes place only after the cash and securities availability of the Participants has been verified.

¹⁰ The information on the cash position will be made available after the migration to the T2S platform. The release date of this feature will be announced in a subsequent notice.

Article 30 - Participants, requirements and methods of participation

1. Subjects admitted to Settlement Services pursuant to article 6 (1) are eligible for the service.
2. Without prejudice for the requirement to submit Settlement Instructions by means of the X-TRM Service, articles 10 to 14 shall apply.

Article 31 - Financial instruments admitted to the Foreign Settlement Service

1. Financial instruments managed through a link with Foreign CSD outside T2S and admitted to the Centralised Administration Service.
2. Monte Titoli may restrict admission to the Settlement Service in foreign currency of the financial instruments referred to in the previous paragraph, in the presence of particular market specifics (MSA), or restrictions established by the Foreign CSD, at whom the financial instrument is centred (CSD Issuer) and subject to the communication to the Participants.

Article 32 - Operations of the Foreign Settlement Service

1. In the Foreign Settlement Service, the settlement takes place according to the methods and the rules of the settlement system managed by the Foreign CSD. Monte Titoli informs the Participants in the Service of the main operating characteristics of these systems through the Operating Documents.
2. The transactions are final and irrevocable according to the timeframes and rules, which are currently in force, in the settlement systems managed by Foreign CSDs.
3. The settlement instructions are acquired by Monte Titoli in T2S in CoSD mode.
4. The Participants in the Service can ask Monte Titoli to cancel the settlement instructions at the conditions established by article 26 and compatible with the functional rules of the settlement system managed by the Foreign CSD.

Article 33 - Disclosure regarding the progress of the process

1. If requested by the Participants in the Foreign Settlement Service, and within the limits of disclosure provided by the Foreign CSD, Monte Titoli makes available all the events that change the balance in their securities accounts, supplying in real time the settlement status of each transaction being processed, all the

information useful for monitoring it, as well as the settlement of the whole transaction. This disclosure is made available through the direct link channel to T2S, or through the X-TRM Service.

Article 34 - Service information notices

1. The Foreign Settlement Service supplies, periodically according to the nature of the specific data, disclosure relative, among other things, to:
 - a) settlement systems managed by Foreign CSDs for which the Foreign Settlement Service is available;
 - b) financial instruments admitted to the Foreign Settlement Service for each system referred to in letter a) above;
 - c) Participants in the Foreign Settlement Service;
 - d) any restrictions in the operations by category of Participants, or their customers;
 - e) calendar and timetable of the operational day.
2. The notices relating to information referred to in letter e) are sent to Bank of Italy and Consob in due advance.

PART 4 - ANCILLARY ACTIVITIES TO THE SETTLEMENT SERVICES

TITLE 1 - GENERAL PROVISIONS

Article 35 - Regulatory framework

1. Monte Titoli offers the following ancillary activities to the Settlement Services as provided below.

TITLE 2 - X-TRM SERVICE

Article 36 - Characteristics of the service

1. The X-TRM Service is the system that enables the forwarding of the transactions:
 - a) to the Settlement Service;
 - b) to the Foreign Settlement Service;
 - c) to the settlement systems managed by Foreign CSDs, for the settlement between the Participants and those Foreign CSDs both inside, or outside, of T2S, i.e. routing;

- d) to the Central Counterparties.
2. The transactions are introduced in the X-TRM Service directly by the X-TRM Participants, or by the Markets Management Companies, or the Central Counterparts, also on behalf of the X-TRM Participants. In this case the relations between Monte Titoli and Markets Management Companies and/or the Central Counterparts are governed by specific agreements.

Article 37 - Participants, requirements, and methods of participation

1. The X-TRM Service may be used by the subjects identified in Article 6, paragraph 1, by Markets Management Companies and by the other subjects allowed to trade by market management companies.
2. Participation in the X-TRM Service may take place in their own name and on their own behalf or in their own name and on behalf of third parties.
3. Articles from 10 to 14 shall apply, if compatible.

Article 38 - Financial instruments admitted to the X-TRM service

1. The financial instruments admitted at Settlement Service and to the Foreign Settlement Service and the financial instruments managed by the Foreign CSDs by the Central Counterparties referred to in the previous article 36 are admitted to the X-TRM Service.
2. The request for admission of further financial instruments into the X-TRM service must be directed to Monte Titoli. In this case, admission of financial instruments into the X-TRM service is conditional to the acquisition by the issuer or third parties of the essential data pertaining to the characteristics of the financial instruments to be admitted.

Article 39 - Features of the Service

1. The X-TRM Service manages Settlement Instructions, requests for cancellation and requests for hold / release of the Settlement Instructions.
2. The Settlement Instructions entered in the X-TRM service are processed as follows:
 - a) acquisition, which includes:

1. validation, by type of Settlement Instructions entered, which performs automated controls on the format and accuracy of the basic data of each transaction;
 2. valuation, carried out only if there were no errors in the validation phase, which calculates the accounting value by transaction type;
 3. correction of Settlement Instructions, which allows the users to change or cancel Settlement Instructions entered in the X-TRM Service. Correction of Settlement Instructions, if it involves changes, is again subject to validation and valuation;
- b) matching, limited to those Settlement Instructions subject to routing, pursuant to the previous article 36, paragraph 1, letter c), that have successfully passed the acquisition phase, which verifies the correspondence of data indicated for the same contract by the contracting parties, according to specific matching keys for each type of transaction;
 - c) at the request of Central Counterparties, or of the Markets, the calculation of securities and cash bilateral balances;
 - d) routing of Settlement instructions, according to the provisions of article 36 above.
3. The cancellation requests entered in the X-TRM Service, enable the Participants in X-TRM, within the timeframes given in the Service Information Notices referred to in article 40, to forward the cancellation request for unmatched, matched or proposed again transactions. Paragraph 2 above is applied, if compatible. Cancellation requests can also be sent to the systems referred to in the previous article 36, paragraph 1, letters b), c) and d), compatible with their functioning rules, as well as the forwarding to the Settlement Service of the cancellations of the instructions not settled, consistent with the provisions of Ministerial Decree 43044 of 5 May 2004 on provisions in case of delay in the settlement of issuance transactions, swap and repurchase of government securities.
 4. The hold requests entered in the X-TRM Service, enable the individual Participants in X-TRM, within the timeframes indicated in the Service Information Notices referred to in article 40, to send to the Settlement Service the hold requests for the settlement instructions entered, not matched, matched or proposed again, up to a specific release instruction. The previous paragraph 2 is applied, if compatible.
 5. The Markets and Central Counterparties that use the X-TRM Service, or that establish that it is mandatory for their adherents to use the X-TRM Service, indicate to Monte Titoli:
 - if the functions referred to in the above paragraphs 3 and 4 are available regarding the transactions entered by them, or finalised in their systems;
 - if, regarding the transactions entered by them, or finalised in their systems, it is established that the X-TRM Service automatically sends the cancellation request for the transactions not settled within a certain number of days [validity end date], specifying the timeframe.

Monte Titoli supplies the foregoing information in the Service Information Notices referred to in article 40.

6. The X-TRM service supplies the X-TRM participants with complete information on the status of their Settlement Instructions. Such information will be provided automatically, in the cases specified in the Operating Documents, as well as upon request of the participants themselves.

Article 40 - Service information notices

1. Monte Titoli supplies, periodically in accordance to the data type, disclosures that are relative, among other things, to the following:
 - a) financial instruments admitted to the X-TRM Service;
 - b) Participants in the X-TRM Service;
 - c) Markets and Central Counterparties that use the X-TRM Service and the relative operational methods, according to the provisions of article 29, paragraph 5;
 - d) Calendar and timetable of the X-TRM Service.

TITLE 3 - IT SERVICES

Article 41 - Easy Access Service

1. Monte Titoli offers DCP Participants IT management systems and TS2 connection systems services. In this environment it plays the third party role referred to in article 8, paragraph 4.
2. The Easy Access Service establishes, among other things, that Monte Titoli manages the communications between the Network Service Provider, with which the DCP Participant has the agreement referred to in article 7, **paragraph 2, letter b)** and the DCP Participant.
3. Participation in this Service takes place according to the methods indicated in article 8, if compatible.

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