London Stock Exchange Group

Monte Titoli

Disclosure Framework
for Financial Market Infrastructures

Responding Institution	**Monte Titoli S.p.A.**
Authority(ies) regulating, supervising or overseeing the FMI	**Banca d'Italia and Consob**
The date of this disclosure is	February 2021
This disclosure can also be found at	www.montetitoli.it

Contents

1. EXECUTIVE SUMMARY

Monte Titoli S.p.A. (hereinafter as “MT” or else the “Company”), in order to be compliant with the Key Consideration 5 Principle 23 of the “Principles for Financial Market Infrastructure” (also named “PFMI”) and the “Disclosure Framework and Assessment methodology”, through the present disclosure provides relevant information to its participants, Authorities and the broader public, to support an accurate understanding of the Company and to improve the overall transparency of its governance, operations and risk management framework.
The public disclosure of quantitative data, complementary to this document, set forth in the “CPMI-IOSCO Public quantitative disclosure standards for central securities depositories”, provides a wide range of regularly updated key quantitative information related to the MT participants, transaction volumes and values, data on financial resources, as expected from the FMIs to support consistent implementation and observance of the PFMI.

Both documents are available on the Company’s website www.montetitoli.it

2. SUMMARY OF MAJOR CHANGES SINCE THE LAST UPDATE

This is the initial version of the Disclosure Framework based on the PFMI, therefore, the c document does not include a summary of major changes which will be then updated upon occurrence.
This document is subject to a regular update following any material changes or at least every two years.

3. GENERAL BACKGROUND ON THE FMI

- **GENERAL DESCRIPTION AND MARKETS IT SERVES**

Monte Titoli is the central depository for the Italian financial market and one of the main ones in Europe with over € 3.32 trillion of assets under custody.
Monte Titoli S.p.A. was founded in 1978 and since 1986 has been the Italian Central Securities Depository for all Italian corporate financial instruments..
In 2000 Monte Titoli became the sole Italian securities depository following the decision of the Bank of Italy to renounce its role as depository for government bonds and centralise operations through Monte Titoli.
In 2002, Monte Titoli was acquired by the Italian Stock Exchange. and has been part of the LSEG since 2007.
In 2011, Monte Titoli was among the first European CSDs to participate (right from the first wave) in the Target2 Securities Project, which was promoted by the European Central Bank (ECB).
This project began to take its first real steps the following year, leading up to migration onto the shared regulatory platform, successfully completed in August 2015 as far as the Italian market is concerned.
Today Monte Titoli is linked up with nearly all the major CSDs of other European countries, as well as those of some non-European ones.
In December 2019 Monte Titoli obtained the license to operate pursuant to the European CSD-R Regulation.

Monte Titoli offers settlement and custody services on Italian and foreign securities on over 40,000 financial instruments including bonds, government securities, debt securities, ETFs and certificates.
Its clients are 188 intermediaries, including commercial banks, global custodians, broker / dealers, Italian and international market infrastructures and over 2,600 issuers.
Monte Titoli offers its customers a highly efficient and fully automated operations and provides support in every phase of the relationship..

With regard to Custody, Monte Titoli offers notary and central maintainace services on any type of non-derivative financial instrument, Italian or foreign, which can be admitted to the Monte Titoli Custody system and settled by accounting entries without any physical movement of financial instruments, with high safety and efficiency standards.
Almost all of the centralized financial instruments are managed in a dematerialized form; the financial instruments still represented in paper form are grouped into large denomination certificates (global certificates or maxi certificates).
Italian and foreign operators, both intermediaries and issuers can access the Custody Service as well as clearing and settlement institutions (CCPs and CSDs).

- **GENERAL ORGANISATION OF THE FMI**

Monte Titoli has adopted a solid system of governance in compliance with EU Regulation no. 909/20914 ("CSDR") through a traditional system of Administration and Control, whereby corporate management is the responsibility of the Board of Directors and control functions are allocated to the Board of Statutory Auditors (organizational chart has been reported in **Error! Reference source not found.**).

Monte Titoli's Corporate Governance system is based on the:

- centrality of the **Board of Directors**, responsible for the strategic guidance and supervision of the Company's overall business activities, with policy-making powers in relation to the overall administration and the authority to intervene directly in a series of significant decisions necessary or useful to achieve the company purpose through the Chief Executive Officer;the Board appointed the CEO/General Manager and entrusted him with ordinary management powers, including the coordination of CRO and CCO;
- main role of **Independent Directors** who are directly committed to task where there are potential conflict of interests, such as: risk management and remuneration of the directors and key staff involved in control functions;
- strategic advising of **several Committees**, in compliance with the applicable regulatory framework, that Monte Titoli has established in order to provide support to the Board in its activity and procedures that ensure the accountability to the stakeholders, such as:

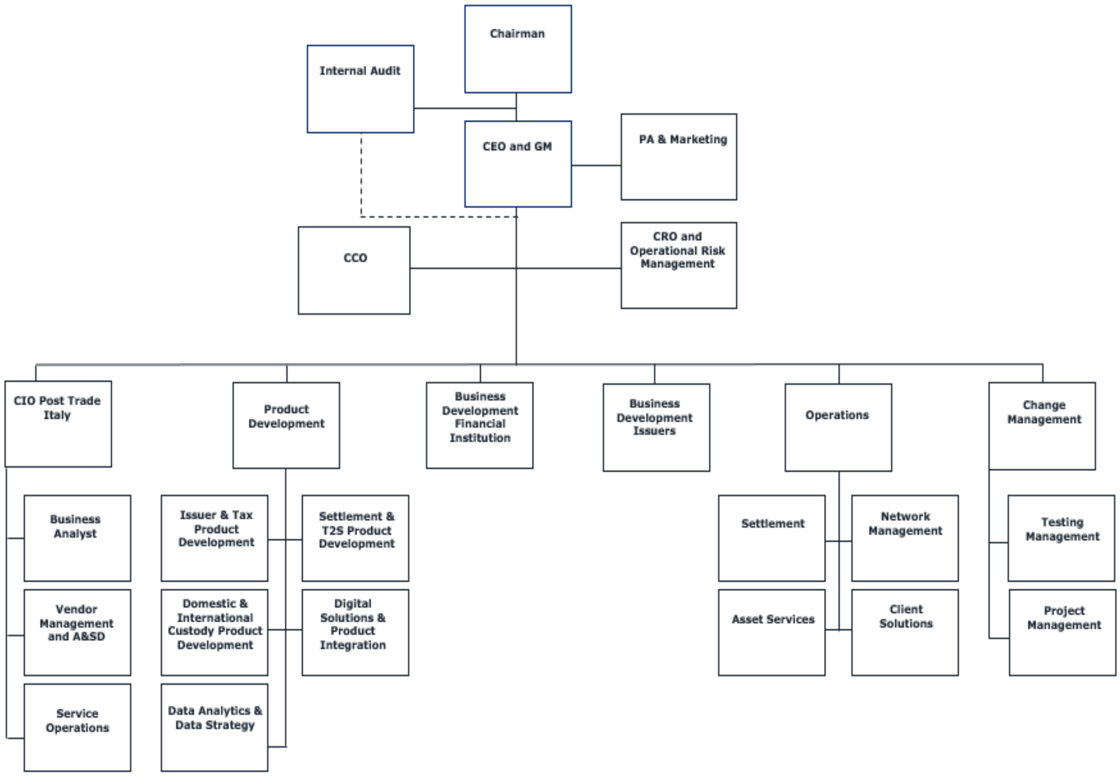
  - **Audit Committee**: establish the functioning of the Audit Committee ("Committee"), provided for by article 48 of the CSDR/RTS. The Committee identifies with the Board of Statutory Auditors. The provisions of this Terms of Reference are to be referred to the Board of Statutory Auditors. The Committee oversees the adequacy, completeness and actual functioning of the internal controls system set out by the Company. For such purposes it obtains any information considered relevant and the related company documentation from the other corporate bodies and from the managers who are responsible for the different Company functions.

  - Risk Committee: pursuant to article 48 of the Regulation (EU) no 392/2017 and article 17 of the MT' s by-laws ("By-laws"), is responsible for advising the Board of Directors on the company's overall current and future risk tolerance and strategy. In particular, the Committee will give its advice on Monte Titoli's Risk Appetite Framework and other relevant documentation;

- **User Committee**: in compliance with article 28 of the Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 and article 17 of its by-laws. The User Committee shall advise the Board of Directors on key arrangements that impact on issuers and participants to the Company, such as: *a)* criteria for the admission, suspension, exclusion for issuers and participants; *b)* penalty mechanism of the Settlement Service; *c)* procedures for managing the default of a participant to the Core Services*; d)* service levels of the settlement service as long as provided and to the extent allowed by the T2S Framework Agreement.

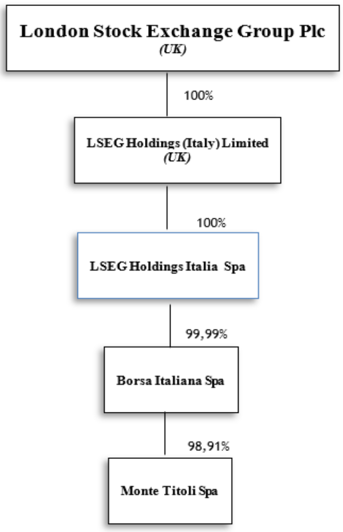
- **Remuneration Committee**: The Committee, appointed by the Board of Directors, has been established in order to advise the Monte Titoli's Board of Directors on the remuneration policy. It also shall oversee, exercising its competent and independent judgment in putting forward proposals and reviewing its practical operation on a regular basis.

- key role of the **Board of Statutory Auditors**, which is composed of independent members directly appointed by Shareholders, and also acts as Audit Committee and, according to the Italian Corporate Law, is entrusted with the responsibility of supervising a wide set of aspects, ranging from the compliance with the law and the Company By-laws, to the efficiency of the internal control system, the internal audit system and the risk management system, statutory audit of the annual accounts, the independence of the statutory auditor or the statutory audit company;
- an effective **internal control system** and **pro-active risk management system**;
- a **Code of Conduct** and its solid principles of conduct, such as independence, impartiality, confidentiality, honesty, loyalty, fairness, and professional competence in the which is intended to guarantee the independent, efficient and correct performance of the business activity. Such code is supported by a strict discipline concerning potential conflicts of interest, the protection of the customers, and the orderly execution of the services.



- **LEGAL AND REGULATORY FRAMEWORK**

Monte Titoli was launched in 1987 Monte Titoli has been part of the LSEG since 2007 and it is controlled by Borsa Italiana S.p.A., as specified in Figure 2:



Monte Titoli, as leading company in post-trade services and part of the London Stock Exchange Group, has obtained from the Consob Supervisory Authorities and the Bank of Italy, the authorization to provide services as a central depository in accordance with the CSDR Regulation (EU) n. 909/2014 on the 18th of December 2019.

The Central Securities Depository Regulation (CSDR) entered into force in order to regulate Central Security Depositaries activities of EU member countries.
CSDR plays an essential role for post-trade harmonization efforts in Europe, as it establishes authorization requirements and common rules for the exercise of the central depository activity, with particular reference to the securities settlement service. The CSDR considers CSDs as critical market infrastructures with guiding principles of regulatory provisions aimed to: (i) increase the safety, reliability and efficiency of CSDs; (ii) ensure that CSDs are subject to a common regulatory framework in the European Union; (iii) harmonize the legal aspects related to the settlement of securities; (iv) create a level playing field among CSDs that stimulates competition and interconnection between systems.
Monte Titoli is the central depository for the Italian financial market and one of the main ones in Europe. It offers settlement and custody services on Italian and foreign securities on over 40,000 financial instruments including bonds, government securities, debt securities, ETFs and certificates. It has clientele composed by members, including commercial banks, global custodians, broker / dealers, Italian and international market infrastructures and issuers. Monte Titoli offers its customers a highly efficient and fully automated operations and provides support in every phase of the relationship with our customers.
The General Terms and Conditions Part I, apply to Monte Titoli and to the other entities of LSEGroup, are expressed in general terms which should then be applied in the context of the services further described in other contractual documents (General Terms and Conditions – Part II, the Rulebook and the Instructions) for each company. The Rulebook and the General Terms and Conditions are published on the Company's website.
The above mentioned provisions and rules grant a high degree of certainty because Monte Titoli operates according the above mentioned rules and general conditions only and under the supervision of the Italian Authorities Banca d'Italia and Consob.
Upon amendment of the Rulebook and the General Terms and Conditions, Monte Titoli shall inform the clients of such amendments by posting the text thereof on its website at least fifteen calendar days before the effective date of the amendments. In such communication shall specify the time within which the clients may exercise the right of withdrawal. In no circumstances may such time be less than ten calendar days from the date of the communication.

- **SYSTEMS DESIGN AND OPERATIONS**

As manager of custody, pre-settement and settlement services and with its participation in T2S and in foreign custody and settlement systems,Monte Titoli performs several activities linked to the whole lifecycle of a transaction on financial instruments.

Pre-settlement service allows the routing of markets and/or OTC contracts to settlement systems.

X-TRM is Monte Titoli's pre-settlement platform which manages a wide range of post trading activities: settlement management, enrichment through the automatic valorization of settlement fields, interposition of the central counterparty, calculation of net balances. It also embeds sophisticated features for the acquisition, acknowledgment, confirmation and forwarding of transactions, management of corporate actions on failing transactions and operational reporting.
Thanks to its data enrichment functions, X-TRM allows complete automation of the entire post-trade process from negotiation to contract execution. With its interposing and position netting capabilities, X-TRM offers to central counterparties a set of complex tools for effective

risk management.

Settlement service is managed through T2S, the platform managed by the ECB.
T2S guarantees real-time DvP settlement in Central Bank money through the use of an "integrated model": both cash liquidity and securities are managed through a single IT platform, therefore the National Central Banks defines specific cash accounts (DCA - Dedicated Cash Account) in which users can exchange liquidity with the T2 payment system (for EUR currency). Clients can access T2S directly (DCP mode) or indirectly (ICP mode).

The settlement service offers all the functionalities of the T2S platform to both DCP and the ICP, in particular: liquidity management and securities accounts, management of the life cycle of transactions from validation to settlement, matching and related features such as the Hold / Release mechanism, auto-collateralisation both 'on stocks' and 'on flows' and information services

The Asset servicing, which includes the Custody services, allows customers, issuers and intermediaries to manage their securities in an efficient and automated manner.

Monte Titoli can offer a wide range of services that guarantee intermediaries the complete, correct and efficient functioning of the administration of financial instruments, both Italian and foreign, centralized at Monte Titoli, belonging to the following categories: government bonds, corporate bonds (including asset backed securities), shares, warrants / covered warrants, mutual funds (closed-end funds, real estate funds and ETFs)

With reference tp the centralized management service on Italian public debt securities, it has to be noted that Monte Titoli is currently the only allowed depository. Monte Titoli also guarantees the execution of corporate actions in an automated manner and in line with international standards.

Monte Titoli has a direct relationship with the issuing companies of financial instruments under Italian law, and also with the main foreign custody systems for foreign financial instruments, Monte Titoli is therefore able to receive all corporate actions information directly from the official source (the issuer or the issuer’s CSD) and forward it promptly, with the same level of detail, to its Clients.

Monte Titoli can manage any type of corporate actions in compliance with International standards: dividend payments (equities), income (funds) and interests (bonds and ABS), voluntary corporate actions (e.g. capital increases, warrant exercises), mandatory corporate actions (e.g. mergers, demergers, free share assignments, free capital increases)

For transactions involving the management of payments (payment of dividends, proceeds, interest and payable capital transactions), the issuer elects a paying agent to whom the related instructions for the payment will be sent automatically; when payments are released by the Issuer CSD of another country, Monte Titoli receives the funds and credit them to its Clients with the same value date whether it is Euro or other currency.

Monte Titoli’s corporate actions service offers the following functionalities: receiving information on corporate actions, including those necessary for voting in meetings, automatic collection of fees accrued on centralized financial instruments both in Euro and other currencies, complete information on payments, both forecasting and settlement of proceeds, participation to voluntary and mandatory corporate actions in Euro and other currencies.

Asset services Includes also the FIS & CPA services for sending shareholder data to issuers, provide notification for registered shareholders, from intermediaries to issuers, related to: participation in the General Meeting (CPA), dividend payment and right issue (FIS), aimed at updating the shareholders register.

The services offered within FIS & CPA are: notifications sent by the intermediaries are automatically checked and matched before being made available for the intended issuers with creation of a log file detailing the result. Notifications that are formally correct are automatically processed and made available to the issuers. Notifications containing formal mistakes are registered in standby status and may be corrected or forwarded to the issuers, at intermediaries' discretion. On-line alerts are automatically created, for intermediaries and issuers, in order to keep track of the deadlines to be respected for sending the files (intermediaries) and for receiving them (issuers). Intermediaries can send partial notifications and send notifications on behalf of downstream correspondents. Notifications sent via CPA & FIS services are automatically registered in RCC service, allowing intermediaries to receive the fees that are to be paid by the issuers.

RCC is the service for the recognition to issuers of the fees due to intermediaries for interventions made by the latter in the securities files of their customers' shareholders. Client fees settlement service (RCC) allows settlement of fees that are to be paid by issuers to intermediaries in connection with the notifications of the shareholders details for each corporate action in the securities account of the final investors. The service is offered in both interactive mode (via MT-X platform) and non-interactive mode (only calculation and payment of the fees).

Interactive mode provides the full range of facilities, including: Calculation of the fees to be settled, access to detailed payment reports, on-line storage of all paid reports, modification of the fees drivers and of the amounts to be paid (only for issuers), a tool for issuing and receiving invoices related to fees (applicable only for fees coming from notifications referring to General Meetings), the fees are automatically settled, at the expected deadlines, in the BI-COMP system (Banca d’Italia cash settlement system).

Fiscal services are part of asset services: Monte Titoli offers to non-resident intermediaries a range of solutions and services on Italian financial instruments. Monte Titoli may act on behalf of non resident Intermediaries who qualified themselves as second level bank in accordance with the procedure set out in Article 7 of Legislative Decree No. 239/1996 and D.M. 632/1996. To this end, intermediaries will have to send the official communication to the Revenue Agency (form 118 / IMP), with which the intermediary declares the 2nd level Bank status and indicates Monte Titoli as the tax representative in Italy, for bonds portfolio.

4. PRINCIPLE-BY-PRINCIPLE SUMMARY NARRATIVE DISCLOSURE

PRINCIPLE 1: LEGAL BASIS

An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.

Summary Narrative

Key consideration 1: *The legal basis should provide a high degree of certainty for each material aspect of an FMI's activities in all relevant jurisdictions.*

According to both European (article 10 CSDR) and Italian Law (article 79-undecies Consolidated Law of Finance), a company needs to be duly authorised by the competent authority (Consob and Banca d'Italia in Italy) to operate as central security depository ("CSD"),as defined within Article 2(1)(1) CSDR.
According to article 43 CSDR, for the purpose of its authorization and supervision, as well as for the information of its clients, a CSD shall have rules, procedures, and contracts that are clear and understandable for all the securities settlement systems that it operates and all other services that it provides. It also holds the obligation to design its rules, procedures and contracts so that they are enforceable in all relevant jurisdictions (including in case of the default of a participant). Where it wanted to conduct business in different jurisdictions it has to ensure to identify and mitigate the risks arising from potential conflicts of law.
According to article 31 CSDR, when applying for the authorization, it has to include all information necessary to enable the competent authority to assess that the rules, procedures, and contracts are clear, understandable and enforceable in all relevant jurisdictions in accordance with Article 43 CSDR.
In compliance with the regulatory requirement established by article 16 et seq. CSDR, on 19th December 2019 Monte Titoli received from Banca d'Italia such authorization to operate as a CSD. Currently, Monte Titoli is the only authorized CSD in Italy.

All the above considered, the following laws, regulations and contractual framework are applicable to Monte Titoli and to the services it provides:

Legislative Decree no. 58 of 24th February 1998, as subsequently amended (hereinafter, "Consolidated Law on Finance");
Legislative Decree no. 210 of 12th April 2001 implementing Directive 98/26/CE, as subsequently amended (hereinafter, "Finality Law");
Banca d'Italia and Consob Joint Regulation governing central counterparties, central securities depositories and central securities maintenance of 13th August 2018 (Single Act on Post-Trading);
The CSD Rules, as amended, approved by Banca d'Italia and Consob and related Instructions; and
General Conditions (including Part I, Part II and related Annexes).

The legal framework under which the CSD operates (including CSDR, Legislative Decree 58/98 ("Finance Law") and the implementing Regulations, as well as the local legislations implementing the Financial Collateral Arrangements Directive (Legislative Decree 170/2004, "Collateral Law") and the Settlement Finality Directive (Legislative decree of 12 April 2001, n. 210 "Finality Law") (jointly "Legal Framework") provide for a clear and effective legal basis regarding each material aspect of the CSD activities such as right and interests in the financial instruments, settlement finality, immobilization and dematerialization of securities, collateral arrangements.
Such legal basis supports the enforceability of such material aspects of the CSD operations and ensures that actions undertaken by the CSD under rules and procedures are compliant with such legal basis will not be voided, reversed or subject to stays.
For example:

1) the Finality Law (Article 2) specifies that no actions, including any actions aimed at obtaining that the transaction is declared void, may adversely affect, vis-à-vis the system, the finality of transfer orders, of the netting and of any payments and transfers resulting therefrom, among participants to the system.
2) the Finance Law clearly defines the legal effects arising from a credit book-entry of dematerialized securities on securities accounts, thus making securities transfers valid and enforceable:
    a. the person in whose name the account is kept has full and exclusive title to exercise any rights attaching to the financial instruments credited to the account, in accordance with the legal regime applicable to any such financial instruments and is entitled to transfer such rights in accordance with Italian law; and
    b. the person in whose name the book-entry is made cannot be subject to any claims or actions by any of the previous owners of the financial instruments, provided that the rights were acquired pursuant to a good title and in good faith.
3) The Finance Law guarantees that the transfer of paper securities immobilized at the CSD securities has the same effects as a transfer made pursuant to the rules governing the circulation of the relevant financial instruments.

4) The legal framework provides for a set of rules aimed at protecting rights of the account holders on securities held by intermediaries with a CSD. (See following paragraph).

Protection of Participant Securities

Protection of rights and interests in financial instruments according to the above is granted by segregation rules provided by the legal basis (including Art. 38 of CSDR) aimed at protecting the CSD's participants and their clients against the insolvency of another CSD participant or of the CSD.
The relationship between the account holder and the intermediary is qualified as deposit under Italian law.
According to Article 38(7) CSDR, Monte Titoli is prevented to use financial instruments recorded in the account of its participants without having acquired the previous written consent from each participant. Under the current regulatory and contractual framework Monte Titoli is not allowed to use participants' asset for any purpose so no such a consent has been acquired.
Italian law provides for segregation rules applicable to intermediaries aimed at protecting the assets they hold on behalf of their clients against the insolvency of the intermediary itself or of any upper-tier intermediary.
The Intermediary is required to maintain full segregation of the securities of its clients form its own securities and segregation must be evidenced in the accounting record of the Intermediary. Moreover, the Intermediary shall record, for each account holder the financial instruments held, their transfer, the rights exercised and any restrictions in separate accounts, separated from each other and with respect to any of the relevant accounts of the Intermediary itself.
According to Art. 22 of the Consolidated Financial Law, in the provision of the investment services and ancillary services, the financial instruments belonging to their clients, held for any reason by investment firms and banks for any reason are for any purpose separate estate from that of the intermediary and of other clients. Actions in respect of such assets cannot be brought by creditors of the intermediary or on behalf of such creditors, or by creditors of the depositary or the sub-depositary if any, or on behalf of such creditors.
Based on the aforementioned segregation rules, Intermediaries must hold at any sub-depositary the securities belonging to the clients in one or more accounts opened in their own name, with an indication that the securities belong to third parties. Moreover, such accounts must be segregated from the Intermediaries' own account.
The operation of segregation rules applicable to intermediaries, as described above, together with segregation Rules set forth in Article 38 of CSDR prohibit without exception:

- the creditors and the liquidator ("commissari liquidatori") of the Intermediary form claiming form any "sub-depositary" securities belonging to the Intermediaries' clients and
- the creditors and the liquidator of the CSD to exercise any actions or attachments thereon.

More details concerning the asset protection and the legal implications of segregation are available in "Description of levels of segregation according to article 38 (6) of Regulation n. 909/2014" which is published on www.montetitoli.it .

Dematerialisation and immobilisation

Italian law provides for a clear and sound basis for admission and book-entry transfers of dematerialised securities. Pursuant to the Italian Consolidated Law of Finance, as codified in article 83-bis, all (transferrable) securities admitted to trading or traded on an Italian or other European Union country trading venue with the consent of the issuer must be registered by way of book-entry in an account held by the issuer of the securities or by one of the intermediaries participating the system. Therefore, securities are admitted in Monte Titoli and circulate via book-entry.
In relation to the securities accounts held by participants with Monte Titoli, the entitlement to securities held with Monte Titoli is regulated by Italian Law; similarly, the rights in rem with respect of securities held by the account holder with an Italian intermediary is regulated by Italian Law.

Settlement Finality

Settlement finality is governed by the Settlement Finality Directive implemented with the Finality law. This legislation effectively ensures irrevocability and finality of transfer orders executed in a securities settlement system ('System'). Monte Titoli, is designated as a 'System' under Italian law. In case of insolvency proceedings affecting a participant to the System, the law refers to the rules of the System to determine the moment of (i) entry of transfer orders in such System, (ii) irrevocability of transfer orders (if any such moment is determined) and (iii) finality of transfer orders executed by the System.

According to Finality Law (article 2), transfer orders, netting, and any payments and transfers deriving therefrom are binding on those participating to System (including on Monte Titoli) and - in the event of an insolvency proceeding has been opened against a participant - on third parties, including the relevant Authority responsible for the insolvency proceedings, provided that the transfer orders:

a. were entered into the System before the moment of opening of the insolvency proceedings;
b. were entered into the System after the moment of opening of the insolvency proceedings and carried out on that day, in the event settlement agent or central counterparty or clearing house proves that at the time of entry they were not aware, nor should have been aware, of the opening of the insolvency proceedings.

Furthermore, in the event of an insolvency proceeding being opened against a participant, the rights and obligations arising from, or in connection with, the participation of that participant shall be determined by the law governing that System (article 7 Finality Law). In light of the above, the only applicable law (in determining the rights and the obligations of a participant upon the opening of an insolvency proceeding) is the Italian law.

The finality rules of Monte Titoli System are set out in the Monte Titoli CSD Rules approved by Bank of Italy and Consob s Such documents are published on www.montetitoli.it

Linking to other CSDs

As a general rule, for securities held (through links) with other central securities depositories (directly or through an intermediary), the transfer of securities is governed by the rules of the receiving CSD, including finality rules.
Before opening links with other foreign central securities depository, Monte Titoli performs an initial verification of the local legislation to ensure that securities held with such foreign central securities depository benefit from a level of asset protection comparable to the level of asset protection in their own jurisdiction. This assessment is performed both in case of links with EU and non-EU CSDs. A review of the local legislation is performed periodically.

As to links with other T2S CSDs, the "Collective agreement" between the European Central Bank (ECB), the national central banks operating TARGET2 and the central securities depositories which have migrated to T2S, supports legal certainty in cross border provides a definition of common moment of entry of the transfer orders into a system and of common moment of irrevocability of such transfer orders. Such moments are determined by reference to procedures on the T2S platform.

Default procedures

Please refer to Principle 13 – Participant default rules and procedures.
Monte Titoli has put in place detailed recovery and resolution plans for itself. For more details please refer to Principle 3 – Framework for the comprehensive management of risks.

Key consideration 2*: An FMI should have rules, procedures, and contracts that are clear, understandable, and consistent with relevant laws and regulations.*

According to art. Article 43 of CSDR, "Legal risks"
1. For the purpose of its authorization and supervision, as well as for the information of its clients, a CSD shall have rules, procedures, and contracts that are clear and understandable for all the securities settlement systems that it operates and all other services that it provides.
2. A CSD shall design its rules, procedures and contracts so that they are enforceable in all relevant jurisdictions, including in the case of the default of a participant.

The main contractual documentation (the "Documentation") of Monte Titoli consists of:

- CSD Rules
- Operational Instructions
- Monte Titoli Terms and Conditions
- Annexes to Monte Titoli Terms and Conditions (where applicable)

The set of contractual documentation represents the basis on which the relationship between Monte Titoli's clients (the "Clients") and the applicant CSD on one side, and providers and Monte Titoli on the other side, is executed and disciplined. The Documentation is drafted in a clear and readily understandable wording, adhering to the common market standard language and to the applicable legal and regulatory framework - listed under Key consideration 1 - and has been approved by the competent authority when granting the relevant authorisations to Monte Titoli.
Furthermore, the Documentation which is required to be signed by Monte Titoli's clients (i.e. intermediaries and issuers) constitutes general terms and conditions prepared by one of the contracting parties according to Article 1341 and 1342 of the Italian Civil Code. Such documentation is effective towards the other party if, at the time of the formation of the contract, the latter knew them or should have known them by using ordinary diligence. The Contracts through which Monte Titoli offers its services (both core and ancillary), clearly state the hierarchy and the rules to be applied in case of conflict or incompatibility between the different pieces of the Documentation; such pieces of Documentation are clearly connected to each other by clear and understandable cross references and also through the use of an harmonized set of definitions.
The applicable law (i.e. Italian Law) and the relevant jurisdiction (i.e. Italian Courts) are clearly stated in any Contract.
Articles 1341 and 1342 of the Italian Civil Code does not apply to main Contracts Monte Titoli has entered into as client or recipient of services, as they have been negotiated bilaterally and fully accepted by signing parties.

The Documentation is always updated in accordance to the terms and modalities for unilateral amendments set forth in the contract, and it is published on the website before the coming into force of such amendments with a mark-up showing the applied changes.
General Conditions are always available in the Italian and English versions, and the translation is executed by qualified translators expert in the field. However, the same provides that the parties agree that in the event of a discrepancy between the two versions, the version in the Italian language shall prevail. Major changes to the CSD Rules and the General Conditions are preceded by market consultation. Clients are thus informed in this context and they are able to raise any request for clarification or further information: such feedbacks are taken into account when considering amendments to the wording of the relevant provisions. Finally, the CSD Rules and amendments are subject to the approval of the competent authorities.

Monte Titoli's Rules procedures and contracts have been examined and approved by the competent authorities, as further assurance that are consistent with relevant laws and regulations.

Key consideration 3: *An FMI should be able to articulate the legal basis for its activities to relevant authorities, participants, and, where* *relevant, participants' customers, in a clear and understandable way.*

Monte Titoli regularly describes the legal basis for its activities to relevant Authorities, its participants members, and even the general public. Monte Titoli's Regulations and technical documentation are accessible also in English language on the Company's website. Besides, Monte Titoli provides answers to relevant questionnaires regarding the post-trading industry that, giving an overview of the system, contribute to the knowledge of its legal framework. Monte Titoli's contractual framework makes explicit reference to the applicable laws and regulations, where necessary, and includes provisions clearly stating which are the governing documents of each service.
Laws and regulations, published on the Italian official journal (named "Gazzetta Ufficiale"), are also available in Italian and English on Authorities' websites.

Key consideration 4: *An FMI should have rules, procedures, and contracts that are enforceable in all relevant jurisdictions. There should be a high degree of certainty that actions taken by the FMI under such rules and procedures will not be voided, reversed, or subject to stays.*

As stated in Key consideration 1, the legal framework under which the CSD operates, including CSDR, Legislative Decree 58/98 and the implementing Regulations, as well as the local legislations implementing the Financial Collateral Arrangements Directive (Legislative Decree 170/2004, "Collateral Law") and the Legislative decree of 12 April 2001, n. 210 "Finality Law" (jointly "Legal Framework") provide for a clear and effective legal basis regarding each material aspect of the CSD activities such as right and interests in the financial instruments, settlement finality, immobilization and dematerialization of securities, collateral arrangements.
Such legal basis supports the enforceability of such material aspects of the CSD operations and ensures that actions undertaken by the CSD under rules and procedures are compliant with such legal basis will not be voided, reversed or subject to stays. With respect to this, examples are provided under Key consideration 1.

In relation to the enforceability of the Documentation, Monte Titoli has made assessments on the potential invalidity of single main clauses which could affect the entire validity and enforceability of the Contracts. In particular, with reference to the clause governing Monte Titoli's contractual liability within General Terms and Conditions, Monte Titoli obtained an opinion form a law firm assuring that the current liability framework is in line with applicable Italian law and therefore valid and enforceable.

Art. 43 CSDR already requests enforceability in all relevant jurisdictions, including in the case of the default of a participant. For the purpose of obtaining the authorization, Monte Titoli has undertaken a detailed legal analysis to evaluate the existence of impediments to enforceability. Such analysis is based on the evaluation of the applicable law and relevant jurisdiction, therefore properly taking into account such aspects. Monte Titoli has been granted the authorization to operate by the competent authority.

In addition, the enforceability is also ensured by Mote Titoli's Rules, which have to be accepted and apply to any participant in the system Specifically, the existence of any impediments to the application of the General Terms and Conditions, the Rules and the related Instructions for the admission of non-EU entities is ruled by Article 6 of the New Rules For the purpose of such evaluation, Monte Titoli reserves the right to request specific information or certifications, including legal opinions or agreements. Such requests for information might also refer to the validity of the choice of law and competent jurisdiction. Moreover (Article 59), Monte Titoli reserves the right to request non–EU Intermediaries information or certifications to evaluate the requirements set forth by Article 89 para. 2 and 5 of Commission Delegated Regulation (EU) 2017/392 of 11 November 2016.
In addition, according to the New Rules (Article 59), participants are entitled to request Monte Titoli to qualify their clients, including non-EU clients, as "Indirect Participants" if the participant has verified that in case of opening of an insolvency procedure with respect of the client, Monte Titoli Rules and Measure dated 2 August 2018 issued by Bank of Italy and Consob pursuant to Article 10 paragraph 4 of Legislative Decree 210/2001 can be applied with no impediments, taking into account the regulatory framework applicable to the client.
In the revised version of Monte Titoli Rules, new provisions on admission requirements for financial instruments have been included

In particular, Monte Titoli assesses the provisions of corporate law, or any other similar law, of the legal system that the issuer declares to be applicable to the instruments, in order to verify whether specific measures are necessary to allow the issuer and intermediaries to comply with these provisions and consider such assessment when deciding to accept or reject the admission pursuant to Article 49, paragraph 3 of the CSDR. For the purpose of such certification, Monte Titoli reserves the right to request issuers to provide a legal opinion of a lawyer qualified to practice in the jurisdiction that the issuers declare to be applicable to the financial instruments. Moreover, as stated above, a general rule for the admission of non-EU entities, Monte Titoli will evaluate the existence of impediments to the application of the General Terms and Conditions, the Rules and the related Instructions and reserves the right to request non-EU entities specific information of certifications, including legal opinions or agreements. Such requests for information might also refer to the validity of the choice of law and competent jurisdiction.

Key consideration 5: *An FMI conducting business in multiple jurisdictions should identify and mitigate the risks arising from any potential conflict of laws across jurisdictions.*

It is worth mentioning that in line with Key consideration 5, art. 43 CSDR requires that a CSD conducting business in different jurisdictions "shall take all reasonable steps to identify and mitigate the risks arising from potential conflicts of law across jurisdictions". An analysis has been developed in such respect in order to obtain the authorisation. The competent authorities have granted the authorisation to operate to Monte Titoli.
As already mentioned under Key consideration 2, the Contracts through which Monte Titoli offers its services (both core and ancillary) clearly state the hierarchy and the rules to be applied in case of conflict or incompatibility between the different pieces of the Documentation; such pieces of Documentation are clearly connected to each other by clear and understandable cross references and

also through the use of an harmonized set of definitions.
The CSD conducts business in different jurisdictions and, as consequence, a potential conflict of laws might arise in case:

1) it offers its services to participants based in foreign jurisdictions;
2) it offers the notary service and the central maintenance service in relation to securities regulated by foreign jurisdictions (according to Article 23 of CSDR);
3) It holds securities on behalf of its customer through a link with a foreign CSD.

PRINCIPLE 2: GOVERNANCE

An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.

Summary Narrative

Key consideration 1: *An FMI should have objectives that place a high priority on the safety and efficiency of the FMI and explicitly support financial stability and other relevant public interest considerations.*

MT is supervised by Bank of Italy, with reference to the stability and the reduction of systemic risk, and by Consob, with respect to transparency and investor protection. Italian law provides the two above-mentioned Authorities with extensive regulatory, informative and enforcement powers vis-à-vis MT.

The Board of Directors is responsible for the strategic guidance and supervision of the Company's overall business activities as well as of the risk management framework, so that the risks assumed in the framework of the Company's business activities are consistent with the strategic guidelines. Top and senior management is responsible for the alignment of MT's operational processes and procedures to the aforesaid guidelines.
Among its main objectives, MT, through the mitigation of risk and the provision of sound risk management, ensures the correct and smooth functioning of the securities depository and settlement services, by doing so, contributes to the protection of MT participants, their clients and the markets served, supporting the stability and efficiency of the financial system.
MT's main objectives, also mentioned in the MT's Regulations, specifically place high priority on safety and efficiency by ensuring:

• the maintenance of an efficient physical and logical data protection related to the system;
• the adoption of recovery, re-activation and restoration procedures for data processing to ensure the service continuity;
• the quality of settlement process, position keeping and Straight-through Processing (also named "STP") post-trading functionalities.
Furthermore, in order to assess whether the aforesaid objectives have been achieved, MT adopts:
• the Risk Register, set up according to the guidelines defined in the "Operational Risk Manual", in order to ensure the mapping, the periodical assessment of the relevant risks for MT and the overall safety of the operational process;
• a governance control framework, whereby the second and third level controls aim, inter alia, at assessing the compliance of the Company with the goals set and reporting the results to the Board of Directors, Board of Statutory Auditors and top management.

As an entity authorized to operate as CSD and due to its role as systemically important market infrastructure, MT contributes to support, in cooperation with the other FMIs, the financial stability through the adoption of a clear organizational structure with well-defined, transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks to which it is or might be exposed, and adequate internal control mechanisms;
The support of public interest considerations, which for MT consists in protecting participants and other relevant stakeholders, is ensured by a range of measures, in particular:

• Business Development team covers services offered by Monte Titoli. The team actively engages regular meetings with domestic and international clients and prospects to ensure good level of satisfaction on services offered, presentation of roadmap and new services and main industry trends;

• establishment of a Post Trade Participant Committee (also "PTPC") with all its domestic clients and the attendance of the Authorities as observers - with the aim of: (i) evaluating operational needs and implementing the related new services; (ii) identifying new initiatives in order to increase post trade efficiency of guaranteed transactions (iii) present roadmap;

• the undertaking of consultation processes in the circumstance of amendments to MT's Regulations, in case of implementation of new regulations or new services;

• meetings shall be arranged, upon occurrence, with Bank of Italy, Consob and Ministry of Economy and Finance, depending on the specific subject;

• the involvement of the Risk Committee, if the topic is within its remit, in order to provide a mandatory non-binding opinion.

Key consideration 2: *An FMI should have documented governance arrangements that provide clear and direct lines of responsibility and accountability. These arrangements should be disclosed to owners, relevant authorities, participants, and, at a more general level, the public.*

Monte Titoli has defined a clear set of governance arrangements in accordance with the applicable regulatory framework (EU Regulation n. 909/2017 (in particular articles 26, 27 and 28 of CSDR and EU Regulation n. 392/2017).
The Governance arrangements of Monte Titoli are documented through a series of relevant internal Rules, policies, procedures and manuals and grouped into an overall document which includes a detailed description of the following:
(a) the composition, role, responsibilities, procedures for appointment, performance assessment and accountability of the

management body and of its risk monitoring committees;
(b) the structure, role, responsibilities, procedures for appointment, performance assessment and accountability of the senior management;
(c) the reporting lines between the senior management and the management body.
In addition the document provides an overview of MT internal controls framework and other MT governance policy and procedures required by CSD-R to enable the Board of Directors and Competent Authorities to evaluate the overall compliance of MT's governance system.

Monte Titoli is a joint stock company adopting a system of management and control where competences are split between the management body – identified in the Board of Directors – and the control body, the Board of Auditors. In accordance with the relevant domestic company law provision, Monte Titoli's By-laws set out the main governance arrangements (organizational and capital requirements) as well as specific obligations of the management and control bodies.

The Board of Directors of MT is responsible for the strategic guidance and supervision of the Company's overall business activities, as well as of the risk management process, so that the risks assumed in the framework of the MT 's business activities are consistent with the strategic guidelines. The Board of Directors is also responsible for the appropriate arrangement of the control on MT accounts and finances.

Without prejudice to any reserved matters, the Board has delegated managerial and representative powers to some Directors and to the General Manager, in compliance with the By-Laws. Executive Directors are: the Vice Chairman, the CEO and the Finance Director.

Monte Titoli adopts an efficient and solid delegation of powers mechanism which ensure the accountability of the management, responsible for day-to-day operations and under the oversight and coordination of the General Manager, appointed by the Board of Directors.

Composition, roles and responsibilities of the management are clearly defined and are reflected in the organizational chart and organizational manual .

The overall system of rules, procedures and policies governing the performance of the custody and settlement activities of Monte Titoli limits the exercise of senior management discretion in the adoption of individual decisions, thus limiting in an effective manner the risk that such decisions are taken to the detriment of one or more Users.

Rules governing the services are publicly available on MT website. Amendments to the Rules are consulted with stakeholders and with the User Committee (where appropriate) and then submitted to MT Board of Directors and Competent Authorities for final approval.

The audit of the financial statements is performed by an independent audit firm, appointed by the Shareholders' meeting, according to the applicable law (in particular legislative decree n. 39/2010). Last audited financial statements are available on Monte Titoli website

The composition, roles and responsibility of the Board of Directors are further described in Key Consideration 3.

All key documents concerning the governance arrangements are filed in the Company Register and are, therefore, disclosed to the public. These include, inter alia, Articles of Association, By-Laws, functions of the Board, framework of delegated powers, composition of the Board of Directors and Board of Statutory Auditors, information regarding the audit company, Shareholders' register, copy of relevant resolutions concerning mergers, stock dividends, capital increases.
MT provides extensive disclosure of its main governance arrangements on the company's website, in particular:
(i) information concerning the Group Structure;
(ii) By-Laws;
(iii) Information concerning the Board of Directors;
(iv) Information related to Audit, Remuneration and Risk Committees;
(v) Organizational Chart;
(vi) Remuneration framework;

The MT Governance Arrangements are also made available to Competent Authorities as part of the documentation attached to the initial application for authorization and in the context of annual review process in order to monitor compliance with governance requirements as provided by EU Regulation (EU) n. 909 / 2014 and EU Regulation (EU) n. 392 /2017.

Key consideration 3: *The roles and responsibilities of an FMI's board of directors (or equivalent) should be clearly specified, and there should be documented procedures for its functioning, including procedures to identify, address, and manage member conflicts of interest. The board should review both its overall performance and the performance of its individual board members regularly.*

MT adopts the traditional system of administration and control, whereby corporate management is under the responsibility of the Board of Directors and overall control activities are assigned to the Board of Statutory Auditors.
The Board of Directors is responsible for the strategic guidance and supervision of the Company's overall business activities, as well as of the risk management process, so that the risks assumed in the framework of the Company's business activities are consistent with the strategic guidelines. Within the Board, non-executive and independent Directors are directly committed to task where any potential conflict of interests may arise, such as risk management and internal controls, remuneration, financial reporting.
The Board is entrusted with all the powers for the ordinary and extraordinary management of the Company in accordance with the provisions of law, rules and By-Laws and has the faculty to do all such acts considered necessary or useful to achieve the company purpose.
Roles and responsibility of the Board are clearly established in the Italian Company Law and specified in MT's By-Laws and in the Board's Terms of Reference. Within Board's Terms of Reference, *inter alia*, are defined the rules governing the functioning of the Board, such as the conduct and rules of meetings, the reserved matters and the powers of Directors, the rules of Directors' interests and the Board self evaluation process.
Without prejudice to any reserved matters, the Board has delegated managerial and representative powers to some Directors and to the General Manager, in compliance with the By-Laws. Executive Directors are: the Vice Chairman, the CEO and the Finance Director.

Currently the role of the General Manager is performed by the CEO.
The CEO has executive powers and is entrusted with all the powers related to the performance of the custody and settlement services as well as of the relevant ancillary services run by the Company. He is responsible for (i) day-to-day management of Monte Titoli; (ii) implementing resolutions adopted by the Board of Directors and - in accordance with the powers attributed to him - the plans and strategic directions established by the Board of Directors; (iii) ensuring that the internal control system of Monte Titoli is adequate.
The Finance Director is granted with all the powers related to administrative and finance matters. In particular he is accountable for the (i) Italy Statutory and Regulatory reporting, (ii) co-ordination of Italian legal entity budgets and delivery to Board of Directors for approval, (iii) direction of the operations and implementation and enforcement of the strategy and management within the finance function at group level

The Board of Directors is supported by the following Committees, in compliance with the applicable EU rules:

a) a risk committee (RC) responsible for advising the management body on the CSD's overall current and future risk tolerance and strategy. In particular the RC will give its advice on MT Risk Appetite Framework.

b) an audit committee (AC) responsible for advising the management body on the performance of the CSD's internal audit function, which it shall oversee;

c) a remuneration committee (RemCO) responsible for advising the management body on the CSD's remuneration policy, which it shall oversee.

The Risk Committee is composed of 3 (three) non executive directors, of whom two are independent directors of Monte Titoli. The appointed Risk Committee Chairman is independent from Monte Titoli's executive members of the management body and a person with an appropriate experience on risk management.

The Audit Committee is identified with the Board of Auditors.
The Board of Statutory Auditors is peculiar of the Italian corporate governance system; it is composed of 3 permanent members and 2 alternate members, directly appointed by the Shareholders, which they are accountable to, and is entrusted with the responsibility of supervising a wide set of aspects, ranging from the compliance with the law and the Company By-laws, to the efficiency of the internal control system, the internal audit system and the risk management system; audit of the annual accounts; the independence of the auditor/audit company, in particular with regard to the provision of services other than auditing to the company subjected to the statutory audit of the accounts. Each member shall satisfy the requirements of integrity, professionalism and independence required by law.
The Audit Committee/Board of Auditors oversees the adequacy, completeness and efficiency of the internal control system established by the Company.
The Committee may ask the Internal Audit function to carry out ad hoc audits on specific business areas, immediately notifying the Chairman of the Board of Directors. The Committee makes recommendations to the Board of Directors on potential risk issues or deficiencies that may have been founded in the internal control system, urging corrective measures and monitoring the fulfillment (action plan/follow up).
The Remuneration Committee is currently composed of three members of whom majority are non-executive directors. The Chairman is independent from Monte Titoli executive directors and has an appropriate experience in the remuneration field.
The Remuneration Committee proposes the Monte Titoli Remuneration Policy for the Board approval and advises the Board, which it shall oversee, on its application, exercising its competent and independent judgment in putting forward proposals and reviewing its practical operations on a regular basis.

The Board of Directors has established a User Committee composed of representatives of issuers and participants, according to the EU Rules.
The User Committee shall give the Board of Directors mandatory non-binding advice on key arrangements that impact on their members (including the criteria for accepting issuers or participants in their respective services and on service level) and related amendments to Monte Titoli Rules of Services. The Board of Directors must ensure that Competent Authorities are informed any time it does not follow the User Committee's opinion.
In addition the User Committee may submit a non-binding opinion to the management body containing on the pricing structures of Monte Titoli. The Board of Directors receives User Committee's advice and opinions from the Chairman of the User Committee's who represents the UC vis-a-vis Monte Titoli.

For what concerns the conflicts of interest management, it shall be highlighted that MT conducts its business according to the principle that it should prevent any conflicts of interest arising, must manage any actual or potential conflicts of interest fairly and effectively both between itself and its customers, suppliers and partners and between one customer, suppliers or partners and another. Board members and employees are expected to be able to identify conflicts relating to their responsibilities in receiving or providing services to third parties and demonstrate that any close personal relationships that might create the impression of a conflict of interest are appropriately managed to avoid an actual conflict arising. Moreover and according to the Italian Company Law, Board members are expected also to disclose any interest that they may have, on their own or on behalf of third parties, with respect to certain transactions of the Company, when they are submitted to the Board for resolution.

The Board of Directors approved the Group Conflicts of Interest Policy and a specific policy for identification, prevention, reduction and management of Conflicts of Interest in the provision of Central Securities Depositories Services, pursuant to Regulation no 909/2014 (CSDR).
As a part of the implementation of the Conflict of Interest Policy, directors shall notify the list of external directorships held, on an yearly basis and in case any addition or change occurred, highlighting the executive or non-executive position held.
Moreover, Monte Titoli adopts a Code of Conduct, which is intended to guarantee the independent, efficient and correct performance of the business activity, either to mitigate and manage potential Conflict of Interest situations and to punish behaviours breaching the transparency of the system, the protection of the customers, and the orderly execution of the services. The core values that underpin the

Code of Conduct are independence, impartiality, confidentiality, honesty, loyalty, fairness, and professional competence, and all interested parties must abide by them.
In order to identify, manage and neutralize conflicts of interest situations, directors can refer to the Code of Conduct of Monte Titoli and to the above mentioned Policy which provide, in brief, for an obligation of timely and accurate notification of any conflict situation and the adoption of adequate arrangements aimed at neutralizing the conflict.

For what concerns Board performance review, MT Board of Directors periodically carries out a process of evaluation on the composition and functioning of the overall body as well as on the Directors' individual performance.
Evaluations are intended to assess the effectiveness of the Board in the fulfillment of its main responsibilities, as well as assist Directors in objectively assessing their own contribution to the effective governance of the Company, with a view to improving the Board's collective and individual performance.
The board's collective self evaluation survey covers different areas of Board accountability and efficiency, ranging from the evaluation of the structure and composition of the board and the role of Independent Directors, to the decision making-processes and the depth of discussions among directors, as well as the adequacy of information and the presentations to the Board with regard to strategy, risk management and controls related matters.
Responses to the surveys, reported in a aggregated form, are reviewed and discussed within the Board itself. Any possible action arising from the discussion is tracked and periodically reviewed by the Board in order to ensure continuous improvement in the way the Board conducts its business and the Board members contribute to the effective governance of the Company.The Board performance evaluation process also covers the assessment of the performance of the Risk Monitoring Committees, as requested by article 48 of RTS, except the Audit Committee, which will carries out its performance evaluation on its own.

Key consideration 4: *The board should contain suitable members with the appropriate skills and incentives to fulfil its multiple roles. This typically requires the inclusion of non-executive board member(s).*

The Board of Directors, appointed by the Shareholders' Meeting, is currently composed of nine members. Directors remain in office for three years – unless the Shareholders' Meeting, that proceeds with the appointment, establishes a shorter period – and they may be re-elected.
Directors shall fulfil the requirements of good repute and professional experience established by the applicable laws so as to ensure the sound and prudent management of the CSD as well as the overall the board shall possess the appropriate mix of skills, experience and knowledge of the entity and of the market as required by CSDR. Also the General Manager is required to fulfil the same suitability requirements set out for Directors
The Board of Directors of Monte Titoli assesses the suitability of its members upon their appointment and in case of relevant changes in circumstances that may affect the director's suitability, upon being notified by the relevant director or otherwise acquiring knowledge thereof.
For the purpose of assessing the suitability of each board member, the following circumstances have to be taken into account:
(i) integrity and reputation, including factors regarding the propriety of the member in past business dealings; and
(ii) professional experience, in terms of both academic experience attained through education and training and the practical experience gained in previous occupations.

The Board of Directors is currently made up of nine members, three of which independent members and the Chairman is a non-executive member. The Vice Chairman, the CEO and the Director of Finance are executive directors entrusted with managing powers by the board.
Compensation for non-executive members and independent members is flat and not linked to the business performance of Monte Titoli. The non-executive members and the independent members who are also members of the Remuneration Committee and the Risk Committee have an additional fee for the special assignment.
Non executive directors shall possess professional skills appropriate to the role they are required to fulfil, diversified competencies and adequate experience in order to ensure that all professional profiles are represented and encourage dialogue and the efficient functioning of the board

Key consideration 5: *The roles and responsibilities of management should be clearly specified. An FMI's management should have the appropriate experience, a mix of skills, and the integrity necessary to discharge their responsibilities for the operation and risk management of the FMI.*

Monte Titoli adopts an efficient and solid delegation of powers mechanism which ensure the accountability of the management, responsible for day-to-day operations and under the oversight and coordination of the CEO and General Manager, appointed by the Board of Directors and who is not vested with any material offices in any of the holding entities. Currently the role of the General Manager is performed by the CEO. Composition, roles and responsibilities of the CEO and General Manager and the management are clearly defined and are reflected in the organizational chart and organizational manual.
In this regard, the core activities covered by CEO and General Manager's include the following :

- Product Development,
- Business Development
- Marketing
- CRO and Operational Risk Management and CCO
- Chief Compliance Officer
- Operations for domestic and international clients and Change Management activities including:
    - Settlement;
    - Network Management & Issuer Product~~,~~
    - Asset Services, covering Global Custody, Direct Custody, Fiscal Services and Issuer & Tax Strategy
    - Change Management, including Testing Management, Project Management and Data Analytic

- Client Solutions, covering Membership and Executive Account Management & Client Integration
- CIO Post Trade Italy in alignment with Group Chief Information Officer

The CEO and General Manager shall at all times fulfil specific suitability requirements in terms of integrity and reputation, including factors regarding the propriety of the member in past business dealings; and professional experience, in terms of both academic experience attained through education and training and the practical experience gained in previous occupations

Suitability requirements are set forth in the "Policy on the assessment of the suitability of the members of the board of directors, board of auditors and of senior management", approved by the Board of Directors.

In particular regard to the skills and competences, the CEO and General Manager of Monte Titoli shall have acquired at least five years-experience:

(i) serving as directors, members of the board of auditors or senior managers of firms;

(ii) performing professional activities relating to the credit, financial, securities or insurance sector or functionally related to the activity of market operating company or central depository; or

(iii) in university teaching of legal or economic subjects; performing administrative or managerial functions in public entities or governmental authorities relating to the credit, financial, securities or insurance sector or in public entities or governmental authorities not related to such sectors provided that the functions involved management of economic or financial resources.

In addition to the above mentioned criteria, the Board considers necessary that the CEO and General Manager possesse adequate competence and experience in relation to the following areas:

(i) deep knowledge of the financial markets with particular focus on the CSD business (gained through several years of experience as director, manager or statutory auditor in the financial services sector);

(ii) experience in managing and organising a corporation (gained through several years of experience as director, manager or statutory auditor in large scale companies or groups);

(iii) ability to read and interpret the financial statements of a financial institution (gained through several years of experience as director, manager or statutory auditor of companies in the financial services sector or in performing professional activities or as university lecturer);

(iv) appropriate corporate skills (audit, compliance, legal, corporate, risk management etc.) gained through several years of experience in auditing or management control with large scale companies or in performing professional activities or as a university lecturer;

(v) an understanding of the regulation of financial activities (gained through several years of specific experience in financial services companies or supervisory bodies, or in performing professional activities, or as a university lecturer);

(vi) international experience and familiarity with international financial markets (gained by performing the duties of a manager or professional over several years in international institutions, companies or groups).

Analogous requirements shall apply for positions involving the performance of functions equivalent to those of general manager

The recruitment and performance evaluation of the senior management (CEO and General Manager) and of the other managers is carried out through standardized processes

MT, by selecting members of its management, ensures an appropriate hiring process to guarantee that they possess the appropriate mix of experience, skills and integrity. Each member of the management team is responsible for day-to-day activities, ensuring the efficient performance of the respective business area.

The management is accountable for its performance through evaluation of the achievement of the strategic objectives, financial targets and individual performance, and linking compensation to performance.

Within its remit, the MT Remuneration Committee puts forward proposals, for approval of the Board, on remuneration matters, such as (i) the annual variable compensation pool of MT, (ii) the compensation of the CEO and/or the General Manager; (iii) the remuneration of the Head of Internal Audit, of the Chief Risk Officer and of the Chief Compliance Officer, where employed by the Company.

MT's Code of Conduct is applicable to all employees and contractors, describing the expectation of conducting business in accordance with applicable laws and regulations with the highest best in class capabilities.

Key consideration 6: *The board should establish a clear, documented risk-management framework that includes the FMI's risk-tolerance policy, assigns responsibilities and accountability for risk decisions, and addresses decision making in crises and emergencies. Governance arrangements should ensure that the risk-management and internal control functions have sufficient authority, independence, resources, and access to the board.*

The Board of Directors has the final responsibility for managing the Monte Titoli's risk. In this respect, the Board is responsible for defining, determining and documenting an appropriate Risk Appetite Framework (also hereinafter the "RAF") for the Company, monitoring its implementation, in accordance with strategic objectives; defining the risk management policies of the Company, periodically reviewing them.

In addition to the "Enterprise-Wide Risk Management Framework", approved by LSEG's Board, MT's Board adopted its risk management framework for the identification, assessment, management,reporting and monitoring of risks.

The Chief Risk Officer is involved in the definition of the RAF.

While exercising its supervising function, the Board, at least on a quarterly basis, receives updates on the company's current risk status from the Chief Risk Officer

Monte Titoli structure is based on the "three lines of defense" model:

(i) Line staff responsible for first-level controls, targeting operational processing. The managers are in charge of assessing the risks related

to the different business areas and of monitoring the actions identified to mitigate them on ongoing basis;
(ii) The Compliance Function and the Risk Management Function responsible for second-level controls (in line with CSDR requirements) are respectively led by the Chief Compliance Officer (CCO) and by the Chief Risk Officer (CRO). In particular,

- the CCO ensures the identification and management of the non-compliance risk of MT and its employees to the applicable laws and regulations by monitoring, inter alia, the compliance of MT internal procedures and other organizational measures.
- the CRO implements the risk management framework including the policies and the procedures established by the Board of Directors aiming at identify, assess and measure the relevant risk to which Monte Titoli is exposed and - together with the managers of MT - sets the actions to mitigate such risks and monitor their adequacy and efficiency;

(iii) Internal Audit Function providing reliable, objective and reasonable assurance to Management, Board members on the adequacy and effectiveness of the system of internal controls.

Monte Titoli organizational arrangements ensure that the risk management and internal control functions (compliance, risk management and internal audit) have the necessary authority, resources and expertise to fulfill their tasks.
Their reporting lines are clear and separate from operational and/or business functions within the MT Organization.
The Chief Compliance Officer, the Chief Risk Officer and the Head of Internal Audit (IA) are appointed and revoked by the Board of Directors, after consulting the Board of Statutory Auditors. CCO and CRO report directly to Monte Titoli CEO and inform regularly the Board of Directors of the activities performed and the related results and have a direct access to the Board of Directors .
The Head of Internal Audit having a direct report to the Board of Directors and a secondary reporting line to the CEO and, a functional reporting to the Head of Group Internal Audit of LSEG. Roles and responsibilities of those functions are clearly defined in MT Organizational Manual.
The fixed and variable remuneration of Head of Internal Audit, Chief Risk Officer, and Chief Compliance Officer (where employed by the MT) is approved by the Board of Directors upon proposal of the Remuneration Committe and taking into account the proposal of the CEO to the Remuneration Committee.
The Board approves the activity plans prepared on an annual basis by the Chief Risk Officer, Chief Compliance Officer and Head of Internal Audit and examines the periodical reports prepared by such functions, in order to monitor the adequacy of the internal control system and the consistency of MT activities to the Risk Appetite Framework approved; the Board may make specific requests concerning the respective activity plans.

Key consideration 7: *The board should ensure that the FMI's design, rules, overall strategy, and major decisions reflect appropriately the legitimate interests of its direct and indirect participants and other relevant stakeholders. Major decisions should be clearly disclosed to relevant stakeholders and, where there is a broad market impact, the public.*

The legitimate interests of users (participants in the MT's services) and relevant stakeholders are taken into account in the context of amendments to MT's Regulations due to relevant changes in the functioning of the services and systems or in the regulatory framework. In such instance, MT seeks the views of interested stakeholders through its public consultations, the Company's website, seminars and regular meetings.
The Board of Directors has established a User Committee which is composed of representatives of issuers and participants.
The User Committee shall give the Board of Directors mandatory non-binding advice on key arrangements that impact on their members (including the criteria for accepting issuers or participants in their respective services and on service level) and related amendments to Monte Titoli Rules of Services. The Board of Directors must ensure that Competent Authorities are informed any time it does not follow the User Committee's opinion.
In addition the User Committee may submit a non-binding opinion to the management body containing on the pricing structures of Monte Titoli. The Board of Directors receives UC advice and opinions from the Chairman of the UC who represents the UC vis-a-vis Monte Titoli.

PRINCIPLE 3: FRAMEWORK FOR THE COMPREHENSIVE MANAGEMENT OF RISKS

An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.

Summary Narrative

Key consideration 1: *An FMI should have risk-management policies, procedures, and systems that enable it to identify, measure, monitor, and manage the range of risks that arise in or are borne by the FMI. Risk-management frameworks should be subject to periodic review.*

The main international, national, and/or industry standards, considered in the formulation of the operational risk framework include, inter alia, CPMI-IOSCO standards, ECSDA guidelines and Banca d'Italia and Consob recommendations. In order to be compliant with the overall regulatory framework, MT operational risk is managed through a range of tools encompassing Group-wide, MT specific policies, procedures, controls and the Risk Management Framework (RMF).Monte Titoli Risk RMF has the objective to assist in the identification and assessment of the risks facing the Company in order that they can be managed in an efficient manner and that informed decisions can be taken to manage threats and exploit opportunities.The aim of the RMF is to ensure that risks in Monte Titoli are identified, owned, measured, monitored, managed and reported to the appropriate level of responsibility so that adequate actions are taken. Accordingly, the RMF articulates how risks are approached governed, managed, measured and reported.

Monte Titoli RMF covers the following risk categories:

- Strategic risks: which are the risks related to our strategy (including the implementation of strategic initiatives and external threats to the achievement of our strategy). The category also includes risks associated with reputation or brand values;
- Financial risks: which are the risk of financial failure, reputational loss, loss of earnings and/or capital as a result of investment activity, lack of liquidity, funding or capital, and/or the inappropriate recording, reporting and disclosure of financial results, taxation or regulatory information;
- Operational Risks: which are the risks of loss, or other adverse consequences to the business, resulting from inadequate or failed internal processes, people and systems, or from external events.

For what concerns credit and liquidity risks, Monte Titoli business model for settlement service does not imply credit or liquidity risk exposure towards its participants as it does not extend credit or provide any financing or funding facilities as principal for its participant. Even in the context of CSDs links, settlement instructions are entered into the foreign settlement system only if related securities or cash are prefunded by participants so that Monte Titoli does not bear any credit or liquidity risk neither in that context.

With reference to risks categories listed above, top risks are the following :

- Strategic risks: General Business Risk, Stakeholder Confidence;
- Financial risks: Investments, Capital;
- Operational risks: Regulatory, Business Continuity, Cyber Risk, Critical Utilities, Critical Service Providers, Key Participants, Links with FMIs,System Change Control.

MT adopts also an internal control system which is structured in order to assure adequate control of Company's activities, paying particular attention to the areas deemed to represent a potential risk. Risk culture, risk awareness and interaction among the Company's functions are fundamental for coordinated Internal Controls. Ongoing open dialogue among Business, Control Functions and Governance Bodies ensure common understanding, shared objectives and cooperation.

All activities of an organization involve risks that should be managed. The risk management process aids decision making by taking into account uncertainty and the possibility of future events or circumstances and their effects on agreed objectives.
Monte Titoli Risk Management Framework (RMF) illustrates the fundamentals of Risk Management and they are detailed in the Monte Titoli Risk Management Procedure (RMP) with the objective to ensure consistency in the treatment of risks across the Company.
Monte Titoli RMP foresees that risk champions facilitate the quarterly risk reviews of Monte Titoli Risk Profile. The risk review process is performed through interviews with managers that are involved in the relevant business lines in the role of Risk Owners.
Risk Champions, in the light of the outcomes of Internal Incident Database (that includes new or open incidents, and near misses) and of Key Risk Indicators quantification, facilitate the Risk Owner in re-evaluating risks' likelihood of occurrence and impact measured against assessment criteria, considered controls in place and thus obtaining the risks evaluation at residual level. Risk Campions also facilitate the identification of emerging new risks. In case of risks within appetite but near appetite limit or outside, mitigating action plans are established in order to return those risks within risk appetite.
Compliance with policies is monitored through a self-certification process which occurs on a six-monthly basis.

Monte Titoli adopts a circular risk management process, covering periodic risk identification, assessment, reporting and controls.
As for timely information, Monte Titoli has developed a set of Key Risk Indicators (KRIs) metrics used to provide an early warning of increasing risk exposures in various areas of Monte Titoli or potential control weakness.To ensure that KRIs are of sufficient good quality, they are subject to formal challenge process.
Incident management is also part of the process. Incidents and Near misses are matched with relevant risks and are taken into consideration during the Risk Review as well as material Internal Audit findings, key controls relevant to mitigating operational risks, policy breaches, external events that may give rise to increased vulnerabilities, changes to systems or processes that may impact the risk, including new services. With regards to new services, according to MT Product Engagement procedure, every proposed new initiative undergoes an overall analysis covering different aspects.

Reporting of risks, exposures and mitigating actions are presented on a singular basis, without consolidation that takes into account interdependencies between risk exposures among risk categories
Each risk category is made up of different risk triggers and the assessment of the risk category takes into account all their impacts and likelihoods, aggregated in a single impact value and a single likelihood value.
With reference to exposures across FMI's participant, Monte Titoli manages the risk of insolvency of a Participant at the settlement services through the Insolvency Procedure that is activated in coincidence of direct or indirect participants insolvency. The procedure is tested every year with the system's participants and local Authority. The communications and the actions carried out by Monte Titoli in case of insolvency of a direct or indirect participant are described in the "Rules" (Regolamento e nelle Istruzioni dei Servizi) published on Monte Titoli website.
The current Risk Management process does not include a risk assessment of Monte Titoli participants' customers (customers of customers). This is because Monte Titoli generally does not know participants' customers.
Monte Titoli policies establish the principles and minimum standards to manage its activities within risk appetite.
Each policy has a responsible executive/non executive (the sponsor) who champions the implementation of the policy and policy changes, receives reporting on significant breaches, oversees breaches procedures / remediation steps, ensures there is adequate review of policy in line with the review cycle, and oversees the resolution of issues raised by the relevant Oversight Policy Committee. Certification of compliance to Policies is performed regularly by all employees.
Monte Titoli Board approves Group Policies as they are customized to local legislation, business features and Italian language.
Monte Titoli adopts adopts operational procedures in order to regulate relevant corporate processes and activities.
Such procedures are necessary to understand how the activity is carried out, but also the roles and responsibilities of each employee, involved in the individual process.
Monte Titoli draws up a procedure when occur some of the following circumstances:
- the need to regulate a relevant corporate activity;

- organizational changes;
- changes in the operational activities carried out;
- changes in external and internal regulations;
- reports of the Control Functions;
- the period for updating the procedure begins to run.

Monte Titoli constantly monitors the compliance of the procedures with operating practices and, if necessary, changes the procedure to reflect the manner in which the activity is performed.
The deadline for updating the procedures is annual, with the exception of certain Procedures that provide for different deadlines.

Monte Titoli Risk Management is structured following the "three lines of defence" model. The third line of defence, Internal Audit, provides independent assurance to the Board and other key stakeholders over the effectiveness of the systems of internal controls and of the Risk Management Framework: Internal Audit objective is to assess the effectiveness and efficiency of the internal control system, including the risk management and regularly conducts independent audits on all operational and administration processes of Monte Titoli as required by the Audit Plan approved by the Board of Directors of Monte Titoli. Periodic audits are performed on operational processes as well as on IT processes, including the outsourced services.
As regards risk management policies, the First Line of defence controls over and assesses the compliance to policy requirements (through bi-annual self certification on effectiveness of internal controls), the Second Line of defence reviews and challenges the results of compliance monitoring, while the Third Line of defence, Internal Audit, highlights areas of non compliance to policies.
Moreover, Monte Titoli regularly tests Business Continuity Plan and Disaster Recovery to verify that the implemented processes can be executed as intended.
Policies are reviewed and updated annually.
Policies are designed so that the principles set out in them can remain valid even if the risk intensity or environment has changed.
Monte Titoli continuously monitors fluctuations in risk intensity and changes in its environment. Every quarter, Monte Titoli prepares the Risk Profile report, which lists the main risks for Monte Titoli and captures mitigation action plans.

Key consideration 2: *An FMI should provide incentives to participants and, where relevant, their customers to manage and contain the risks they pose to the FMI.*

Monte Titoli Rules and Instructions, contractual framework, suspension procedure provide incentives to manage and contain the risks that participants to Monte Titoli may pose.
The risks posed by the participants' customers to Monte Titoli or the risks that Monte Titoli poses to them are not taken into consideration because the CSD does not incur risks from the clients of its participants and has no way of exercising any control over these clients.
Monte Titoli adopts clear rules and instructions for the services it provides and publishes them on its web-site. These are deemed adequate to evaluate the risks connected to services. Not adopting measures and behaviours in contrast with such rules by participants is the main guarantee for the system that risks are not posed to its smooth functioning. To this end Monte Titoli provides:

- a wide series of reports in the context of its services to allow participants to have the clear picture of their positions thus avoiding situations that could possibly hamper the smooth functioning of the system;
- participation requirements that participants are requested to fulfil both at the moment of joining the services and on a continuous basis;
- support regarding the service functioning both to new applicants and to already participants. This is done through direct client support as well as appropriate training, at the participant request.

MT encourages its Participants to use MT systems in the best way and provides extensive information regarding the use of the system and the services available.
MT has an articulated contractual framework allowing Participants to manage their risks and the risks they pose to the CSD. Please refer more especially to the Terms and Conditions published on Monte Titoli website.
MT has no contractual relationship with Clients' customers. The contractual relationship remains exclusively between MT and its respective participants.
MT continuously invests to encourage participants to manage and contain the risks they pose to MT, by keeping them informed about new developments, new regulations, operational changes etc. through user documentation, extensive operational reporting and training, relationship (via user committee or client facing relationship) and by applying other types of measures. In particular: participant admission process, participant training, documentation and information, and operational reporting.
Besides the contractual framework, participants have access to a test platform allowing them to test their readiness before becoming MT participant, or their adequacy whenever a change needs to be tested. Participants are also integrated in the Business Continuity procedures testing.
For their day to day operations, Participants receive real time information on their transactions recorded in the settlement platform.
MT also sends to Participatns alerts in case a high or major incidents occur on the T2S or MT platforms and keep them constantly informed on incident resolution.

Participant admission/suspension procedures

Access to the CSD is subject to admission criteria as detailed in its Rules. MT has implemented a dedicated procedure consisting of an initial Know-Your-Client (KYC) phase to ensure that each Participant meets the admission criteria at the time of its admission and on an ongoing basis, via regular reviews.
Monte Titoli provides deterrent to participants possibly posing risks over its system.
Measures that can be applied to participants are as follows:

- The suspension or exclusion procedure of intermediaries that access the core services is activated if the prerequisites for suspension established in Article 11 of the MT CSD Rules exist. Prerequisites for suspension are: irregularities causing malfunctioning or delays in the carrying out of the services or of lack of compliance with rules, instructions or the operating

procedures adopted by the company or in case their behaviour is not compatible with the smooth functioning of the System;
- exclusion of those participants already suspended in case of permanence of the reasons for the suspension;
- penalties in the context of the settlement service addressing individual behaviours causing end-of-day fails.

Suspension and exclusion measures are present with the necessary adaptation to the features of the services in all regulatory documentation adopted by the company.

User Committee

In accordance with CSDR, MT has established a User Committee.
The User Committee shall advise Monte Titoli Board of Directors on key arrangements that impact on issuers and participants to the Central Depository and Settlement Services (or "Core Services") such as: a) criteria for the admission , suspension, exclusion for issuers and participants b) penalty mechanism of the Settlement Service; c) procedures for managing the insolvency of a participant to the Core Services; d) service levels of the settlement service as long as provided and to the extent allowed by the T2S Framework Agreement.
The User Committee may submit to the Board non binding opinions on pricing structure and on significant priorities concerning service enhancements and/or harmonization practices to be established to serve the Italian market.
The User Committee meets at least twice a year.
MT encourages its participants to use the systems in the best way, by providing extensive information on their use and on the products and services available. This helps them to better manage their risks when dealing with MT and therefore minimise the risk they pose to MT. Beside the information available on MT website (Terms and Conditions, Rules, newsletters), specific trainings may be organised for participants.
The MT sales and clients teams keep MT Participants informed of changes and developments.
MT provide operational reporting designed to enable Clients to monitor, manage and reduce the risk they face when using MT services.
MT requires all Clients to reconcile their positions daily.
MT and its respective Competent Authorities are performing a close monitoring of the settlement performance
Monte Titoli adopts clear rules and instructions for the services it provides and publishes them on its web-site. These are deemed adequate to evaluate the risks connected to services.
A wide range of reports (both mandatory and optional) is also provided to participants giving them the possibility to monitor the settlement process. Finally, Monte Titoli is able to support customers concerning their business activities and to deal with possible incidents.

Key consideration 3: *An FMI should regularly review the material risks it bears from and poses to other entities (such as other FMIs, settlement banks, liquidity providers, and service providers) as a result of interdependencies and develop appropriate risk-management tools to address these risks.*

Regarding material risks arisen from service providers, MT applies the Group Outsourcing Policy, which define rules to be followed in all outsourcing arrangements across LSEG; in particular the Policy establishes appropriate controls and processes to ensure the quality as well as the effective provision of the outsourced services.

- CSDs: In accordance with the provisions of Regulation (EU) no. 909/2014 and related technical standards, Monte Titoli identifies, monitors and manages the potential and current risks connected to a link with another CSD through specific organizational measures, operating procedures and specific risk indicators used to monitor risks relating links . For each link potential sources of risks relating legal, credit, liquidity and operational risks are assessed
- As for CCPs: they are currently considered as intermediary and Monte Titoli applies to them the relevant rules and regulations. Regarding the identification of risks borne from CCP, they are addressed in the communication sent to Bank of Italy before the start up of the link. It is considered that no particular risk is posed on Monte Titoli by links with CCPs.
- Critical service providers: with reference to risks that Monte Titoli bears from services providers, the risks are identified through an appropriate risk assessment and relevant due diligence in the selection and on going management of suppliers, as requested by Group Procurement Policy. This includes compliance with the requirements outlined within internal policies and procedural guideline. Suppliers identified as being "Outsourcing" or "Critical" suppliers during on-boarding must undergo appropriate due diligence. From an operational point of view, the risks borne by outsourced IT services are identified and monitored through checks of the respect of Service Levels Agreement during regular meetings with the provider and Key Risk Indicators.

The risks that Monte Titoli poses to other entities are Operational risks.The main risk that Monte Titoli could pose to other FMI is an operational disruption.

Generally, interdependences with other entities are monitored by Monte Titoli Operations on a day to day basis, through real time monitoring tools, that alert Operations and Help Desk functions if there are delays before the cut-off times, unavailability of services or anomalies, which are then reported in the quarterly Incident Database and in monthly IT provider reports. Moreover volumes and values of operations are daily analyzed and reported with particular attention to settlement rate.
Business Continuity and Disaster Recovery Tests are performed periodically. Also, Monte Titoli takes part to Bank of Italy CODISE' s simulations that aim to check the adequacy of the procedures for crisis management coordination in the Italian financial.
With reference to interdependences with CSDs and settlement banks, there is a daily report of the values and volumes of cross border settlement and asset under custody. Monte Titoli measures daily the balances of commercial and central bank money cash accounts, through a procedure aiming at the reconciliation among cash transfers messages and cash balances messages.
As for interdependences with CCPs, Monte Titoli in addition to the participation agreement which rules the link in relation to the CCPs requesting access to its system, takes into consideration: the adequacy of the regulatory framework, the adequacy of the CCP's business/set-up, reliability of operations and adequate management of risks, the adequacy of business continuity and disaster recovery procedures .
With reference to IT service providers, the state of service provided is measured and checked through a Dashboard for SLA and KPI

monitoring, on a weekly or monthly basis; regular meetings are held with the provider on monthly basis.
Risks are reviewed as needed, almost on a quarterly basis within the risk management process.

The risk management tools at Monte Titoli disposal in order to address the risks from interdependences, in case of operational disruption of the above mentioned entities, are:

- the due diligence questionnaire asked to other CSDs, SSSs and agent banks for cross border settlement and asset servicing contains information regarding Business Continuity Plans of the linked entities;
- The Disaster Recovery Agreements with the IT service provider.

In Monte Titoli the effectiveness of risk management tools is independently assessed by the Internal Audit function (the third line of defence) through ad hoc audit on the basis of the annual Internal Audit Plan.

Key consideration 4: *An FMI should identify scenarios that may potentially prevent it from being able to provide its critical operations and services as a going concern and assess the effectiveness of a full range of options for recovery or orderly wind-down. An FMI should prepare appropriate plans for its recovery or orderly wind-down based on the results of that assessment. Where applicable, an FMI should also provide relevant authorities with the information needed for purposes of resolution planning.*

MT has preliminarily identified, among its services, the ones that can be classified as "critical", based on the relevance of the service both from the market participants' perspective and for the smooth functioning of the markets served. Thereafter, MT has defined a set of potential scenarios that may prevent it from being able to provide its critical services as a going concern. The potential scenarios which may threat MT's viability have been identified on the basis of the major risks to which MT is exposed, which are namely:

- general business risk
- operational risk
- custody and investment risks

MT is a non-banking CSD, it does not take on any financial position towards its participants in the context of the settlement activity and therefore it is not exposed to potential uncovered losses deriving from participant's default (i.e. "defaulting losses" as defined by CPMI-IOSCO Recovery Report). Any residual exposure of MT towards credit or liquidity risk is fully mitigated by means of preventive measure ensuring full coverage of any financial losses deriving from such risks.

The identified scenarios are based on either idiosyncratic and systemic-wide events which are exceptional but plausible, taking into account the nature of MT's business, size, funding model as well as the degree of interconnectedness to other institutions and to the financial system. Also System-wide events are taken into consideration.

For each identified scenarios, MT assessed its potential impact on MT financial viability as well as a description of recovery tools measures to be potentially used.

MT has a Recovery Plan and Winding Down Plan.
The purpose of MT's Recovery Plan and Winding Down Plan is to provide information and procedures necessary to enable MT to continue providing its critical services even in the remote case its viability as a going concern is threatened. The Recovery Plan and Winding Down Plan is also designed to allow MT, its participants and other relevant stakeholders to cope with such extreme circumstances and to increase the possibility that the most appropriate tool to deal with a specific stress will be used, thereby reducing the risk that effectiveness of recovery actions may be hindered by uncertainty.

MT Recovery Plan and Winding Down Plan includes the plans to raise new capital in case losses impacting MT regulatory capital, to ensure the restructuring or orderly winding down of its operations as required by Article 47 (2) (a) and (b) of CSDR, in line with international standards.
Generally, the central aim of the scenario analysis is to validate the adequacy of the MT recovery and restructuring capacity.
MT has identified the major types of scenarios that may potentially prevent MT from being able to meet its obligations, provide its critical operations and services as a going concern, which fall into the category of Business related losses.
On the basis of the identified scenarios, MT has included in the Recovery and Winding Down Plan the description of the scenario, the events that are likely to trigger that scenario, the set of preventive controls in place at MT for monitoring such events, the financial/operational impact of the scenario on the CSD, the participants and the specific recovery measures and steps that MT is expected to take when the scenario occurs which aim at controlling and managing the exposure of those who would bear the losses and system collapse and at creating appropriate incentives for MT's participants, its shareholder and relevant stakeholders to control the amount of risk that they bring or they incur in the system and to monitor MT's risk management activities.

MT Recovery plan is reviewed annually or when a significant change occurs that would impact the feasibility or materiality of a recovery option. As required by relevant regulations, those plans are shared with the authorities.

PRINCIPLE 4: CREDIT RISK

An FMI should effectively measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes. An FMI should maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would potentially cause the largest aggregate credit exposure to the CCP in extreme but plausible market conditions. All other CCPs should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would potentially cause the largest aggregate credit exposure to the CCP in extreme but plausible market conditions.

Summary Narrative

Key consideration 1: *An FMI should establish a robust framework to manage its credit exposures to its participants and the credit risks arising from its payment, clearing, and settlement processes. Credit exposure may arise from current exposures, potential future exposures, or both.*

The MT risk management framework includes relevant elements for the management of credit risks to which the CSDs may be confronted to. Since MT does not provide any credit facilities to participants, MT has no financial exposure with participants.

Key consideration 2: *An FMI should identify sources of credit risk, routinely measure and monitor credit exposures, and use appropriate risk-management tools to control these risks.*

This key consideration is not applicable to MT since no credit facility is provided to its participants.

Key consideration 3: *A payment system or SSS should cover its current and, where they exist, potential future exposures to each client fully with a high degree of confidence using collateral and other equivalent financial resources (see Principle 5 on collateral). In the case of a DNS payment system or DNS SSS in which there is no settlement guarantee but where its clients face credit exposures arising from its payment, clearing, and settlement processes, such an FMI should maintain, at a minimum, sufficient resources to cover the exposures of the two clients and their affiliates that would create the largest aggregate credit exposure in the system.*

This key consideration is not applicable to MT since no credit facility is provided to its participants

Key consideration 4, 5 and 6 are not applicable to MT.

Key consideration 7: *An FMI should establish explicit rules and procedures that address fully any credit losses it may face as a result of any individual or combined default among its clients with respect to any of their obligations to the FMI. These rules and procedures should address how potentially uncovered credit losses would be allocated, including the repayment of any funds an FMI may borrow from liquidity providers. These rules and procedures should also indicate the FMI's process to replenish any financial resources that the FMI may employ during a stress event, so that the FMI can continue to operate in a safe and sound manner.*

No allocation of credit loss to participants is foreseen as no credit is provided by MT to its participants.

PRINCIPLE 7: LIQUIDITY RISK

An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions.

Key consideration 1: An FMI should have a robust framework to manage its liquidity risks from its participants, settlement banks, nostro agents, custodian banks, liquidity providers, and other entities.

Considering that Monte Titoli is without a banking license, it is not exposed to credit or liquidity risk deriving from its core services. However, liquidity risk marginally touches Monte Titoli with reference to treasury activities. Monte Titoli has in place a Liquidity Framework to approach this risk.
MT operates a securities settlement system (SSS) that settles in central bank money in T2S. MT does not act as settlement agent of the SSS they each operate which means MT does not open cash accounts to its participants or provide credit facilities. Therefore, MT has no financial exposure towards its participants (except for the payment of invoices). Participants of MT must have access (directly or indirectly) to a national central bank participating to T2S for the purpose of DvP settlement in T2S. This is also applicable for links between T2S CSDs due to the interoperability of the T2S platform: cross-border DvP settlement also takes place in central bank money.
Links maintained by MT with non T2S CSDs as receiving CSDs are FoP links, i.e. no settlement takes place on a DvP basis thereby avoiding CSDs taking principal risk.

Key consideration 2: An FMI should have effective operational and analytical tools to identify, measure, and monitor its settlement and funding flows on an ongoing and timely basis, including its use of intraday liquidity.

This Key consideration is not applicable to MT. Please refer to KC1.

Key consideration 3: A payment system or SSS, including one employing a DNS mechanism, should maintain sufficient liquid resources in all relevant currencies to effect same-day settlement, and where appropriate intraday or multiday settlement, of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the client and its affiliates that would generate the largest aggregate payment obligation in extreme but plausible market conditions.

This Key consideration is not applicable to MT. Please refer to KC1.

Key consideration 4: A CCP should maintain sufficient liquid resources in all relevant currencies to settle securities-related payments, make required variation margin payments, and meet other payment obligations on time with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate payment obligation to the CCP in extreme but plausible market conditions. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should consider maintaining additional liquidity resources sufficient to cover a wider range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would generate the largest aggregate payment obligation to the CCP in extreme but plausible market conditions.

This Key consideration is not applicable to MT.

Key consideration 5: For the purpose of meeting its minimum liquid resource requirement, an FMI's qualifying liquid resources in each currency include cash at the central bank of issue and at creditworthy commercial banks, committed lines of credit, committed foreign exchange swaps, and committed repos, as well as highly marketable collateral held in custody and investments that are readily available and convertible into cash with prearranged and highly reliable funding arrangements, even in extreme but plausible market conditions. If an FMI has access to routine credit at the central bank of issue, the FMI may count such access as part of the minimum requirement to the extent it has collateral that is eligible for pledging to (or for conducting other appropriate forms of transactions with) the relevant central bank. All such resources should be available when needed.

This Key consideration is not applicable to MT. Please refer to KC1.

Key consideration 6: An FMI may supplement its qualifying liquid resources with other forms of liquid resources. If the FMI does so, then these liquid resources should be in the form of assets that are likely to be saleable or acceptable as collateral for lines of credit, swaps, or repos on an ad hoc basis following a default, even if this cannot be reliably prearranged or guaranteed in extreme market conditions. Even if an FMI does not have access to routine central bank credit, it should still take account of what collateral is typically accepted by the relevant central bank, as such assets may be more likely to be liquid in stressed circumstances. An FMI should not assume the availability of emergency central bank credit as a part of its liquidity plan.

MT is not exposed to the default of its participants (except to the extent of any unpaid outstanding invoices) and therefore this KC6 is not relevant to MT. Please refer to KC1.

Key consideration 7: An FMI should obtain a high degree of confidence, through rigorous due diligence, that each provider of its minimum required qualifying liquid resources, whether a participant of the FMI or an external party, has sufficient information to understand and to manage its associated liquidity risks, and that it has the capacity to perform as required under its commitment. Where relevant to assessing a liquidity provider's performance reliability with respect to a particular currency, a liquidity provider's potential access to credit from the central bank of issue may be taken into account. An FMI should regularly test its procedures for accessing its liquid resources at a liquidity provider.

This Key consideration is not applicable to MT. Please refer to KC1.

Key consideration 8: An FMI with access to central bank accounts, payment services, or securities services should use these services, where practical, to enhance its management of liquidity risk.

This Key consideration is not applicable to MT. Please refer to KC1.

Key consideration 9: An FMI should determine the amount and regularly test the sufficiency of its liquid resources through rigorous stress testing. An FMI should have clear procedures to report the results of its stress tests to appropriate decision makers at the FMI and to use these results to evaluate the adequacy of and adjust its liquidity risk-management framework. In conducting stress testing, an FMI should consider a wide range of relevant scenarios. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions. Scenarios should also take into account the design and operation of the FMI, include all entities that might pose material liquidity risks to the FMI (such as settlement banks, nostro agents, custodian banks, liquidity providers, and linked FMIs), and where appropriate, cover a multiday period. In all cases, an FMI should document its supporting rationale for, and should have appropriate governance arrangements relating to, the amount and form of total liquid resources it maintains.

MT is not authorised to provide banking type services in the meaning of CSDR.

Key consideration 10: An FMI should establish explicit rules and procedures that enable the FMI to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations on time following any individual or combined default among its participants. These rules and procedures should address unforeseen and potentially uncovered liquidity shortfalls and should aim to avoid unwinding, revoking, or delaying the same-day settlement of payment obligations. These rules and procedures should also indicate the FMI's process to replenish any liquidity resources it may employ during a stress event, so that it can continue to operate in a safe and sound manner.

This is not applicable to MT as there are no settlement or payment obligation following individual or combined default of a participant.

PRINCIPLE 8: SETTLEMENT FINALITY

An FMI should provide clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time.

Summary Narrative

Key consideration (KC) 1: *An FMI's rules and procedures should clearly define the point at which settlement is final.*

Monte Titoli defines finality and irrecovability moments in its Rules of Services in line with CSDR, settlement finality directive and decree implementing provions under domestic regulatory framework.

Settlement Instructions cannot be revoked by a participant or a third party from the time of their matching in T2S (SF2), without prejudice to the bilateral cancellation of settlement Instructions. The transfer of securities and cash become final from the time of the debiting of the cash, or of the securities when settlement by cash is not provided for. (SF3)

Key consideration (KC) 2: *An FMI should complete final settlement no later than the end of the value date, and preferably intraday or in real time, to reduce settlement risk. An LVPS or SSS should consider adopting RTGS or multiple-batch processing during the settlement day.*

MT has joined the T2S platform and provides FoP and DvP/RVP settlement services with immediate finality in real time or at the end of the two overnight batch settlement.
The T2S operational day is sequenced as follows:

- a night-time sequence, with overnight batch settlement (from 20:00 to 03:00 CET).
- a maintenance window is taking place between 03:00 and 05:00 CET.
- a real-time settlement (from 05:00 to 16:00 CET).

Real time settlement could start before 03:00 if the night-time sequence is finished before 03:00.)
Clients are informed of the final settlement via Swift messages sent either by T2S platform or by MT, as soon as settlement takes place (or at the end of the sequence for the night-time processing). Each settlement instruction, if unsettled, is recycled into next settlement cycle (be it a batch or real time). These instructions are pending, until they are finally settled or cancelled.

PRINCIPLE 9: MONEY SETTLEMENTS

An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimise and strictly control the credit and liquidity risk arising from the use of commercial bank money.

Key consideration 1: *An FMI should conduct its money settlements in central bank money, where practical and available, to avoid credit and liquidity risks.*

Monte Titoli offers settlement against payment only in central bank money and exclusively in Euro.
The Monte Titoli's participant must have at least one dedicated DCA account in Euro linked to its T2S securities account. Each DCA is linked via static data to one or more RTGS accounts in euro held in a central bank.
In order to settle transactions against payment in T2S it is necessary to provide liquidity to the cash accounts (i.e. to the DCAs). To this end, T2S provides the technical means for its participants to transfer funds from the RTGS accounts to the technical platform or from one T2S DCA to another. DCA holders are responsible for monitoring the balance in their DCAs and must be able to issue T2S liquidity transfer orders.
For CSD links inside T2S platform when cross-border settlement happens it takes place always in central bank money in euro as explained above.
When settlement happens through links with non T2S CSDs, the so called External settlement, it takes place in Euro only when it happens on the ICSDs (Clearstream Banking Luxembourg or Euroclear Bank) while it can only happen FOP when it is against other CSD outside T2S.

Key consideration 2: *If central bank money is not used, an FMI should conduct its money settlement using a settlement asset with little or no credit or liquidity risk*

When external settlement against payment happens on the ICSDs and a receive trade is due to settle, Monte Titoli transfers the necessary funds related to the settlement activity from the DCA account of the client involved (linked to RTGS account in a central bank) to Monte Titoli's DCA and immediately transfers them from Monte Titoli's DCA to its cash account open with the ICSD where the settlement occurs, and then allows the trade to settle. For delivery trades instead the opposite flow happens, as soon as funds related to the delivery are credited into Monte Titoli's euro account open with one of the two Csd Monte Titoli transfers them to Monte Titoli's DCA account and then immediately to client's DCA account.

Key consideration (KC) 3: *If an FMI settles in commercial bank money, it should monitor,* *manage, and limit its credit and liquidity risks arising from the commercial settlement banks.In particular, an FMI should establish and monitor adherence to strict criteria for its settlement banks that take account of, among other things, their regulation and supervision, creditworthiness, capitalisation, access to liquidity, and operational reliability. An FMI should also monitor and manage the concentration of credit and liquidity exposures to its commercial settlement banks.*

As far as Commercial bank money is concerned, Monte Titoli holds cash on its cash account open with the ICSD, for settlement activity purposes, only on settlement date when it is necessary for the intraday settlement activity.
Monte Titoli also receives the amounts related to income, coupon and corporate actions in Euro or other currencies on its cash account open with the Icsd.
When a credit is received from the Icsd, it is immediately reconciled and distributed to Monte Titoli's clients based upon entitlements of the event involved.

Key consideration (KC) 4: *If an FMI conducts money settlements on its own books, it should minimise and strictly control its credit and liquidity risks.*

This key consideration is not applicable, as MT does not conduct money settlement in their own books.

Key consideration (KC) 5*: An FMI's legal agreements with any settlement banks should state clearly when transfers on the books of individual settlement banks are expected to occur, that transfers are to be final when effected, and that funds received should be transferable as soon as possible, at a minimum by the end of the day and ideally intraday, in order to enable the FMI and its participants to manage credit and liquidity risks.*

Monte Titoli' s clients settle their transactions in T2S using central bank money by using a DCAaccount linked to a RTGS account open with a Central Bank connected to the T2S platform, funds are transferable intraday. Cash deadlines for Eur settlement or other currencies payments vary based on central bank deadlines or Icsd deadlines based on the activity, settlement or corporate action, for which the cash balance is considered.
MT is not responsible for the operation of the Dedicated Cash Accounts of their Clients this relationship is under the remit of the Central Banks. MT offers real-time settlement during the day.
On the T2S platform, CSDs are responsible for the Securities Accounts (CSDs rules apply), NCBs are responsible for the Dedicated Cash Accounts (the NCBs rules apply).
Both CSDs and NCBs must follow the rules of the T2S platform. In the T2S platform, the settlement instructions are managed in real time during the day and in 2 batch, overnight settlement cycles during the overnight settlement process.
The settled instructions are reported to the client and the positions are updated accordingly (securities and cash), so that they can be reused for other instructions or transferred. At the end of the settlement day, the T2S platform automatically transfers all the liquidity held in the DCA T2S to the related RTGS account opened in the Target 2 platform.

PRINCIPLE 10: PHYSICAL DELIVERIES

An FMI should clearly state its obligations with respect to the delivery of physical instruments or commodities and should identify, monitor, and manage the risks associated with such physical deliveries.

Summary Narrative

Key Consideration 1: *An FMI's rules should clearly state its obligations with respect to the delivery of physical instruments or commodities.*

MT does not offer settlement services relating to commodities.
Securities settlement services are based on immobilisation and dematerialisation of securities.
The notary service comprises the initial registration of an issue of dematerialized or paper-based financial instruments, or part of the same, in the accounting records system maintained by Monte Titoli, as central depositary. The initial registration may be requested by the issuers or entities who operate on their behalf. Monte Titoli ensures the integrity of the issue, or part thereof, initially registered in its accounting records system, through the reconciliation measures set forth by article 20, in accordance with article 37 of the CSDR. Notices to and from Monte Titoli concerning the central securities depository service are made exclusively via electronic networks, in the manner and within the terms specified by Monte Titoli in the Service Instructions and Operating Documents. The initial registration of paper-based financial instrument is carried out upon delivery of the certificates to Monte Titoli

Key consideration 2: *An FMI should identify, monitor, and manage the risks and costs associated with the storage and delivery of physical instruments or commodities.*

The remaining physical securities after MT dematerialisation process are held in vault of MT. The access to the vault is highly secured with a highly restricted access policy,
Monte Titoli has implemented procedures that provide strict security measures and sureveillance to the Vault and related access.
At least once a year Monte Titoli verifies the correspondence between accounting values (balances) and the certificates deposited in the vault.

PRINCIPLE 11: CENTRAL SECURITIES DEPOSITORIES (CSDs)

A CSD should have appropriate rules and procedures to help ensure the integrity of securities issues and minimise and manage the risks associated with the safekeeping and transfer of securities. A CSD should maintain securities in an immobilised or dematerialized form for their transfer by book entry.

Summary Narrative

Key consideration 1: *A CSD should have appropriate rules, procedures, and controls, including robust accounting practices, to safeguard the rights of securities issuers and holders, prevent the unauthorised creation or deletion of securities, and conduct periodic and at least daily reconciliation of securities issues it maintains.*

MT has appropriate rules, procedures and controls to safeguard the rights of securities issuers and holders.
All securities admitted in MT are recorded in book entry form and can be transferred by book entry transfers. The legislation applicable to MT sets clear and sound basis for admission and book-entry transfers of immobilised or dematerialized securities. For more details on the legal basis for immobilisation/dematerialisation of securities, please refer to Principle 1.
MT operates based on a robust double accounting system allowing the circulation of securities via book-entry and ensuring integrity of the securities issues,. Account balances are reconciled on a daily basis in accordance with applicable regulatory requirements. Where securities are immobilised, MT takes appropriate measures to ensure safekeeping of the certificates in accordance with regulatory requirements.
MT opens securities accounts for MT Participants ensuring a clear segregation of the holdings for each of their Participants at any moment in time it is known which securities are held on behalf of which Client.

Key consideration 2: *A CSD should prohibit overdrafts and debit balances in securities accounts.*

MT prohibits overdraft and debit balances in securities account.

MT applies accounting principles (double entry) ensuring that no credit is perfomed without the correspondent debit closing balance per security of a given day is the result of the previous end-of-day balance plus all settlement activity of that day.
Securities transfers only take place under strict (system) controls and procedures. This aims at safeguarding the rights of issuers and holders and to prevent unauthorised transfers or undue creation/deletion of securities.
In terms of reconciliation, the following processes are in place:
- when MT acts as issuer CSD, the accounting principles mentioned above also ensure that the amount of securities credited to Clients corresponds to the total of the Issuance Account managed by MT as Issuer CSD;
- when MT acts as investor CSD, a process is in place to perform a daily balance reconciliation based on the closing balances of the non T2S CSDs or T2S CSDs with whom MT maintains a link.

Key consideration 3: *A CSD should maintain securities in an immobilised or dematerialised form for their transfer by book entry. Where appropriate, a CSD should provide incentives to immobilise or dematerialise securities.*

Key consideration 4: *A CSD should protect assets against custody risk through appropriate rules and procedures consistent with its legal framework.*

Protection of securities form custody risk is ensured by segregation of accounts rules defined by MT in line with the applicable regulatory framework (inparticlar Art. 38 of CSDR).

The credit and debit movements of the financial instruments recorded in the accounts are arranged only after recording the corresponding debit.
At the end of each accounting day, Monte Titoli sends to the intermediaries a statement showing the initial and final balances, and the individual credit and debit movements recorded on that account during the accounting day. This statement will also indicate the quantity of any financial instruments not available for transfer or delivery for settlement as well as any movements in the account(s) occurred during the day, if these have not been notified before.
The intermediaries verify on a daily basis that the data communicated in the account statement sent by Monte Titoli complies with their own accounting data. If Intermediaries find any discrepancies in the statements and/or the communications relating to the individual account movements carried out in the course of the day, they shall give notification in writing within the day following the receipt of same. In the absence of such notification, the statements and/or the aforesaid movements shall be deemed to be tacitly approved.

Key consideration (KC) 5: *A CSD should employ a robust system that ensures segregation between the CSD's own assets and the securities of its clients and segregation among the securities of clients. Where supported by the legal framework, the CSD should also support operationally the segregation of securities belonging to a client's customers on the client's books and facilitate the transfer of customer holdings.*

Monte Titoli holds for each intermediary separate own accounts and third party accounts. Third-party accounts may be used to record securities held by the different clients of an intermediary ("third-party omnibus accounts") or to record securities held by an individual customer of an intermediary ("segregated accounts at an individual customer level"). For each account opened with Monte Titoli, the intermediaries should specify in their operating configurations whether this is an own account, a third party omnibus account or a segregated third party account for an individual customer.

Key consideration (KC) 6: *A CSD should identify, measure, monitor, and manage its risks from other activities that it may perform; additional tools may be necessary in order to address these risks.*

MT has in place a robust risk enterprasie framework that ensures proper mitigation measures and tools are il pleace to mitigate operational and financial risks associated with the activities performed.

PRINCIPLE 12: EXCHANGE-OF-VALUE SETTLEMENT SYSTEMS

If an FMI settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transactions), it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other.

Summary Narrative

Key consideration 1: *An FMI that is an exchange-of-value settlement system should eliminate principal risk by ensuring that the final settlement of one obligation occurs if and only if the final settlement of the linked obligation also occurs, regardless of whether the FMI settles on a gross or net basis and when finality occurs.*

MT offers FoP and DvP book-entry settlement services along the following principles:
• DvP settlement in central bank money
• Real-time gross settlement with immediate finality
• Integrated model by which securities accounts and cash positions in central bank money are held within the same IT environment
• Overnight batch settlement and daytime real-time settlement
• Real-time exchanges with payment systems operated by the Central Banks connected to T2S.

MT offers DvP model 1 settlement in central bank money i.e. there is a simultaneous exchange of securities against cash on the settlement platform.

MT offers gross settlement services (on a trade by trade basis). The settlement finality is reached and is simultaneous for both components. For more information on the settlement finality, please refer to Principle 8.

PRINCIPLE 13: PARTICIPANT DEFAULT RULES AND PROCEDURES

An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations.

Summary Narrative

Key consideration 1: *An FMI should have default rules and procedures that enable the FMI to continue to meet its obligations in the event of a participant default and that address the replenishment of resources following a default.*

In case of default of participant Monte Titoli applies rules and procedures defined in its Rulebook and related instruction. In line with requirements and guidelines provided at European level, Monte Titoli Deafult procedures describe actions and communication flows among Monte Titoli and the defaulting participant and other members of thesettlment system.

In this context it should be recalled that financial stability of Monte Titoli does non incur in any default losses as Monte Titoli does not hold any credit or liquidity exposures from the settlement activity. Participants default may cause only a loss of fees which are deemed as non-defaulting losses incurred in the running of the business.

Key consideration 2: *An FMI should be well prepared to implement its default rules and procedures, including any appropriate discretionary procedures provided for in its rules.*

If an insolvency procedure is started against a participant or indirect participant, Monte Titoli promptly activates the operating procedures described in Rulebook aimed at managing the settlement Instructions relating to the insolvent party.
These procedures include (i) blocking on the acquisition of new settlement instructions in the settlement system that are attributable to the insolvent Participant; and ii) cancellation of settlement instructions which are not settled after the declaration of insolvency.

Key consideration 3: *An FMI should publicly disclose key aspects of its default rules and procedures.*

MT's default rules are contained within MT's Regulations and are publicly available on the Company's website.

Key consideration 4: *An FMI should involve its participants and other stakeholders in the testing and review of the FMI's default procedures, including any close-out procedures. Such testing and review should be conducted at least annually or following material changes to the rules and procedures to ensure that they are practical and effective.*

As part of the testing of its default procedures, MT performs internal simulation exercises assessing the default of one or more participants in the various business lines and verifying the effectiveness and efficiency of the default procedures. The simulation involves, where relevant, external parties. The simulation is carried out at least annually, according to a procedure that provides the relevant guidelines to be followed. Participants are informed about the test and results.

PRINCIPLE 15: GENERAL BUSINESS RISK

An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialise. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.

Summary Narrative

Key consideration 1: *An FMI should have robust management and control systems to identify, monitor, and manage general business risks, including losses from poor execution of business strategy, negative cash flows, or unexpected and excessively large operating expenses.*

The guidelines for the management of risks adopted by Monte Titoli are defined by the Board of Directors. The framework outlining the objectives of the Group in terms of risk management enables the management to have an acceptable risk level in pursuing its strategy and to identify the relevant responsibilities. Monte Titoli has a framework for the management of all risks through documented policies, procedures and systems to identify, monitor and manage such risks.
In terms of general business risk, the potential negative impact on profits and capital as a result of a failure to achieve strategic objectives may be caused by unforeseen changes in the market and regulatory environment, potential losses from administration and operation activities, exposure to economic cycles, client behaviour and technological changes. Adverse scenarios have been considered to manage possible increase of expenses or decline of revenues, and the impact is weighted into the Monte Titoli's Capital Calculation.
To avoid potential losses from administration and operation activities, a robust control system has been implemented within Monte Titoli. This framework, articulated in several levels, ensures a full segregation between control functions and operational functions. The first level controls are carried out by dedicated Business Units, fully separated from the risk taking units. The second level, in compliance with CSD rules, is established as internal permanent second level control functions, which operate independently from the operational Business Units. The Third Level is performed by Italy Internal Audit Department.

Moreover, to mitigate the risk of failure in strategic objectives, MonteTitoli prepares an annual budget and a three-year strategic plan with bull and bear scenarios to monitor and manage possible negative impacts.
Monte Titoli also performs a quarterly review of its budget to ensure that the underlying assumptions are still valid and have not been invalidated by new market conditions or changes in its own financial situation or strategic objectives.
Moreover, when a main technical release or a new service is launched, Monte Titoli organises meetings with participants in order to present the new features of the services, collect feedbacks, schedule tests and define go-live dates.

Key consideration 2: *An FMI should hold liquid net assets funded by equity (such as common stock, disclosed reserves, or other retained earnings) so that it can continue operations and services as a going concern if it incurs general business losses. The amount of liquid net assets funded by equity an FMI should hold should be determined by its general business risk profile and the length of time required to achieve a recovery or orderly wind-down, as appropriate, of its critical operations and services if such action is taken.*

Monte Titoli holds high quality assets to cover their general business risk, in line with CSDR requirements.
A capital charge for business risk is estimated with an approach essentially scenario-based aligned with CSDR. This charge is then considered in the yearly exercise for the Group capital adequacy.
By making use of scenario analysis, the length of time required to achieve a recovery or orderly wind-down following a significant business loss is estimated by Monte Titoli. The plan assesses the time and associated operating costs of achieving a recovery or orderly wind-down against a set of parameters (speed and timing, financial aspects, preparation criteria, etc).

Key consideration 3: *An FMI should maintain a viable recovery or orderly wind-down plan and should hold sufficient liquid net assets funded by equity to implement this plan. At a minimum, an FMI should hold liquid net assets funded by equity equal to at least six months of current operating expenses. These assets are in addition to resources held to cover participant defaults or other risks covered under the financial resources principles. However, equity held under international risk-based capital standards can be included where relevant and appropriate to avoid duplicate capital requirements.*

Monte Titoli has set up a recovery plan in accordance with CSDR requirements and calculating sufficient liquidity to cover more than six months of operating expenses. The six months of operating expenses are added to the capital adequacy requirements to ensure that the capital needed to finance an orderly wind-down plan is clearly separated from the capital to cover the other potential risks.

Key consideration 4: *Assets held to cover general business risk should be of high quality and sufficiently liquid in order to allow the FMI to meet its current and projected operating expenses under a range of scenarios, including in adverse market conditions.*

Monte Titoli holds sufficient liquid resources to cover potential business losses.
Monte Titoli invests its regulatory capital amount in highly liquid financial instruments with minimal market and credit risks made of plain vanilla debt securities issued or guaranteed by a government or a central bank.
Liquidation of the security can be asked on a daily basis
In addition, Monte Titoli deposits a part of its liquid resources at Commercial banks with high credit standing

Key consideration 5: *An FMI should maintain a viable plan for raising additional equity should its equity fall close to or below the amount needed. This plan should be approved by the board of Directors and updated regularly.*

The capital planning exercise assesses capital adequacy on an annual basis and therefore the need for additional capital.
Deficiencies are normally expected and, in most cases, can be covered by retaining earnings and if not enough, Monte Titoli can rely on its the shareholder for capital injection to cover the shortage.
Extreme but plausible scenarios are covered in the recovery plan which includes options to raise capital.
The capital plan and the recovery plan are reviewed and approved on an annual basis by Monte Titoli Board.

PRINCIPLE 16: CUSTODY AND INVESTMENT RISKS

An FMI should safeguard its own and its participants' assets and minimise the risk of loss on and delay in access to these assets. An FMI's investments should be in instruments with minimal credit, market, and liquidity risks.

Summary Narrative

Key consideration 1: *An FMI should hold its own and its participants' assets at supervised and regulated entities that have robust accounting practices, safekeeping procedures, and internal controls that fully protect these assets.*

Monte Titoli can only invest its own financial resources.
Monte Titoli's Investment activity of its own funds is regulated by the company Investment Policy, which is approved by the Board of Directors and reviewed on an annual basis.
This Policy outlines the investment framework, designed to facilitate the identification and the assessment of all investment risks to which Monte Titoli is subject to and to ensure an efficient management of Monte Titoli's portfolio, in line with relevant regulation and with the company's risk appetite.

The objectives of the Policy are:

i. describe the governance arrangements implemented by Monte Titoli;
ii. ensure full compliance to Monte Titoli Risk Appetite on investments approved by the Board of Directors;
iii. ensure full compliance with the applicable regulatory requirements;
iv. protect the company's Regulatory Capital maintaining an adequate level of liquid resources;
v. describe the control system in place to ensure a proper monitoring of investment activity;
vi. determine streamlined rules to identify eligible financial instruments to be included in the investment portfolio;
vii. identify and detail the main risk types to which the investment portfolio may be exposed to;
viii. define the guidelines to manage all risks and mitigations related to own financial resources investment.

Key consideration 2: *An FMI should have prompt access to its assets and the assets provided by participants, when required.*

Monte Titoli can only invest its own financial resources. Monte Titoli's Investment activity of its own funds is regulated by the company Investment Policy, which is approved by the Board of Directors and reviewed on an annual basis.
By Policy and in order to comply with regulation, Monte Titoli is allowed to invest either in:

1. Cash assets through sight and term deposits with a reasonable duration. Monte Titoli is capable to liquidate deposited amounts on the same business day when the decision to liquidate is taken.
2. in Highly Liquid Financial Instruments meeting the following minimum liquidity criteria:
    i. ECB eligible
    ii. freely transferable and without any regulatory constraint or third party claims that impairs liquidation
    iii. availability of reliable price data which are published on a regular basis
    iv. availability of an active outright sale or repurchase market

Eligible Instruments must fulfill also further parameters as described within Monte Titoli's investment policy.

When invested in cash, the assets of MT are held in highly rated credit institutions with a maximum concentration of 35% of available cash in one Bank for diversification purposes. This and further risk protection criteria are regulated in the Investment Policy. Cash is available at any time as on current account. When invested in securities, it is put in a direct investment mandate composed of high quality liquid assets.

Key consideration 3: *An FMI should evaluate and understand its exposures to its custodian banks, taking into account the full scope of its relationships with each.*

Monte Titoli holds its own cash with commercial banks and central banks following rules and limits outlined in the Investment Policy. Finance department assesses the eligibility of banks based on an internal rating model which is periodically updated in order to ensure adequate monitoring to assess all exposures to the relevant entity as well as diversification of the money placement.

Key consideration 4: *An FMI's investment strategy should be consistent with its overall risk-management strategy and fully disclosed to its participants, and investments should be secured by, or be claims on, high-quality obligors. These investments should allow for quick* *liquidation with little, if any, adverse price effect.*

Monte Titoli's Investment policy is approved by Board of Directors and reviewed on an annual basis in view of applicable regulatory requirements and risk appetite of Monte Titoli.
The Investment policy principles are driven by the requirements determined under CSDR, applicable to MT, while aiming simultaneously at minimising capital erosion risk. Monte Titoli's own funds can either be invested in securities or in cash (see KC2).
Both Risk and Finance departments are involved in the compliance monitoring process. Quarterly reporting is performed and reported to the Board of Directors of Monte Titoli.
As per the Investment policy, Monte Titoli is only allowed to Invest its own funds in High-Quality Liquid Assets,investments can only be made in EUR denominated securities.
All investments are subject to rating on country, issuer, instrument type and maturity constraints to comply with CSDR provisions.
In addition, all instruments invested into, should have an ISIN with daily access to pricing information.
The investment procedure ensures that Monte Titoli has same-day capacity to instruct a sale of assets.

PRINCIPLE 17: OPERATIONAL RISK

An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfilment of the FMI's obligations, including in the event of a wide-scale or major disruption.

Summary Narrative

Key consideration 1: *An FMI should establish a robust operational risk-management framework with appropriate systems, policies, procedures, and controls to identify, monitor, and manage operational risks.*

The fundamental premise of sound Risk Management is that the Board of Directors and management understand the nature and complexity of the risks inherent in the portfolio of products, services and activities. This is particularly important for Operational Risk, given that it is inherent in all business products, activities, processes and systems
A vital means of understanding the nature and complexity of operational risk is to have the components of the Risk Framework fully integrated into the overall risk management processes. A risk register identifies all risks relating to Monte Titoli's activities, including operational risk.
Monte Titoli approach to operational risk (as CSD) takes into consideration the above fundamentals. The Operational Risk Management system is a structured set of processes, functions and resources for identifying, assessing and controlling operational risks with specific regard to ensuring the effective prevention and mitigation of such risks.
The key features of MT operational risk management system are:
the mapping of activities into business lines
the assessment of operational risk exposure
the results of the assessment, that form an integral part of the process of controlling the operational risk profile, are reported to the governing bodies and are used for management purposes to prevent and/or mitigate operational risks
the reporting system ensures that the governing bodies and the managers of the functions involved have timely access to appropriate information on operational risk. This approach is deeply embedded into Monte Titoli's Culture.
In Monte Titoli operational risk is minimised via highly automated processes reducing administrative activities and by formalised procedures for all services.

Assessment of operational risk is performed by the MT's management, also taking into account the recommendations of the auditors (Internal Audit, External Auditors and Statutory Auditors) in compliance with the London Stock Exchange Group (LSEG) Enterprise Risk Management Framework (ERMF) and MT Risk Management Framework (RMF).

According to RMF a regular risk assessment review is performed in order to:

- provide ongoing formal assurance that the company is appropriately controlling all risks to which it is exposed
- ensure that all areas of business are managing risk consistently
- the identified risks are ranked according to their impact and to their probability of occurrence. Controls are put in place to mitigate them.

Monte Titoli has established a robust operational risk-management framework with appropriate systems, policies, procedures, and controls to identify, monitor, and manage operational risks.
Both internal and external sources of operational risk have been identified. In general, operational risk arises from "internal" sources in case of deficiencies in control activities and procedures or inadequate skill of personnel and management, while external sources are the failure of an external service provider to provide its services or events affecting a wide metropolitan area. Monte Titoli has identified operational critical processes potentially hampering the functioning of the system in the context of business continuity and has indentified single point of failure for critical services within the Business Impact Analysis document.

A Risk Library lists all identified risks relating to Monte Titoli's activities, including operational risk. The Risk Library identifies and describes the measures adopted to mitigate the risks, valuates the residual risks, defining a "Risk Score" for each risk (calculated as the product between the likelihood and the impact of the risky event). It also lists risk owners, identifying responsibility and accountability and an evaluation of the adequacy of current controls with the indication of further action to be carried out to improve the level of controls. Mitigating actions include operational procedures, check lists, statistics on exceptions in production environment, contingency measures agreed with markets and CCPs, periodic audits on operational processes.
Operational procedures are updated in case of changes in the operational processes and new operational procedures are defined on the occasion of the launch of a new service.
For operational processes which are not completely automated, check lists are used by process owners in order to monitor the execution of all the required manual activities and controls.
Exceptions and irregularities in the operational processes are registered in a trouble ticketing tool (Service Desk) and periodically verified with the involvement of the process owners.
In this context, MT has applied the "Operational Risk Manual", performing an internal monitoring process reported quarterly to the Board of Direcotrs and to Group. The reporting includes description of each incident occurred, the respective lessons learnt and the remediation actions taken.

Operational risk is monitored and managed through several processes/tools, among which:

- operational controls (manual and automated controls, departmental check lists which report all processing controls, organizational measures, etc.);
- operational procedures, describing operating processes and related controls, are available to all relevant personnel;
- before a new service is launched, operational risk is identified, with the indication of the monitoring and mitigating measures and all IT applications are thoroughly tested;
- access to accounts and databases is secured against internal and external unauthorized access;
- the supervision and monitoring of compliance to Rules is entrusted to the Compliance Function;
- insurance policies are signed with primary companies;
- training programs are offered to keep an adequate level of staff expertise and risk awareness;
- Statistics on Exceptions on the production environment are produced covering operating or IT error/malfunctioning.

Risk Reviews related activities are documented in the Operational Risk Information System (ORIS).

In general, policies and procedures are set and defined by LSE Group and formalised in dedicated policies that apply to all entities and operations within the Group and to which all directors and staff, including temporary, contracted or secondees, must comply.
Monte Titoli has also its own Risk Management Framework and Risk Management Procedure built following the ISO 31000 Guidelines – Risk Management and Principles, but tailored to MT's requirements.

Changes to the services and projects are managed according to the LSEG Project Management Policy and Group Programme Management Change Framework.
A reliable phase of testing and an authorized migration approach in order to guarantee the mitigation of the possible risks which may arise are foreseen.

Test strategy is defined during the Project Design Phase and graduated vis-à vis the project features (Budget, Project duration, financial and reputational risks arising from potential production issues, etc.).
Moreover, projects status is updated during regular Project Progress Meetings/Project Steering Committee meetings and potential risks are managed by the adoption of appropriate mitigation actions. The implementation of actions is monitored at PM level in order to check their timeliness and effectiveness. Projects risks are identified by project Managers.

Key consideration 2: *An FMI's board of directors should clearly define the roles and responsibilities for addressing operational risk and should endorse the FMI's operational risk-management framework. Systems, operational policies, procedures, and controls should be reviewed, audited, and tested periodically and after significant changes.*

The Board of Directors has the final responsibility for managing risks. The Board of Directors has established a Risk Committee and has appointed a Chief Risk Officer responsible for the risk management process (including operational risk management) so that the risks assumed in the business are consistent with the strategies and the Risk Appetite defined by the Board of Directors.
The risk management process corresponds to the one adopted by the Group companies, on the basis of a common methodology of evaluation and representation of risks. In this respect, Monte Titoli has developed its own Risk Management Framework (RMF) which includes operational risk management. The RMF also defines roles and responsibilities for risk management oversight and activities. RMF is reviewed annually.Training is provided to all employees on relevant subjects on an annual basis.
The Monte Titoli's Board endorses the RMF which includes operational risk management.
The review of the RMF is regularly performed by the Chief Risk Officer for continuing relevance and applicability. The review process is undertaken as events require and at least annually.
The General Manager ensures that line managers take their responsibility for managing operational risk (as well as other risk categories) as "first line of defence.
The compliance with RMF is assessed through a six monthly self-certification process owned by LSE Group Compliance, and locally

facilitated by the Compliance function.
The RMF is also shared with relevant Authorities.
As far as IT systems are concerned in accordance with the BCM policy, a BC Scorecard is defined every year to plan on a monthly/quarterly basis controls of the IT systems to verify their correct behavior. Disaster Recovery test sessions are also planned, involving participants, too. On a yearly basis, a review process of policies and procedures is due to modify them, if the need occurs. Test with participants are also forecasted in case of major software releases and/or performance test in case of change of the architecture.

An external audit of Monte Titoli is performed by one of the main audit firms. The finality of external audit activities is to assess all operational and administration processes in conformity to the norms of law and the bookkeeping principles of reference.

Key consideration 3: *An FMI should have clearly defined operational reliability objectives and should have policies in place that are designed to achieve those objectives.*

For each IT service a Service Level Agreement is defined that provides the targeted parameter in terms of availability of the service. In addition to this SLA, some other Key Parameter Indicators are also defined and their control provides a systematic check about how system is behaving, how system's capacity is utilized. Monitoring and alerting systems are handled to capture any possible failure or malfunction of the system.

Monitoring and alerting systems guarantee a continuous check of the systems' behavior, as well as tracking of all parameters also gives the right information about any possible adaptation/variation of the architectures, with the aim to prevent potential disruption or block of the systems.

The definition of a SLA in terms of availability of each system and the related tracking process allows to continuously verify the respect of the parameter implicitly granting the coherence with the defined Risk Appetite.

Key consideration 4: *An FMI should ensure that it has scalable capacity adequate to handle increasing stress volumes and to achieve its service-level objectives.*

In accordance with a service capacity management process, the continuous control of the Key Parameter Indicators provides a systematic check about how system is behaving, how system's capacity is utilized. Moreover, also a business capacity management process is provided in order to evaluate potential need of increase of capacity due to new services/products to be launched. In this case, tests with participants are also forecasted in case of major software releases and/or performance test, in order to verify, internally and externally, impacts of potential increase of volumes.

On a daily basis all KPIs and SLAs are tracked and monitored. Alerting thresholds are defined in advance for each parameter in order to monitor the system's behavior during the day and to fix a level of the utilization whose achievement automatically activates a change management process with the aim to analyze the tracked figures and to address the following actions that must mitigate/eliminate any possible risk of block of the system.

Key consideration 5: *An FMI should have comprehensive physical and information security policies that address all potential vulnerabilities and threats.*

As LSEG some policies do exist to manage all the items related to this matter, like as Business Protection and Physical Security, Data Protection and Security, Employee Information Security. In addition to this, data centers and services are certified ISAE3402 and physical security is managed by specific and dedicated procedures.

In particular, the LSEG Physical Security Policy, adopted by MT has the objective to:

- provide a safe and secure environment in which MT can conduct its business activities;
- protect MT offices, data centres, equipment, information, people and other assets from natural and man-made threats;
- prevent, detect and delay unauthorised physical access or damage to MT buildings; unauthorised access or damage to the critical systems and information; loss, theft or compromise of valuable assets and disruption to MT operations by ensuring its support equipment is properly managed and maintained;
- prevent and limit impact of malicious acts against people.

The policy details the strategic physical security measures that are applied in MT premises and, where appropriate, the responsibilities and accountabilities in relation to those measures.

In addition to this, MT provides an internal department, inside the IT organization, whose aim is to manage security application in order to control, since the beginning, the set-up process of the users' credentials. This department is also performing, on a biannual basis, the recertification process in accordance with the policies mentioned above, sending the outcome of this process to the Group Security Manager. From the architectural perspective, all the systems' infrastructure provide several layers of architecture in order to separate and de-couple the external environment with the internal ones. Firewalls and network configuration also exist to secure the access to the systems/applications. The use of digital certificates is also provided for all the applications web based to strengthen the security of the usage of the users. On a timely basis, specific vulnerability/intrusion tests are planned and performed to also verify the robustness of the architectures.

Key consideration 6: *An FMI should have a business continuity plan that addresses events posing a significant risk of disrupting operations, including events that could cause a wide-scale or major disruption. The plan should incorporate the use of a secondary site and should be designed to ensure that critical information technology (IT) systems can resume operations within two hours following disruptive events. The plan should be designed to enable the FMI to complete settlement by the end of the day of the disruption, even in case of extreme circumstances. The FMI should regularly test these arrangements.*

Monte Titoli has a Business Continuity Plan to be used in the event of major incident that may result in non-availability of a building housing critical offices or service, sudden lack of essential staff, sudden absence of outside services, attacks from outside or inside, major disasters and then subsequently affect critical activities reliant on them. These events cover all the Risk Scenarios analyzed in the relevant Risk Analysis activity.

In terms of MT critical services resiliency, MT Business Continuity Plan describes also objectives supporting the business targets for the timely resumption of critical operations.

The document outlines the strategies and high level actions surrounding the continuity of key activities and is to be used by the Recovery Team or the Crisis Manager as required.

The disruption to IT systems scenario relies on the outsourcer BCP plan and on the Incident Management and Disaster Recovery procedures agreed between Monte Titoli and the outsourcer.

Critical functions and processes have been identified and categorized. For each of them Monte Titoli BCP provides the following information:

- RTO (based on criticality)
- Minimum staff needed to run the activity/service and within what time
- Strategies to be used if staff numbers drop below minimum requirements
- Strategies to be used when loosing access to premises
- Strategies to be used if there is a local IT disruption
- Strategies to be used if there is a widespread IT disruption.

Formal procedures identify steps to follow in the event of incidents (Incident Management procedures) or disasters (BCP) listing people and organizations involved.

In particular, Monte Titoli BCP provides the list of employees in order to:

- provide contact details
- count people during or following an incident
- identify who is part of the recovery team
- define who has Remote Access Capability for home working
- identify the deputy for each staff member.

A specific table in the BCP provides names (and relevant deputies), roles and responsibilities of people belonging to the recovery team.

A specific table in the BCP provides internal and external contacts, specifying the timings of the communications during the crisis. A call cascade flow is also provided to manage communications within Monte Titoli.

Since coordination and harmonization for all key players of the financial system is recognized as being a key factor, Monte Titoli participates in the CODISE, the Business Continuity Working Group coordinated by the Bank of Italy, in agreement with Consob, and composed of representatives of the leading banking groups and the companies that manage infrastructures essential to the orderly working of the financial system. CODISE is the coordinating committee for all activities, both within and outside Banca d'Italia, relating to the handling of operational crises in the national financial system. In the event of a crisis affecting domestic operators, the CODISE coordinator (Banca d'Italia) must provide the necessary liaison with the specific Banca d'Italia's crisis management units, other domestic financial operators and the European Central Bank.

In the event of a disaster Monte Titoli critical services will be restored within a 2 hours recovery time objective (RTO = 2 hours) in the secondary site (DR environment)

Since all the applications use synchronous mirroring of data to the secondary site, including transactions related data, Monte Titoli would expect the data to be accurate and available up to the point of failure once the systems have been brought back online on the DR site: the maximum time period in which data might be lost is considered to be zero (RPO = 0) provided that no anomalies affect data mirroring operations between production and DR environments.

The behavior is the same also for T2S, except in the case in which both “twin” sites that reside in the same country currently active are the ones to crash. In this case, the DR site of the “opposite” nation (Germany / Italy) would be activated but, precisely because in this case the mirroring is asynchronous, a maximum RPO of 2 minutes is envisaged. The solution adopted by T2S to try to recover the data lost in these 2 minutes is managed through the Restart After Disaster (RAD) process that involves T2S, participants and other CSDs.

Crisis procedure provides four different ways to communicate in case an incident occurs. For instance, for the highest severity incidents, two conference calls are opened as soon as the incident is tracked: one among technicians to carry on diagnosis and resolution; another one among sales representatives, customers and authorities to manage the communication and the corrective actions to be put in place. Service Manager and Crisis Manager are the two roles in charge of leading the calls and also guaranteeing the alignment and the communication between the two groups. Authorities are immediately informed by the Crisis Manager.

Secondary site:

The secondary site (DR environment) of outsourcer SIA is located about 30 Kilometers away from the primary site. Two secondary sites (DR environment) of outsourcer ECB, in ddition to the DR site in Germany, are located in Italy.

Alternative measures are provided to guarantee the continuity of the services when possible, in accordance with the Business Continuity Plan.

Review and testing

In accordance with the Business Continuity Management policy, all business areas have to perform on:

- a quarterly basis, the systems' check, plan data verification and call cascade;
- a biannual basis the escalation process;
- a yearly basis the vital records recovery and the plan walkthrough.

In addition to this, Disaster Recovery simulation is also carried on.

Key consideration 7: *An FMI should identify, monitor, and manage the risks that key participants, other FMIs, and service and utility providers might pose to its operations. In addition, an FMI should identify, monitor, and manage the risks its operations might pose to other FMIs.*

With regards to Key Participants and other FMIs, specific key risk indicators monitor the risk of failing to identify and manage operational risks that MT faces from key participants.

With regards to service and utility providers. MT expects critical service and utility suppliers to apply LSEG and MT standards to ensure resilience and security of services provided. MT doesn't enter into an agreement with a critical service and utility suppliers that cannot meet these requirements and provide assurance that these standards are being met on an ongoing basis

Contractual agreements with the outsourcees are in place for all outsourced functions. Great attention is given to the definition of Service Level Agreements (SLAs), contingency procedures and procedures for the monitoring of the outsourcees through appropriate monitoring systems, periodical meetings for the verification of the outsourced activities, in particular deviations from SLAs, and auditing activities with the outsourcees' premises.

In compliance with the rules, contractual agreements also include arrangements allowing Banca d'Italia and Consob to perform their respective supervisory duties towards Monte Titoli's outsourcees.

Monte Titoli has a business continuity plan in place that addresses events posing a significant risk of disrupting operations, including events that could cause a wide-scale or major disruption. The plan incorporates the use of a secondary site and is designed to ensure that critical information technology (IT) systems can resume operations within two hours following disruptive events. The arrangements aim to secure for Monte Titoli to complete the business day, even in case of extreme circumstances. The arrangements are regularly tested.

Monte Titoli's has a Business Continuity Plan and a Disaster Recovery Plan. Monte Titoli's Business Continuity Plan is carried out in order to make the activation transparent for all clients. Disaster Recovery Plans must be shared with all relevant stakeholders since the users of our systems must change the access address to Monte Titoli.

Communication with local and foreign participants and relevant authorities to be activated in a business continuity or a disaster recovery event is tested and a communication plan for local and foreign participants and relevant authorities is there ready for use. In case of crisis, the communication will be received by the previous mentioned subjects in the shortest possible time after the crisis opening declaration and hourly updates during crisis are foreseen.

The activation of Business Continuity Plan as well as the Disaster Recovery Plan are tested at least annually. All relevant interdependent stakeholders are involved in tests except for CCPs and markets. A document describing the outcome of the test session is available to supervisory authorities and to requesting participants.

PRINCIPLE 18: ACCESS AND PARTICIPATION REQUIREMENTS

An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.

Summary Narrative

Key consideration 1: *An FMI should allow for fair and open access to its services, including by direct and, where relevant, indirect participants and other FMIs, based on reasonable risk-related participation requirements.*

MT, as a part of the London Stock Exchange Group, offers its post-trading services in an equitable, transparent and non-discriminatory manner and allows fair and open access to its services ensuring an efficient risks management.
Within its Regulations, MT has designed its Onboarding Procedure defining the requirements that the participants shall be compliant with in order to adhere to its services.These requirements are clear, transparent and related to the risks, actual or prospect, the member may pose to MT.
Each legal entity intending to join MT services shall satisfy the legal, financial, technology and operational requirements.
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The access to the System is subject to MT Internal Onboarding Committee; this committee is an advisory committee to the GM on any decision regarding (i) the analysis, evaluation and acceptance of the membership requests to the MT System, (ii) the assessment of the alignment to the participation requirements and related decisions, (iii) the analysis, evaluation and acceptance of any changes of the participant status.
MT's Regulations establish procedures for the participation to the System, in an equitable, transparent manner.
MT, acting as operator of a system, is subject to constraints of local laws and policies on the jurisdictions. The SFD lists the entities that are allowed to be a participant to the system, and it also allows EU member states to add other type of entities to be participants.
The possibility to act as Payment Bank in T2S for the purpose of settling against payment is bound by the conditions set by the Central Banks and not the CSDs (please see Principle 9 for more details).

Participation requirements

MT operates a fair, open and transparent access and participation process, with publicly disclosed, non-discriminatory participation requirements. The admission criteria are set out in the MT Terms and Conditions and are publicly available on website.
Access criteria and requirements described in this principle apply to Participants other than Issuers, defined as "participants" for the purpose of Principle 18 and 19. Issuers may be admitted as Clients if they respect the eligibility criteria and if their securities are eligible to be admitted in the CSDs according to the Terms and Conditions.
MT has only contractual relationship with their direct participants or the so called "Centri Servizi" which operates on behalf of Issuer that have a direct participation in MT. For more details see Principle 19.
Any applicant participant must meet the following preliminary conditions:

- be established in a jurisdiction that is not subject to Sanctions or that is not subject to a call for action from the Financial Action Task Force (FATF) in the context of the fight against money laundering and terrorism financing;
- provide adequate information enabling the CSD to meet the applicable anti-money laundering and terrorism financing requirements that apply to it.

In order to be admitted as a participant, any applicant needs to belong to one of the following categories of subjects:

- credit institutions within the meaning of Directive 2013/36/EC of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, organised under the laws of a Member State of the European Economic Area;
- investment firms within the meaning of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments, organised under the laws of a Member State of the European Economic Area;
- central securities depositaries of a Member State of the European Economic Area within the meaning of CSDR;
- national central banks participating in the European System of Central Banks;
- public institutions of a Member State of the European Economic Area;
- central counterparties (CCP) within the meaning of EMIR;
- any other category of subjects listed in MT Terms and Conditions.

The information and documentation to be provided by the Applicants is exhaustively mentioned in the Operating Manual - Part I.
Additional specific documents are required depending on local regulatory requirements.

The admission criteria

As described in the MT Terms and Conditions, any applicant is required to meet the followingadmission criteria:

- Technical and operational capability: an applicant must demonstrate it has both the staff and the technological infrastructure to meet the CSD's operational and security requirements and the T2S operational requirements, if the applicant intends to interact directly with T2S. The applicant must also demonstrate an ability to maintain this capability on an ongoing basis, including in contingency situations.
- Reputation in the market: an applicant must have a good name in the market. In making this determination the CSD will consider the applicant's regulatory status, if any, reputation of management and whether the applicant is a company whose securities are admitted to trading on a regulated market. The applicant should also be located in a country with an appropriate regulatory environment.
- Anti-money laundering program: the applicant must demonstrate that it has an adequate anti-money laundering programme in place which complies with applicable Law on prevention and detection of money laundering. In making this determination, the CSD shall consider the applicant's location as well as its identification, control and reporting procedures.

Risk assessment

The CSD may decline to accept any applicant upon a risk-based assessment which indicates that admission of the applicant could compromise the CSD's ability to provide prompt, safe, accurate and orderly processing and settlement of transactions, or could represent a threat to the security, integrity or reputation of the CSD or the CSD System or is likely to be disruptive to other Clients. In making this assessment, the CSD will consider factors relating to the applicant's risk control environment and will consider whether the applicant conducts regular risk assessments within its organisation in order to identify, quantify and prioritise risks against criteria relevant to its organisation.
MT may also impose additional conditions on applicants, for instance in order to avoid that MT become exposed to additional reporting, disclosure or other legal, tax or regulatory requirements. The admission of a participant cannot result in the CSD being in breach of a Law or Order not exposure the CSD to additional reporting, disclosure or other legal, tax, or regulatory requirements.
Access of other CSDs or FMI to the MT can be granted by via standard access, customised access or an interoperable link. For all types of access the above criteria will apply. Depending on the type of links to be set up, Standard, Customised or Interoperable, the set up process may differ.
Acceptance or refusal of access requests is based on a comprehensive risk assessment, and follows the governance determined by CSDR, including for the assessments to be done for CSD, requesting participant access, established within or outside of MT.
After a client has been admitted, monitoring is done to ensure the participant continues to meet the admission criteria. See KC 3 for more details. Participants are required to notify any material event or changes which may affect their ability to comply with the admission criteria.

Testing

To assess the applicant's technical and operational capability, the applicant needs to successfully pass any test the CSD or, as the case maybe, the T2S operator, may reasonably request.

Governance of the Admission Process

The MT Onboarding Committee held by Senior management is competent for granting or refusing access to any applicant, based on a documented recommendation made by a multidisciplinary internal forum.
The MT Onboarding Committee, within 30 (thirty) days of the date of receipt of the application for access to the service, shall notify the applicant that it has been granted access to MT services or of the grounds for rejection, in accordance with the provisions of European Regulation (EU) No. 909/2014 and the associated implementing provision.
The deadline indicated in paragraph 3 may be extended up to three months if the access application is submitted by: a) entities intending to participate in the Notary; b) central counterparties or other central securities depositories that wish to participate in the settlement service.
If an application is rejected, such written notification shall include the reasons for its rejection.

Appeal

If an applicant's request for participation is refused, it has a right of appeal. The appeal process is set out in the MT Contractual documentation and it is publicly available on website.

Key consideration 2: *An FMI's participation requirements should be justified in terms of the safety and efficiency of the FMI and the markets it serves, be tailored to and commensurate with the FMI's specific risks, and be publicly disclosed. Subject to maintaining acceptable risk control standards, an FMI should endeavour to set requirements that have the least-restrictive impact on access that circumstances permit.*

MT's Regulations, its amendments and all information related to the membership process are disclosed on the Company's website.
The MT admission criteria mentioned above are justified in terms of safety and aim to limit either specific risks, including operational risks (technology capability criterion) and legal risks (legal capacity requirement), or risks in general (internal controls and risk management and ethical standards).
As noted above, the admission requirements are set out in the MT Contractual documentation.
All these are publicly available via MT's website.

Key consideration 3: *An FMI should monitor compliance with its participation requirements on an ongoing basis and have clearly defined and publicly disclosed procedures for facilitating the suspension and orderly exit of a participant that breaches, or no longer meets, the participation requirements.*

Monitoring compliance

MT monitors participants' compliance with the participation requirements described in KC1 and with which they must comply on a continuous basis. This monitoring is performed by the Membership department with the help of Risk Management tools compliant with the LSE Policies.
This process results in a review of the admission criteria with the final aim of either confirming that a participant continues to comply with the criteria or identifying non-compliance that can ultimately lead to exclusion from the CSD. The frequency of the sponsorship review depends on the risk profile of the client. Client's eligibility to MT services has to be updated and reapproved at increased frequency if MT has knowledge of events that have material adverse effects on their Participants (such as compliance issues made public).
The eligibility review aims to:

- demonstrate the ongoing compliance of participants with the MT admission criteria;
- regularly monitor certain issues that have affected individual participants since the last review;
- identify and assess potential risks arising from business relations with participants and, if indicated, escalate these to the relevant governing bodies who can decide to increase due diligence on impacted participant or that may ultimately decide to suspend or terminate a participant;and
- avoid damage to MT's reputation and limit financial losses or liabilities deriving from external events that impact the Clients.

In case of non-compliance with one or several criteria, several actions may be undertaken, from increased monitoring of the Client, to suspension or termination of access. The Onboarding Committee and/or MT Senior Management will be involved, as the case may be, for decision on required actions.

Participants' obligations

Participants are required to notify any material event or changes which may affect their ability to comply with the admission criteria.
MT's participants also agree to comply with any request, which MT may reasonably make from time to time, for additional documentation which may evidence such continued compliance.

Suspension, disconnection or termination of clients

The MT Terms and Conditions lists the situations where MT may terminate, disconnect or suspend the contractual relationship with a participant. The termination or suspension, to the extent permitted by applicable Law, can apply at any time, by written notification, with effect from such date and time as the CSD may specify. Please see Principle 13 – Participant default rules and procedures for more details.
The suspension of the access of a participant to all of the services and functionalities may be decided if such participant fails to comply to the admission criteria or under the conditions set by the Terms and Conditions.
The consequences of suspension, disconnection or termination are also described in the Terms and Conditions. These rules aim at minimising the disruption to the CSD system and its participants and the CSD that the suspension, disconnection or termination of a client could cause. An appeal may be lodged against any decision of the CSD on an application to become a participant or a suspension or termination of a participant as set out in Book II or the Operating Manual.

PRINCIPLE 19: TIERED PARTICIPATION ARRANGEMENTS

An FMI should identify, monitor, and manage the material risks to the FMI arising from tiered participation arrangements.

Summary Narrative

Key consideration 1: *An FMI should ensure that its rules, procedures, and agreements allow it to gather basic information about indirect participation in order to identify, monitor, and manage any material risks to the FMI arising from such tiered participation arrangements.*

MT does not have tiered participation arrangements but only has a contractual relationship with their direct participants. MT does not have any contractual relationship with the underlying clients of their participants and does not interfere in the contractual arrangements between its participants and the underlying clients of those.
MT manages risks posed by their direct participants on the basis of the criteria detailed in Principle 18. MT believes that currently it is not exposed to material risks arising from clients of its participants. In particular, MT does not run any credit risk (except the payment of invoices from their direct participants) or liquidity risk resulting from the settlement activity as it settles transactions in central bank money (as detailed in Principle 9). Besides, no material operational risks arise linked to indirect participant. Nevertheless, disruptions in the activity of a large underlying client of a participant could possibly affect the efficiency of settlement in the MT. Hence identifying these large underlying clients and ensuring that the concerned participant has the adequate operational setup in contingency situations is important to minimise the risks other participants could face.
In accordance with the EU Commission Delegated Regulation 2017/392 implementing CSDR, MT has obligations to monitor operational risks that may be posed by key participants. This requires to identify "Key Participants" (as defined in article 67(1) of the CSDR RTS) and, potentially, the underlying clients of these Key Participants. MT has the right under Terms and Conditions, to ask key participants to provide information related to their participants responsible for a significant portion of the transactions processed by the CSD.
Monte Titoli gather information on underlying client's participants via the following means:

Key Participants

The criteria to be considered as a Key Participant in MT are based on the following
Dimensions:

- transaction volumes;
- level of interdependency with other participants and the SSS of the CSD as a whole in the event of an operational problem affecting the smooth provision of services by the CSD;
- material dependencies between participants and participants' clients, where such clients are known to the CSD, that might affect the CSD.
- Monte Titoli monitors the above by:
- identifying Key Participants on an ongoing basis;
- ensuring that Key Participants continue to meet the access criteria;

- identifying Key Participants' underlying clients responsible for a significant proportion of transactions processed by the CSD; and
- gathering, if relevant, additional information about dependencies on any of its underlying clients.

Any identified risk is managed in line with the Corporate Risk Board Policy.
The above mentioned framework is being furthered enhanced, among other things to expand monitoring to large participants (on top of key participants) as well as on their underlying clients.

Account setup
All accounts opened in MT are identified as either proprietary, client omnibus or client segregated accounts.
MT's participants have full flexibility on their account structure at the level of the CSD:

- to segregate their own assets from those of their underlying clients; and
- to segregate client assets via omnibus (possibly per business line) or individual structure.

The identification of the MT participants and their clients is performed in line with both applicable AML regulations and internal risk based approach.

Key consideration 2: *An FMI should identify material dependencies between direct and indirect participants that might affect the FMI.*

Monte Titoli, under CSDR, is required to monitor the risks associated with key participants and their customers
The Operation Settlement function monitors, on a daily basis, the settlement efficiency of the Key Participants to identify potential downgrades. The Chief Operating Officer verifies the identified Key Risk Indicator on a quarterly basis
In the event that the monitoring activity highlights the repeated exceeding of the threshold, or in the event that a marked downgrade of the settlement efficiency of the Key Participant is detected at any time, the Chief Operating Officer verifies with the Key Participant in question the underlying causes and, if he deems it appropriate, after consulting the CEO, he informs the Supervisory Authorities.
Furthermore, for the purposes of monitoring each Key Participant, the Settlement function identifies its customers - known by Monte Titoli as indirect participants - whose transactions, in terms of volumes and values, are at least equal to 25% of the total transactions regulated by the Key Participant at Monte Titoli

Key consideration 3: *An FMI should identify indirect participants responsible for a significant proportion of transactions processed by the FMI and indirect participants whose transaction volumes or values are large relative to the capacity of the direct participants through which they access the FMI in order to manage the risks arising from these transactions.*

Please see KC 1 and 2

Key consideration 4: *An FMI should regularly review risks arising from tiered participation arrangements and should take mitigating action when appropriate.*

As mentioned in KC 1, Monte Titoli does not recognise tiered participation arrangements and does not have a contractual relationship with the underlying clients of its participants. Based on current analysis, underlying clients of participants does not create material risks for MT.
The admission criteria, applicable to direct participants, and the admission process are documented in internal policies as well as on CSDR procedures.

PRINCIPLE 20: FMI LINKS

An FMI that establishes a link with one or more FMIs should identify, monitor, and manage link-related risks.

Summary Narrative

Key consideration 1: *Before entering into a link arrangement and on an ongoing basis once the link is established, an FMI should identify, monitor, and manage all potential sources of risk arising from the link arrangement. Link arrangements should be designed such that each FMI is able to observe the other principles in this report.*

The establishment of links is under Monte Titoli's responsibility and it is performed according to the requirements set by art 48 of the Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 and in observance of this principle 20 of the PFMI.
Responsibility also covers the assessment of the receiving (I)CSDs and their market environment. The assessment is done at the time the link is set up and its maintenance is carried out according to the frequencies detailed in the following, at least once a year and in case changes at the (I)CSD or in the related market occurs, thus requiring a new assessment.
The monitoring and the management of all the potential sources of risk connected to the links are integrated into the wider corporate process of risk management.

When considering a new link all aspects are examined with the aim of identifying implied potential risks, as well as legal, technological and operational impacts. At this stage the activities required for shaping the relationship with the foreign (I)CSD and for setting up the link are identified. The process consists of the following steps:

- assessment of the prospective link
- link set-up

The analysis starts with a high level risk assessment of the prospective link focusing on the market environment of the receiving (I)CSD country, on the basis of a country risk profile determined by the Group and covering among others: corruption, international transparency, major financial sanctions, level of cooperation according to the Financial Action Task Force, human rights, tax transparency.
Once the results of the high level risk assessment are approved by the management, the setting up of the link continues with a more analytical assessment focussed on the acquisition and the evaluation of all information on the relevant aspects of the link set-up and implementation (legal, regulatory, operational, organizational, fiscal, financial, technological). The next step includes any IT enhancement or upgrade possibly necessary for operating the link.
The risks underlying the link are severely assessed and possible mitigating measures identified. The analysis is mainly focused on the receiving (I)CSD's:

- legal framework with particular emphasis on asset protection in insolvency proceedings; national provisions regarding the law applicable to securities and to settlement finality; ownership restrictions; local tax provisions and their implications; disclosure requirements; provisions regarding anti-terrorist financing and anti-money laundering; Terms and Conditions; participation contract;
- operational requirements with focus on the options available for opening and maintaining securities and, as the case maybe, cash accounts; settlement and corporate actions processing; connectivity options; operational capacity including in a business continuity environment; disaster recovery processes.

When considering the opening of a link with a CSD outside the EU, a wider assessment is carried out, in line with the requirements set by the CSDR in such context.
At this point of the process a project team is called, whereas each unit involved is responsible for implementing the steps that are identified for the go live.

Once the CSD link is up and running, the receiving (I)CSD's performance is monitored daily, in the course of the ordinary operational activities by the operating units, with the support of the Network Management team whenever issues require escalations (for instance with reference to the respect of SLAs, as agreed between the parties, and to the smooth processing of operations).

Whenever the need occurs and, in any case, annually, all the key elements of the link and of the receiving (I)CSD are monitored, also in view of ongoing compliance to the requirements of the CSDR. This monitoring is mainly carried out through due diligence questionnaires and it is focused on the maintenance of the conditions which were investigated as prerequisites of the link set-up.

All the collected pieces of information are the basis for the annual review process as required by the CSDR.

Key consideration 2: *A link should have a well-founded legal basis, in all relevant jurisdictions, that supports its design and provides adequate protection to the FMIs involved in the link.*

Assurance of a well-founded legal basis for the link is achieved through a careful analysis of the applicable domestic legal framework of the receiving (I)CSD country to be sure that this is in line with the Italian one.
The Terms and Conditions governing the use of the system of the receiving (I)CSD and the participation clauses included in the participation contract also deserve attention.
The legal assessment carried out includes amongst others: the law governing the contract; the liability on each party of the relationship; the legal nature of the rights on the securities deposited in the books of the receiving (I)CSD; the level of segregation offered; the laws applicable in case of the insolvency of the receiving (I)CSD and of its participants, with particular reference to asset protection and the connected rules/procedures applied by the receiving (I)CSD; the irrevocability and finality of transfer orders; the accessibility of assets: the confidentiality provisions.

As part of such legal assessment the Fiscal Department in Monte Titoli also performs an analysis of the tax environment of the receiving (I)CSD country and of tax services and procedures at the receiving (I)CSD level.
As anticipated above, the above mentioned elements are subject to re-assessment, to evaluate possible impacts on Monte Titoli and on its participants:

- whenever changes are communicated by the receiving (I)CSD (or become otherwise known) to their Terms and Conditions or to their participation contract. Proposed amendments are subject to deep analysis;
- when the scope of the link is enlarged to new services or to new instruments, if those require a specific attention
- at least annually, in the view of compliance to the CSDR requirements.

Before setting up the link, a legal opinion is requested to international law firms with specific knowledge over the jurisdiction of the receiving (I)CSD. Such Legal Opinion is updated in case changes occur regarding the rights connected to securities held at the receiving (I)CSD or to the principles addressing the validity and enforceability of the participation contract, being those elements the subject matter of the Legal Opinion.

Key consideration (KC) 3: *Linked CSDs should measure, monitor, and manage the credit and liquidity risks arising from each other. Any credit extensions between CSDs should be covered fully with high-quality collateral and be subject to limits.*

For links within the T2S system, settlement is possible both on FoP and on DVP basis, in euro, in Central Bank Money. No credit or liquidity risk is implied in the settlement of transactions, as it is carried out directly on the securities accounts of the CSD participants and on their associated DCAs.
For links outside the T2S system, settlement is possible on FoP basis or on DVP basis, in euro, (except for the link with the US Depository Trust Company where only FoP settlement is supported) in Commercial Bank Money. As for DvP settlement, the liquidity and credit risk containment is guaranteed by the operational methods adopted by Monte Titoli according to which the forwarding of the transactions to the foreign systems takes place only after checking the client's actual assets availability for settling those transactions. In particular, Monte Titoli carries out a preventive control on the client's account regarding the cash availability (in case of purchase of securities) and the reservation of such cash to the transaction (pre-funding). In the same way, Monte Titoli carries out a preventive control on the client's account regarding the securities availability (case of securities delivery) and the reservation of such securities to the transaction (pre-positioning).
Having no banking license, no credit extension is granted by Monte Titoli to its participants in the context of settlement. In addition, negative balances in the securities accounts are not permitted.

Key consideration (KC) 4: *Provisional transfers of securities between linked CSDs should be prohibited or, at a minimum, the retransfer of provisionally transferred securities should be prohibited prior to the transfer becoming final.*

Provisional transfers are not allowed.

Key consideration (KC) 5: *An investor CSD should only establish a link with an issuer CSD if the arrangement provides a high level of protection for the rights of the investor CSD's clients.*

As anticipated above, the assessment carried out before a link is opened mainly focuses on the aspects of the protection of the assets of Monte Titoli's clients, with reference to the domestic market legal framework. To this end, the participation agreement with the receiving (I)CSD, its Terms and Conditions and its operating rules are also analysed to make sure that no entitlement is granted to the receiving (I)CSD, its participants or their respective creditors, in case of bankruptcy or failure, over securities that Monte Titoli holds in the accounts at that (I)CSD, on behalf of its own clients.
The periodic review of all relevant aspects of the link grants that assurance over the level of protection of the rights of Monte Titoli's clients is maintained.

Key consideration (KC) 6: *An investor CSD that uses an intermediary to operate a link with an issuer CSD should measure, monitor, and manage the additional risks (including custody, credit, legal, and operational risks) arising from the use of the intermediary.*

Monte Titoli only maintains direct links with other CSDs. The link with Euroclear UK and Ireland (EUI) instead, as per system rules, foresees the intervention of a "Sponsor". Rights and obligation of the Sponsor are clearly stated in the EUI participation contract.

PRINCIPLE 21: EFFICIENCY AND EFFECTIVENESS

An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves

Summary Narrative

Key consideration 1: *An FMI should be designed to meet the needs of its participants and the markets it serves, in particular, with regard to choice of a clearing and settlement arrangement; operating structure; scope of products cleared, settled, or recorded; and use of technology and procedures.*

In accordance with Article 28 of Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 and Article 17 of its Statute, Monte Titoli S.p.A. (or "Monte Titoli") on 18 January 2019, established the Users Committee, composed by 9 members as representatives of Participant and Issuers. The User Committee provides independent advice to the Board of the CSD, on key arrangements that impact the CSD's members.

Monte Titoli has set up, at national level, several working groups with its participants (Post Trade Participant Committees) and participates to national and international associations and advisory groups (Eg. Amiseco, Ecsda etc.) coordinating at national and international levels the adherence to market standards, product enhancements, developments and evolutions of its systems, products and operations to ensure they meet the needs of its participants and the markets it serves.
MT regularly collaborates with its customers, organizing seminars and meetings in order to inform them of developments, new services, changes and modifications in the offer of services.
In accordance with the CSDR regulation, the appointed customers also participate in the user committee meetings organized by MT.
In terms of connection and usage of services, participants can choose the cash and securities settlement methods they prefer, by participating directly in the TARGET2 and / or T2S settlement platform.
The IT infrastructure also offers several options to allow participants to feed their applications with information, based both on data recovery and on the Application to Application methodology (also A2A) in compliance with international standards.
As a financial market infrastructure, MT's mission is to provide post-trade services that support safe, resilient and efficient capital markets in Italy and other markets where MT is a CSD Investor. MT offers a range of value-added services that meet the changing needs of the financial markets. MT is committed to building a strong and sustainable future for the benefit of both customers and the capital markets in which it operates.
MT monitors customer satisfaction, in particular through the opinions of customers collected during the periodic meetings that take place on many specific post-trade issues in the Monte Titoli and the user committees described above and takes corrective actions when necessary. MT has a very low risk appetite which leads to ensuring the highest levels of system availability, preventing accidents from having an impact on participants or, when this happens, ensuring that problems are resolved quickly without minimum or minimum external effects.

Key consideration 2: *An FMI should have clearly defined goals and objectives that are measurable and achievable, such as in the areas of minimum service levels, risk-management expectations, and business priorities.*

Monte Titoli's approach and its role in the financial system require that there is an attitude and predisposition to act in a fair, transparent and non-discriminatory way in offering its services based on rules, criteria and procedures that guarantee safety and security, equal treatment between market infrastructures and its participants.
As for the objectives that meet the needs of its participants and the markets it serves, Monte Titoli follows the standards and best practices in order to ensure greater effectiveness in relation to the basic operating processes.
With reference to the minimum service levels, Monte Titoli, pursuant to chapter V of the delegated regulation (EU) no. 153/2013 of 19 December 2012 and of the "Guidelines of the Bank of Italy on business continuity for financial market infrastructures" published in May 2014, is committed to guarantee the most reliable and resilient financial services. To this end, the Company guarantees that these services, identified as "critical", will be resumed within two hours of the reporting of an incident or disturbing event.
With regard to risk management expectations, in assessing its financial resources, Monte Titoli adopts, subject to formal approval and periodically reviewed by the (internal) Risk Committee, a more conservative approach than the minimum requirements established by the International Regulation.
As part of the planning process for new services, Monte Titoli follows the Group standards indicated in the Project Management Policy.
The Board of Directors, in the context of defining its strategic guidelines, ensures that the objectives, in terms of effectiveness, are measurable and achievable with the formal annual approval of the relevant documentation relating to business continuity Plan, Risk Register, Framework of risk appetite and main developments of new services.
Furthermore, the achievement of the targets is ascertained through a regular evaluation and review carried out, among other things, by relevant corporate bodies and functions: second level control functions (CRO, Risk Policy, CCO), third level control function (Internal Audit Italy), Internal Risks Committee, Users Committee, Operational Risks Committee, Board of Directors.
In addition, business continuity simulations are planned and performed on an annual basis and disaster recovery simulations are performed twice a year. The results of the simulations are duly communicated to the Board of Directors

Key consideration 3: *An FMI should have established mechanisms for the regular review of its efficiency and effectiveness.*

Monte Titoli recently reviewed almost all its processes in order to become a more agile and flexible organization. Through the application of Lean Six Sigma principles Monte Titoli was able to enhance business scorecard to track productivity and efficiency measures, improve operational processes control to react promptly to any business disruption or change, eliminate redundancies and waste by standardizing operating processes, improve planning to achieve work balance and avoid under-capacity issues, identify improvement areas and also deploy, for specific tasks, Robotic Process Automation.
Monte Titoli also reviews on a periodic basis, its KPIs.
Minimum service levels are evaluated taking into account ad-hoc guidelines and the procedures in which the key elements are defined to handle any operational risk incident with regards to identification, mitigation actions and reporting to internal and external parties. Furthermore, Monte Titoli evaluates its efficiency and effectiveness by arranging regular meetings with its participants. The key outcomes are recorded in the meeting minutes and the highlights are presented to the MT Management Committee. The Risk Register monitors on an ongoing basis potential operational incidents. The outcomes of this evaluation are reported to the CEO and the Management Committee.

PRINCIPLE 22: COMMUNICATION PROCEDURES AND STANDARDS

An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording.

Summary Narrative

Key consideration 1: *An FMI should use, or at a minimum accommodate, internationally accepted communication procedures and standards.*

MT, in order to facilitate effective communication between itself and its Participants, CSDs and CCPs and, at the same time, to improve the quality and efficiency of custody and settlement transactions, adopts standardized communication media and protocols.
Referring to the use of an internationally accepted communication standard, all the instruments centralized in MT can be identified through an ISIN code and all counterparties are identified using standardized code such as BIC Code, or ABI code. MT is already LEI (Legal Entity Identifier) compliant.
The connections with the Trading Platforms are based on IBM MQ-Series, that represents one of the most reliable solution providing communication mechanisms between applications on different platforms. The connection with T2S is based on ISO 20022 xml based messages via Eurosystem approved VANSP connectivity.
Reports and data files are available on a SSL secured internet web site (Moti4U). The participants can download them just after a personal digital certificate subscription to Trust Certification Authority, and traffic is secured by HTTPS protocol.
All the interactions between MT and its participants are managed with the Straight-through Processing (STP), relying on the ISO Swift messages as far as the Cash movement is concerned, since MT is allowed to execute direct Debit and direct Credit on the Central Bank participant account. MT uses the SWIFT ISO15022 as main communication standard to domestic and International CSDs.
Participants rely on readable flows, based on XML protocols and ASCII format, to reconcile the most relevant data (such as trades, positions, margins, fees). Participants can also interact with MT programmatically by means of webservices over protected or dedicated channels in the A2A application.

Communication procedures & standards

MT offers a range of connectivity solutions and communication procedures to its participants and other market infrastructures, such solutions leverage existing internationally agreed standards i.e. mostly ISO 15022 or 20022.
Interaction between MT and its participants is either application-to-application (i.e. STP communication solutions via MT-x for STP) over different networks (SWIFT, BT, SiaNet, and Public Internet over VPN) or user-to-application (over Https traffic).
Key services are available to MT participants via both communication means.
In recent years, MT has continuously invested in ISO standards, suppressing non standard protocols where possible. MT has also made important investments in ISO 20022 allowing its market participants and other infrastructures to benefit from the advantages of ISO, making it easier for them to connect to MT services.
Over the years to come, MT entities will continue to apply this approach to its different connectivity solutions.

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PRINCIPLE 23: DISCLOSURE OF RULES, KEY PROCEDURES, AND MARKET DATA

An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be publicly disclosed.

Summary Narrative

Key consideration 1: *An FMI should adopt clear and comprehensive rules and procedures that are fully disclosed to participants. Relevant rules and key procedures should also be publicly disclosed.*

MT discloses its rules and procedures on the Company's website and ensures that the overall documentation is clear, comprehensive, updated and compliant with the International, European and National regulatory framework.
MT provides current and prospective participants with the disclosure of the relevant documentation in order to allow them to assess and understand the risks they incur by participating in the CSD system. MT Regulations set forth the rules and the key procedures followed in ordinary operations and in exceptional events such as, *inter alia*, procedures for default management, procedures for the physical and logical protection of data relating to the System, procedures of recovery, re-activation, and restoration for data processing that ensure the continuity of the service.
MT's Regulations are regularly reviewed and updated, if needed, following an internal process which involves:

- consultation process with the main associations and participants, in order to share the proposed changes and take into consideration relevant comments;
- evaluation of changes by the Supervisory Authorities;
- receipt of a mandatory non-binding opinion of the Risk Committee, if the topic is within its remit;
- final approval by the Board of Directors.

Upon approval, MT informs its Participant by releasing a Market Notice published on the Company's website in the pertinent section and in addition by sending via e-mail the said Notice to the participants.
In addition, MT has adopted a set of internal organisational measures to facilitate the practical implementation of the key procedures outlined in the MT Regulations.
Monte Titoli also publishes on the website a set of documents to provide further information on its services and potential risks borne by participants including e.g.:

- Description of levels of segregation;;
- CPMI-IOSCO Disclosure Framework
- Due diligence pack which elaborate replies to industry standardised questionnaires

Key consideration 2: *An FMI should disclose clear descriptions of the system's design and operations, as well as the FMI's and participants' rights and obligations, so that participants can assess the risks they would incur by participating in the FMI.*

In order to allow a comprehensive understanding of the activities related to the csd system, MT discloses on the Company's website all the relevant information concerning the system design and operations, including a high level description of the IT architecture, connectivity requirements, operational manuals and forms.
The legal and regulatory framework in which MT operates is fully disclosed and available on the website, whereby Participants may retrieve adequate information concerning their rights and obligations in relation either to the participation requirements and operational activities
Detailed service descriptions are available to Participants describing the MT system's design and operations and detailing how the service is offered by MT.They are updated whenever needed and among other documents, complement MT Terms and Conditions and gives the participants a view on the design and operations of the specific services and the generic risks as well. Rights, obligations and risks of MT participants are detailed in its Terms and Conditions

Key consideration 3: *An FMI should provide all necessary and appropriate documentation and training to facilitate participants' understanding of the FMI's rules and procedures and the risks they face from participating in the FMI.*

MT provides its participants with all necessary and appropriate documentation and testing to facilitate the understanding of the rules and procedures and the risks stemming from participation to the CSD system.

Key consideration 4: *An FMI should publicly disclose its fees at the level of individual services it offers as well as its policies on any available discounts. The FMI should provide clear descriptions of priced services for comparability purposes.*

MT publicly disclosesthe fees schedule for the services provided with related detailed information, including the applicable conditions

and the validity period.
MT notifies participants of the amendments to the price list by official market notices also published on the Company's website.

Key consideration 5: *An FMI should complete regularly and disclose publicly responses to the CPSS-IOSCO disclosure framework for financial market infrastructures. An FMI also should, at a minimum, disclose basic data on transaction volumes and values.*

In order to be compliant with and to prove its adherence to the CPMI-IOSCO Principles for FMIs, MT publishes on its website the current disclosure. The aforesaid document will be subject to review at least once every two years and following any material changes occurred.
According to requirements provided by the European regulation, Monte Titoli publish on aggregate basis volumes and values on transactions settled in it settlement system.

5. LIST OF PUBLICLY AVAILABLE RESOURCES

- Company's website
- Governance
- Rules and Regulations
- Risk Management
- MT Technological Infrastructure
- Participation Requirements
- Operation Manuals and Forms
- CSDR
- Market Notices
- Fee Schedule