

CUSTOMER MANAGEMENT

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To all the intermediaries participating in
Monte Titoli custody system

ABI - Associazione Bancaria Italiana

Banca d'Italia and CONSOB

Their seats

Subject: Upgrading in the right issue transaction model

Dear client,

Monte Titoli, in cooperation with the Authorities and its participants, provided to develop an upgrading in the operating model to deal with corporate actions as right issues and exercise of warrant, in order to make the process more efficient and reliable.

This new transaction model is aimed to:

- ✓ guarantee equal conditions to all the final investors, including the ones elected at the maturity date of the corporate action, by releasing all the outturning securities at the same time;
- ✓ make the outturning securities available as earlier as possible after the maturity date of the corporate action;
- ✓ support the harmonization of the Italian market procedures with the International Market Standards for Corporate Actions Processing;
- ✓ have a light impact on issuers and intermediaries procedures, coming from the publication of an integrated offering prospectus as established by art. 95-bis of Law Decree 58/98.

We are currently testing the new procedure, as announced in date 18 October, with the support of our clients who decided to participate in the test group, and it will go live in date 13 December.

Hereafter a description of the main changes occurred is detailed:

1. **a single deadline to send instructions to exercise rights and warrants**, replacing the existing procedure which is scheduled in two different deadlines;

This change is applied to avoid non automatic cash settlement, in order to guarantee transactions to be performed on a fully DVP basis (outturning securities versus cash settlement) at the intended value date;

2. **Outturning Securities are immediately available and fully eligible in the overnight settlement cycle of the first day after the settlement date**, to make Monte Titoli transaction model fully compliant with the Market Standards for Corporate actions Processing;
3. **Cash payments are settled in Target 2 system**, replacing the existing BI-COMP (cash settlement system managed by Banca d'Italia) procedure.

Settlement in Target 2 is processed in two phases: in the first one all debit book entries are registered, while in the second all credit book entries; the separation of cash registrations is allowed by the use of a Monte Titoli “technical account”, operating as bridge among the two steps.

Each intermediary may decide whether to:

- Settle cash in the same account in use for proceeds related to Government Bonds (notified by means of section B6 of form MT 250), so that no further notification to Monte Titoli is required;
- Settle cash in a dedicated account, to be opened in Banca d'Italia according to the in-force procedure; according to this option, the details of the account must be notified to Monte Titoli by means of section B6 of form MT 250.

Shouldn't the intermediary elected in the corporate action be able to make funding for the whole cash settlement, a contingency procedure may be started, to allow a partial settlement of the instructions correspondent to the amount of cash available.

To activate the contingency procedure, a notification must be sent by the intermediaries at the e-mail address helpdeskdomeesticcustody@montetitoli.it; detailing the contact details and the company unit appointed to deal with cash settlement.

In case of no availability of cash at all by the intermediary, instructions will not be executed.

4. Special procedures for cash settlement:

To support funding activities of paying agents, basing on a request of the issuing company, a “*standard multilateral settlement*” system is applicable, in order to net credit and debit positions of the paying agent (when the paying agent is, at the same time, an elected participant).

Corporate issuers may prevent their intermediary accounts to have the automatic cash settlement in Target 2, by making a specific request on this issue.

5. **Implementation in the notifications** addressed to participants and paying agents:

- a. Pre-advice;
- b. funding;
- c. cash settlement;
- d. advice;
- e. reports (cash and securities).

Except for the above mentioned changes, the timeline of the corporate action is already the same (it starts with the announcement of the issuer, then Monte Titoli provides to send the corporate action announcement, then participants send the instructions and finally the transaction is settled).

To support the startup of the new model, a further communication will be sent to our participants, confirming the go live date and detailing the rules to be applied to corporate actions on a rolling basis.

For any further detail refer to the documentation published in our web site www.montetitoli.it, or contact our Operations Department at the phone numbers 0039 0233635 277 (316, 298, 294) or at the e-mail address

helpdesk.CE&IS@montetitoli.it

Finally we remind that, as a consequence of the changes applied to the corporate actions workflow, Borsa Italiana provided to update its regulation, by establishing that listed securities must be made available at the maturity date of the transaction.

Kind regards

MONTE TITOLI S.P.A.
Head of Business Management
(Claudio Anfossi)