

Management of an indirect participant

As a result of changes in the operating environment and certain functional limits regarding the insolvency process for Indirect Participants, the Regulation and the Instructions of Settlement Service are amended.

More specifically, the rules for identifying indirect participants to allow Monte Titoli to manage settlement instructions from insolvent indirect participants in a timely manner and according to standardised procedures are reviewed.

❖ Operational aspects related to the identification of Indirect Participants linked to a segregated securities account

Changes to the post-T2S operating context

As is known, with the migration to the T2S platform, work has begun on harmonising the finality rules and insolvency procedures among all system participants.

In particular, the implementation of a common operating procedure for managing the instructions of an insolvent participant has drawn attention to the operating tools available to the CSDs for managing the insolvency, and more specifically, to the need for timely identification of all settlement instructions belonging to the insolvent participant according to a standard set of procedures.

On a national level, the additional technical analyses conducted on the current insolvency procedures have highlighted certain functional constraints that, in the current state, would not allow a system operator to immediately identify settlement instructions input by DCP Participants and belonging to an Indirect Participant.

As a result, Monte Titoli has initiated an internal review with the settlement agents aimed at preserving the guidelines for the indirect participant on the one hand, and on the other, addressing the weaknesses identified also considering the changes in the operating environment.

The adopted **solution** is based on changes to the rules for identifying indirect entities. In this regard, it is introduced a **link to one or more segregated accounts dedicated** exclusively to the settlement of all the operations of a single Indirect Participant.

This solution, has been shared with the settlement agents and the sector associations ABI and Assosim, is adequate for the following reasons.

Procedure for managing the settlement instructions of an insolvent Indirect Participant

Identification of the Indirect Participant through a segregated account ensures continuity for the current method of managing settlement instructions, precisely identifying them through the settlement accounts intended for them, notwithstanding that default of an Indirect Participant be

managed in such a way to ensure that security rights as provided by law can be exercised, as mentioned above.

Therefore, for the default of an Indirect Participant, Monte Titoli restricts activity of the segregated account(s), blocking settlement instructions already in the X-TRM Service and those yet to be forwarded to T2S that are intended to be settled in the securities account linked to the Indirect Participant¹, without prejudice the rights of the participant that acts on behalf of the insolvent party. It follows that the above-mentioned restriction does not apply to instructions sent under its own responsibility by the Participant – which operates on behalf of the insolvent participant - for financial instruments deposited in the segregated account for the purpose of exercising its retention rights or for the enforcement of a pledge (these being the only instructions that the participant may send according to law, as the insolvent party has lost the ability to manage and access its assets).

The settlement instructions input to the Settlement System (T2S) prior to the insolvency declaration, being final (SF1), are processed as usual and may be observed by the counterparty and ISD settlement attempted. Upon ISD completion, in continuation with the current approach, if they are not settled, Monte Titoli will cancel them.

This approach is set out in Chapter 4 of the Settlement Service Instructions that have been revised on this occasion. More specifically, the previous Tables 1, 2, and 3 were removed and their content transfused into a new table. Consistent with the evolution of the procedures in T2S, a guideline was prepared to address cases where there is a time gap between the moment the insolvency occurs (*time of insolvency* or “TOI”) and the moment the insolvency becomes known (*time of awareness* or “TOA”) (cf. evidence of the amendment below).

With particular regard to transactions guaranteed by a central counterparty that avails itself of the X-TRM Service for calculating balances, it should be noted that a precondition for giving continuity to the current method for managing settlement instructions in cases where the “trading client”² is insolvent, is that the settlement system participant has attributed one or more segregated accounts to the “trading client” and has gone ahead with identifying them to Monte Titoli, according to the procedures specified above and incorporated in the text of the Instructions.

It should be pointed out, that in every potential insolvency involving an Indirect Participant clearing member, settlement instructions belonging to “trading client” linked to them will continue to be managed for the purposes of the insolvency by Monte Titoli as settlement instructions belonging to the clearing member, even when the “trading client” are qualified as Indirect Participants in the Settlement Service.

Also note that in the case of an insolvency involving a “trading client” or a broker that has not been qualified as an Indirect Participant, input of the broker’s instructions in X-TRM will be suspended at the same time as they are suspended by the market and/or the central counterparty.

In all cases where the insolvency declaration does not regard a Participant or an Indirect Participant at Monte Titoli, but a paying agent, the settlement instructions of the Monte Titoli Participants will attempt to be settled and their input not impeded by Monte Titoli although the reference Central Bank may reject them.

Applicability of the so-called fast track procedure

¹ N.b. In the event of default of an indirect participant, all instructions to be settled in the account(s) associated to them will be managed as described above (with no distinction being made between their own instructions and those made by third parties).

² Previously identified as a non clearing member

We hereby confirm that the so-called fast track procedure remains applicable.

❖ **Entry into force of the amendments**

The amendments will enter into force on the **21 September 2018**, in conjunction with the entry into force of the provision referred to in Article 10 of the Decree no. 210/2001, published in the GU no. 207 of 6 September 2018. It is specified that on the date of the entry into force the previous configurations of the Indirect Participants will fall completely.

Consequently only the subjects for whom the (direct) Participants will have proceeded to renew the communication of the identification data and the configurations required by the new provisions in due time, will be considered for the purpose of the application of the insolvency procedure.

Following the entry into force of the regulatory changes, the (direct) Participants will be able to proceed with the qualification of their clients as Indirect Participants: in this case the effects of the qualification as an Indirect Participant of the interested subject will start from the moment in which the communication of the identification data and related operating configurations will be completed.

The changes of the Rules of the Settlement Service and the related Instructions are shown below.

Article 1 - Definitions

(..)

«Settlement Instructions » transfer order related to transactions to be settled within the Settlement System ~~Service~~ 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;

(..)

«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; and the ~~that is recognized by the Settlement System, pursuant to the condition provided in this Rules, that enters into an agreement with a Participant to the Settlement Service for the settlement of its own the transactions;~~

(..)

«Settlement Services 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;

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 pursuant to Article 107 of the CLB, in the list provided for in article 107 of Legislative Decree 385/93, authorized to exercise the activities provided for in article 1, paragraph 5 lett. c) and c)-bis of CLF 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

the Centralized Administration Service as Intermediaries pursuant to the article 13(1), letter g), of the Banca d'Italia - Consob Provision³, is also allowed limited to the settlement of free-of-payment transfer. The acquisition of Settlement Instructions related those transfers happens with the technical functionalities described in the Instructions.

2. Except as referred to in Article 46(3) of the Banca d'Italia - Consob Provision³ 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. The subjects referred to in paragraph 3, may ask Monte Titoli to recognise **its customers** as Indirect Participants ~~the client belonging to categories referred to in paragraph 1, provided that they notify to Monte Titoli the relevant identification data and any amendment thereof as described in the Instructions. The ID shall be specified in each Settlement Instruction input in the Settlement Service. 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;**

³ Reference is made to the Measure of 22 February 2008, applicable until the authorization decision of Monte Titoli pursuant to the CSDR, as required by Article 59 of the current Provision dated 13 August 2018.

- 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**, letter f), Monte Titoli takes into account, where relevant, the authorization requirements provided by the relevant regulatory framework.

(..)

Article 16 - Service information notices

1. Monte Titoli provides, with frequency depending on the type of data, information notices concerning, among other things:

(..)

c-bis) Indirect Participant Subjects;

(..)

Article 22 - Finality Input into the Settlement System and irrevocability of the settlement instructions

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** ~~become final~~ 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 settlement instructions within the context of the procedures for managing errors, in observance of the contents of the Italian Legislative Decree 210/2001.
5. In the case where an insolvency procedure is started against a Participant or an Indirect Participant ~~and notified by the competent authority, the irrevocable and/or final settlement instructions shall be governed by the provisions of the Instructions, as indicated in the above paragraphs.~~ **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, that belongs to one of the categories referred to in 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 which amends Guideline ECB/2012/27 related to a “Trans-European Automated Real-time Gross Settlement Express Transfer system” (TARGET2). Monte Titoli supplies the foregoing information in the Service Information Notices referred to in article 16.
- 8. Insolvency procedures referred to in paragraph 5 shall take into account the coordination of the finality and irrevocability moments of securities and cash transfer orders.

1.2.1 Management of static data

The management of static data concerns the Participants, their clients and their Agent Banks.

The Participant, and its clients, set up is done by Monte Titoli according to the information communicated by the Participant itself through the web base application denominated CLIMP.

For the interaction with the Settlement Service, the Participants, and the Agent Banks, must have a unique BICLEI 44 code. Failing that, it is not possible to proceed to the configuration of the Participant on the T2S platform and therefore Monte Titoli will not allow the start of operations of the same.

Pursuant to article 6, paragraph 4 of the Rules, Participants may request to qualify their clients belonging to the categories referred to in paragraph 1 of the same article⁴ as Indirect Participants. ~~by communicating the name and the BIC11 codes associated.~~ **To this end, Participants must:**

- a) ~~by communicating the name and the associated LEI code of each Indirect Participant the BIC11 codes associated;~~
- b) **associate to each Indirect Participant for which settlements are made, one or more securities accounts to be used exclusively to settling the Indirect Participant's settlement instructions.**

The same subject may be qualified as an Indirect Participant in Monte Titoli's Settlement Service by more than one Participant, in accordance with the conditions indicated above.

The information will be provided through CLIMP and the Participant is required to keep this information up to date.

~~As of the 31 august 2015, entities participating to X-TRM Service before the migration to T2S platform are qualified by Monte Titoli as Indirect Participants of the Participants which they used for the settlement, unless otherwise indicated by the respective settlement agents.~~

~~After the migration to T2S platform for the qualification of the Indirect Participants shall apply the provisions of the preceding paragraph.~~

4 Pursuant to article 6 of the Settlement Service Regulation, the following may be qualified as Indirect Participants:

- 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 CSDs;
- 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 pursuant to Article 107 of the CLB, in the list provided for in article 107 of Legislative Decree 385/93, authorized to exercise the activities provided for in article 1, paragraph 5 letters c) and c)-bis of CLF as well as, to the limited extent of the activity on derivatives, authorized to the activity provided for in article 1, paragraph 5, letters a) and b) of CLF;
- i) Poste Italiane S.p.A.;
- j) Cassa Depositi e Prestiti;
- l) Italian Ministry of Finance.

~~Markets and / or CCPs that use the X-TRM Service, may require to their trading members/non clearing members/clearing members to be qualified as Indirect Participants by the Participants that operate into the Settlement Service on their behalf. In this case the trading members/non clearing members/clearing members name and BIC11 associated have to be entered in CLIMP.~~

~~Participants or Indirect Participants may have more BIC11 unique in the Settlement Service, hence when a BIC11 is already assigned to an entity (CED code) it can not be assigned to another entity (CED code).~~

~~Moreover, Participants have to:~~

- ~~• Maintain a unique match between Indirect Participants' BIC11 and the BIC11 (Party 1) assigned by the Participant to the accounts dedicated to the same client or group of clients~~
- ~~• Set up for each Indirect Participant a configuration that maps the default Participant and the correspondent default account/s for type of trading.~~

~~Subject thereto about BIC11, Monte Titoli maintains Participants encoding currently in use at the domestic level for interacting with its Services:~~

- ~~▪ ABI CODE code assigned by the Bank of Italy/Consob for banks, financial intermediaries, brokers and central counterparties.~~
- ~~▪ CODE MT has the same standard ABI and often it corresponds with it. It may be assigned by Monte Titoli for specific subjects that cannot have an ABI code (e.g. non-banks).~~
- ~~▪ CED CODE assigned by SIA or Monte Titoli.~~
- ~~▪ **BICLEI CODE44 assigned by SWIFT Local Operating Unit (LOU).**~~

Monte Titoli manages the correspondence between the **BICsLEI codes** used for the Settlement Service and encodings used for other services offered.

Participants may ask Monte Titoli to amend the static data in the manner described in paragraph 1.2.3.

1.3 OPERATION OF THE SETTLEMENT SERVICE

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~~Settlement instructions may bring the indication of Indirect Participant to which they are related. To this end:~~

- ~~• for the settlement instructions entered into the Settlement Service by X-TRM Service, the code BIC11 of the Indirect Participants (recorded as specified in paragraph 1.2.1) will be automatically shown on T2S platform as "Client of the Delivering / Receiving GSD Participant "(Party2);~~
- ~~• for the settlement instructions entered by DCP Participants relating to the OTC operations, the same Participants shall indicate in the Party2 the BIC11 that identifies its Indirect Participant and the counterparty Indirect Participant (if any). If the BIC11 used by the Participant to identify the client on whose behalf it operates, does not coincide with that~~

~~resulting in the settlement configurations at Monte Titoli, the DCP shall not fill it in.~~

~~In all that cases where the Party 2 is not indicated the operation is deemed as submitted by the Participant itself.~~

Although not expressly specified or detailed in this document, with reference to the acquisition mode, matching and settlement of transactions, please refer to Document Operating *T2S User Requirements*.

(...)

4. DEFAULT MANAGEMENT PROCEDURE

The procedure applies to all the settlement instructions (related to trades ~~(CTV)~~, repurchase agreements ~~(PCT/PCR)~~ and compensation securities and / or cash ~~(CTC)~~ and resulting from guaranteed market transactions, non guaranteed market transactions and OTC) entered for settlement on Monte Titoli Settlement System and related to the Participants and / or indirect participants, pursuant the to Article 6, paragraph 4 of the Operating Rules.

If a ~~participant~~ **Participant or Indirect Participant** defaults, the procedure activated by Monte Titoli is divided into the following phases:

1. receipt of the declaration of default;
2. Interventions on the settlement system in order to manage the transactions of the insolvent ~~participant~~ **entity**.

The following definitions apply for managing insolvencies:

- **“time of insolvency” or “TOI”, the moment an insolvency proceeding is opened pursuant to article 3 of Legislative Decree 210/2001;**
- **“time of awareness” or “TOA”, the moment Monte Titoli becomes aware of the insolvency status of one of its Participants or Indirect Participants.**

4.1 RECEIPT OF THE DECLARATION OF DEFAULT

This procedure applies when Monte Titoli is notified of a default, declared in Italy or another EU country or extra-EU, pursuant to Article 3(6,7, 8) of Legislative Decree 210/2001.

The procedure is activated by Monte Titoli:

- upon receipt of the notification from the Bank of Italy, or
- when Monte Titoli is aware of insolvency in the manner required by the operational procedures for crisis management, defined in agreement with the T2S System Operator; or by written note by a ~~p~~**Participant** or of a central counterparty provided that the notice specifies that the sender "*under its own responsibility gives notice of the opening of an insolvency procedure under Legislative Decree 210/2001 against [name, **BIGLEI** code, **CED** code, **ABI** code of the insolvent participant]*". This communication must be made by the legal and/or contract representative of the participant or central counterparty.

To this end Monte Titoli has a procedure in place with the Bank of Italy that provides for it to receive notifications pursuant to art. 3 paragraphs 6 and 9 del D. Lgs. N. 210/2001 at the following dedicated address:

insolvencynotification@montetitoli.it

so as to ensure the prompt receipt and appropriate handling of notifications and the timely communication of the moment and the way in which Monte Titoli has been informed of the opening of default proceedings and the operations that follow.

At the same time as it receives **Immediately upon receiving** notification, Monte Titoli:

~~a) activates the technical procedures of the settlement system to suspend the acquisition of new settlement instructions and the changing of the settlement instructions already acquired and related to the insolvent Participant (or Clearing Member);~~

a) **in the case of the insolvency of a Participant, activates the Settlement System technical procedures to block: i) the acquisition of new settlement instructions in the Settlement System that are attributable to the insolvent Participant; and ii) amendments to settlement instructions already in the Settlement System that are attributable to the same entity;**

To this end, Monte Titoli: **(i) blocks the acquisition of settlement instructions in the Settlement System that are attributable to the insolvent Participant through the X-TRM Service; (ii) for direct connections, prevents the insolvent Participant from sending new settlement instructions to the Settlement System, or from amending Instructions already in the System;**

b) **in the case of insolvency of an Indirect Participant, blocks the acquisition of settlement instructions in the Settlement System that are attributable to the insolvent Indirect Participant that are already in the X-TRM Service; allows the Participant that settles transactions on behalf of the Indirect Participant to issue, on its own responsibility and within 2 business days (not including the day of notification), new settlement instructions on the accounts pursuant to article 6, paragraph 4, letter b) of the Regulation, for the sole purpose of exercising retention rights and guarantee rights, within the limits permitted by law;**

c) **cancels the intra-CSD settlement instructions already in the Settlement System that are attributable to the insolvent Participant or Indirect Participant that have already been acquired by the Settlement System, according to methods and timing set out in Chapter 4.2;**

d) **puts a hold on the cross-CSD settlement instructions attributable to the insolvent Participant or Indirect Participant already in the Settlement System, according to methods and timing set out in Chapter 4.3;**

e) **cancels the settlement instructions from the X-TRM Service that are attributable to the insolvent Participant or Indirect Participant that have not yet been input in the Settlement System;**

f) ~~b) informs the p~~**Participants in the system Settlement Service of the activation of the default management procedure, specifying the time at which it started the TOI and the TOA.**

~~in the manner required by the operational procedures of the crisis management, defined in agreement with the T2S System Operator.~~

As regards the notification of the default to the Participants, in order to ensure the unambiguous identification of the participant that has been declared insolvent, Monte Titoli will communicate the **BIGLEI** code, the CED code and/or the ABI code and the corresponding settlement accounts of the default **Participant** or **Indirect Participant**.

Again, with the aim of ensuring the adequate dissemination of the information, Monte Titoli asks Participants to keep updated the data of the subjects Monte Titoli must/can contact for the purposes of the default management procedure **for the same Participants or the clients of Indirect Participants** (names, mailing list, phone numbers, etc.).

This data is collected through the CLIMP application.

4.2 CANCELLATION OF INTRA-CSD SETTLEMENT INSTRUCTIONS

DELETE ALL OF THE PREVIOUS CHAPTER 4.2 AND THE RELATIVE TABLES AND INSERT THE FOLLOWING TEXT

Monte Titoli will proceed with cancelling the intra-CSD settlement instructions in the Settlement System that are attributable to the insolvent Participant or Indirect Participant according to methods and timing set out in the following table.

Settlement instructions	Monte Titoli interventions
Entered prior to TOI and with ISD subsequent to the insolvency date	Are cancelled at the end of ISD, if not settled
Entered prior to TOI and with ISD equal to or prior to the insolvency date	Are cancelled at the end of the day of the insolvency, if unsettled
Entered after TOI, observed prior to TOA and with ISD subsequent to the insolvency date	Are cancelled as soon as possible
Entered after TOI, observed prior to TOA and with ISD equal to or prior to the insolvency date	Are cancelled if unsettled at the end of the day of insolvency
Entered after TOI and observed after TOA	Are cancelled as soon as possible

Notwithstanding the manner and timing indicated above, for settlement instructions attributable to transactions guaranteed by a central counterparty that uses the X-TRM Service to calculate balances (“CCP”), the following apply:

- a) In the case of insolvency of an Indirect Participant that is a “client broker” (“NCM”) tied to a CCP member entity (“GCM”), Monte Titoli cancels only those settlement instructions created between the NCM and GCM that are in the Settlement System, while instructions between GCM-CCP continue to be settled. If the settlement**

instructions were created directly between NCM - CCP, these settlement instructions are cancelled and together with the CCP are re-instructed to a securities account communicated by the GCM to the CCP;

- b) In the case of insolvency of a Participant or Indirect Participant that is an individual or general CCP member, Monte Titoli will cancel all settlement instructions between the Participant, or Indirect Participant, and the CCP, present in the Settlement System as soon as possible.

4.3 INTERVENTIONS ON THE SETTLEMENT INSTRUCTION CROSS-CSD

In the case of default from a ~~direct or indirect participant~~ **Direct or Indirect Participant** to the Settlement Service, Monte Titoli **applies the interventions set out in paragraph 2 to the cross-CSD settlement instructions, substituting settlement cancellation with suspension (hold).**

The cross-CSD settlement instructions on hold are subsequently assigned a unilateral cancellation status by Monte Titoli so that any cancellation requests entered by the counterparty (bilateral cancellation) may be processed by the Settlement System.

- ~~▪ Suspends the liquidation (hold) of settlement instructions with ISD \leq at the default date, relating to operation to be settled cross-CSD at the end of the day of default was declared;~~
- ~~▪ Suspends the liquidation (hold) of settlement instructions with ISD \leq default date, at the end of the planned settlement date ISD.~~

In the case of default of a participant in another CSD in T2S, shall apply the rules established by CSD of the insolvent subject, except for the possibility for Participants of Monte Titoli to suspend liquidation of the settlement Instructions against the default subject.

4.4 INTERVENTIONS ON SETTLEMENT INSTRUCTIONS TO BE SETTLED WITHIN THE FOREIGN SETTLEMENT SERVICE

In the event of default of a participant in the Foreign Settlement Service, upon receiving notice pursuant to Chapter 4.1, Monte Titoli:

- cancels the settlement instructions related to the participant in the X-TRM Service, not yet forwarded to the Foreign CSD.

In the case of default by an entity that a Participant had identified as an Indirect Participant pursuant to article 6, paragraph 4 of the Regulation, upon receiving notice pursuant to Chapter 4.1, Monte Titoli:

- cancels the settlement instructions from the X-TRM Service that are attributable to the insolvent Indirect Participant that have not yet been forwarded to the Foreign CSD;