

AMENDMENTS TO THE SETTLEMENT SERVICE INSTRUCTIONS: CAOF OPTION RIGHTS RESULTING FROM CAPITAL INCREASE

The amendments described below will enter into force on **24 January 2019**.

In line with what has already been agreed in the National User Group, the procedures for managing corporate action on flow are adapted to international practices.

In particular, it is specified that in the case of fail settlement instructions regarding option rights resulting from capital increases, on the Market Deadline Monte Titoli shall cancel the original settlement instruction and shall enter a PFOD instruction in which the participant, previously in delivery of the right, recognizes to the counterpart an amount equal to the countervalue of the cancelled transaction.

The following is an excerpt of the Settlement Service Instructions, modified in the light of the above.

The texts of the Instructions with e without the amendments highlighted will be published on Monte Titoli web site.

SETTLEMENT SERVICE INSTRUCTIONS

1.1.1 Transformation

Monte Titoli manages the process of creating Transformations of corporate mandatory transactions (mandatory reorganization with or without options) or voluntary (limited to the only or last period of the year and for which applies the default option), such as:

- Total or partial reimbursement of the securities;
- exercise option right (as part of a capital increase for a fee, free or mixed);
- exercise of warrants (single or last exercise period);
- compulsory and optional conversion (last conversion period)
- groupings, splits, mergers and demergers.

Monte Titoli does not automatically manage the cancellation and Transformation for the voluntary corporate event (voluntary reorganization).

The Transformation are generated by transactions matched but not settled before the Record Date (cd. Operations pending).

- *Timing of identification process*

Monte Titoli proceeds to the identification of operations *pending* at the Record Date of the corporate event.

- *Generation of the Settlement Instructions for the management of the Transformation*

The process of managing Transformations involves the cancellation of the Settlement Instruction related to the original transaction and the enter of a new Settlement Instruction (TRAN).

In the case of mandatory corporate events that do not provide the exercise of options in favor of persons entitled to participate, Monte Titoli automatically deletes the original settlement instructions transaction in fail and enter the Instruction TRAN.

In the case of mandatory corporate events that allow the exercise of an option to the parties entitled to participate, it is up to the counterparties of the original transaction in *fail* to delete it and enter a settlement instruction which terms must reflect the Buyer Protection. For the management of Buyer Protection it has to make reference to the market practice for OTC transactions, and to the rules of the Markets and of the CCPs respectively for unguaranteed and guaranteed market transactions.

In the absence, Monte Titoli at the Market Deadline performs the process of Transformation according to the default option provided by the Issuer.

In the case of voluntary corporate actions, it is up to the original counterparties in fail to delete and reinsert the settlement instruction. In the absence Monte Titoli does not perform the process of Transformation.

TRAN instruction must include at least the following information:

- Reference to the counterparty of the *pending* transaction that generates the Transformation;
- The identification of the pending transaction that generate to the Transformation
- The identification of the corporate action in progress
- The Trade Date, coinciding with the Trade Date of the *pending* transaction;
- The Settlement Date, that is the higher between the Intended Settlement Date of the pending transaction and the date of execution of the corporate event;
- the ISIN code of the new instruction is the same of the security distributed from the corporate event, according to the report established by the Issuer;
- indicator on-hold / release and partialisation equal to those of the *pending* operation.

In the event that the corporate event provides the recognition of multiple securities, for each security will be created an instruction TRAN. In this case if the original transaction was DVP, the value of the transaction will be split a number of new DVP instructions corresponding to the number of the TRAN operations arising from the Transformation. The value of each DVP transaction will be proportional to the amount / nominal value of the financial instruments referred to each TRAN instruction.

In the event of option rights resulting from capital increases, on the Market Deadline Monte Titoli shall cancel the original settlement instruction and shall enter a PFOD instruction in which the participant, previously in delivery of the right, recognizes to the counterpart an amount equal to the countervalue of the cancelled transaction.

In the event that the corporate event provides only the recognition of a cash amount (e.g. total reimbursement), the pending transaction it is cancelled and replaced by two TRAN instructions, one for the countervalue of the pending transaction and one for the value for the reimbursement of the financial instrument (for the possible recognition of the coupon please refer to the procedure of the management of the Market Claim).

TRAN Instructions generated against unsettled transactions intra-CSD are matched from the time of generation.

TRAN Instructions generated against transactions to be settled cross-CSD are forwarded by Monte Titoli to the T2S platform for the purposes of matching with the settlement instruction generated by the CSD of the counterparty of the Monte Titoli Participant.

TRAN Instructions related to OTC transactions can be deleted by Participants according to the rules and the general conditions applicable to other OTC settlement instructions, while those relating to guaranteed transactions or Market transactions are canceled by Monte Titoli according to the Markets or the Central Counterparties request.

TRAN instructions can not be connected to each other, or be part of a pool.

TRAN instructions can bear the information that the original operation was linked to other instructions, but it does not bear the ID of the linked one.

- *Reporting to Monte Titoli Participants*

The reporting relating to the management of Transformation is available through X-TRM Service for the ICP Participants.

DCP Participants will receive the information produced by the T2S platform, as it is provided for all the others transactions settled by the Settlement Service