

T2S CORPORATE ACTIONS STANDARDS

MANUAL BUYER PROTECTION

Italian market practice – guidelines¹

¹ This document aims at presenting a proposal for a market practice on manual buyer protection which would be adopted by the Italian industry and it is presented for CASG members considerations. The proposal was drafted and agreed upon by five major market players, as part of the working activities of the Italian round table “PTTUG”, i.e. the Post-Trade Technical User Group, which gathers Italian banks and intermediaries active in post-trading, on issues directly and indirectly related to the migration to T2S. The Italian PTTUG is a task force chaired by Monte Titoli, set up in March/April 2011, and its secretariat is coordinated by ABI, the Italian Banking Association, and by Assosim, the Italian Financial Intermediaries Association. The work carried by the sub-group composed of the five major market players of the user group, was mentioned but not yet presented to MonteTitoli.

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1. Introduction

What is **Buyer Protection**?

*Process whereby a buyer who has yet to receive the Underlying Securities of an elective Corporate Action, instructs the seller in order to receive the outturn **of his choice**.*

Buyer Protection is applicable to elective corporate events where the buyer need to exercise an option different from the default option announced by the issuer.

Background

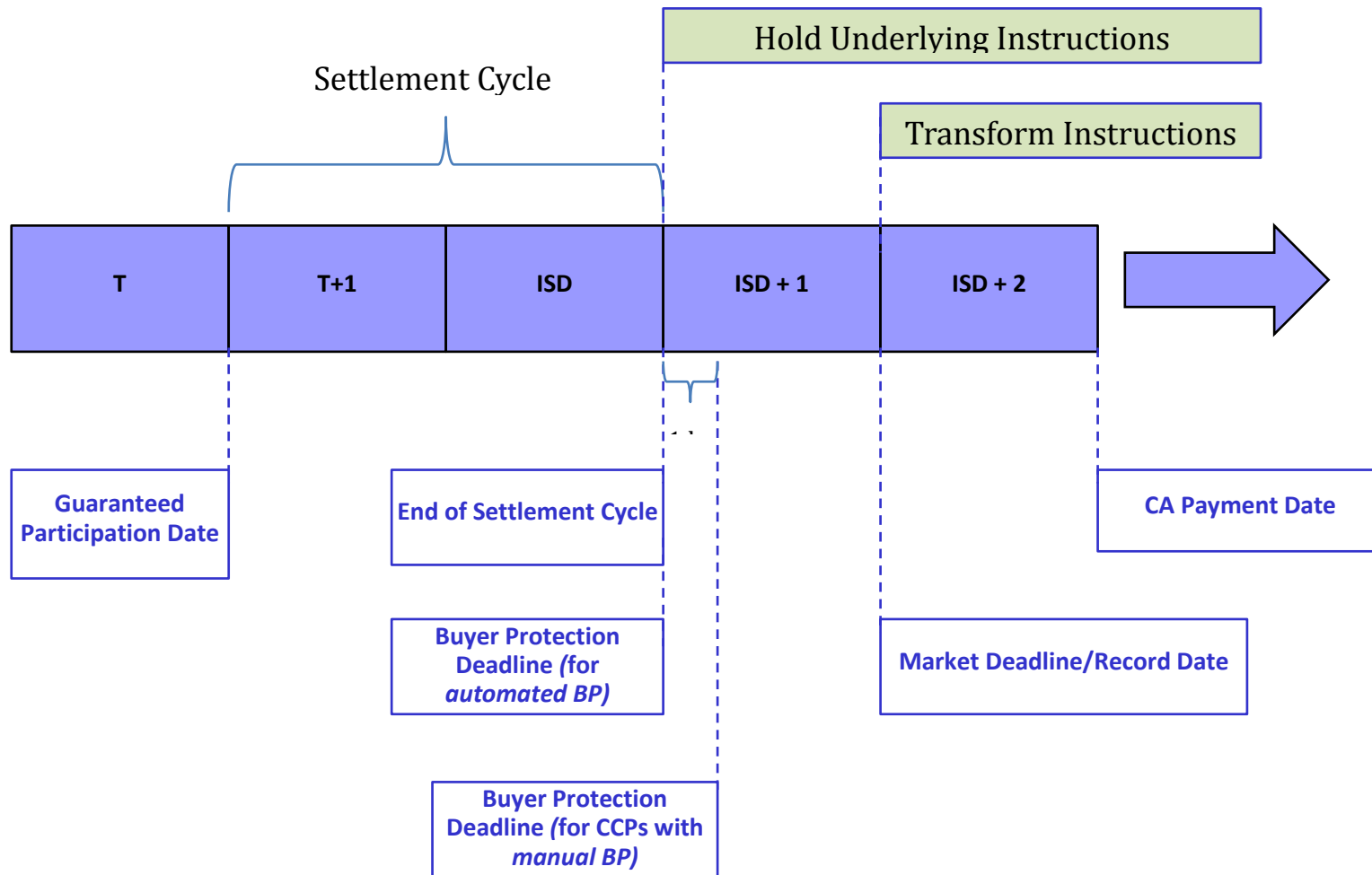
In 2009, the T2S Advisory Group endorsed the T2S corporate actions (CA) standards. These are the T2S CA standards on flows (i.e. pending settlement instructions in T2S) which are based on the market CA standards (also referred to as "CAJWG standards").

The T2S Corporate Actions Sub-group runs an annual gap analysis on the T2S markets' compliance with the T2S CA standards.

The purpose of this document is to share the market practice envisaged in Italy for a wider audience. This document is part of T2S market adaptation plan sharing the process flow envisaged (based on CAJWG: https://www.ecb.europa.eu/paym/t2s/progress/pdf/subcorpact/mtg24/2012-06-18_CAJWG_Standards.pdf?5987a7174afb0e266c6a3ae5202d28a9 and CASG standards :<https://www.ecb.europa.eu/paym/t2s/progress/pdf/subcorpact/20130516-t2s-buyer-protection-standards-revised-march-2012.pdf?ddb7c4cce5c48c3b0d7183edbf27268f>). Some of the elements part of this document will be introduced before T2S launch in order to facilitate the assimilation/usage of some "new" element to be processed by all players in the chain from Issuer to CSD – CSD'S participants, investors, custodian, brokers etc.

Although the addressees should primarily be members of the T2S National User Groups (NUGs) we include this document as annex of the Italian User Adaptation Requirement for the benefit of the audience with an interest on securities services and focus on T2S.

2. Buyer Protection time frame



3. Buyer Protection – Pre requisite

All transactions still pending on Buyer Protection deadline in securities which are subject to a corporate action **can be** subject to a Buyer Protection mechanism. Buyer Protection is only applicable to matched underlying settlement instructions.

4. Buyer Protection – Key elements

To create a Buyer Protection instruction, in addition to key dates, the following elements are mandatory required:

- **Default option:** market default rules set by the issuer of the underlying security
- **Corporate action unique reference number**
- **Guaranteed Participation Date:** Last date to buy the Underlying Security with the right attached to participate in an Elective Corporate Action
- **Buyer Protection Deadline:** Last day and time by which a Buyer Protection Buyer Protection instruction can be given
- **Buyer Protection deadline rules:** The Buyer Protection Deadline should be at least one Business Day before the Market Deadline. Buyer Protection Deadlines for the same event should be identical across (I) CSDs in Europe. According to the last version of the market (CAJWG) standards the BP deadline time will be at the EOD (end of day) on the day before the RD. In the context of T2S this means 06:00 pm (CET)

Based on BP standard 9, in order for the settlement transaction to be eligible for Buyer Protection, the trade should be concluded before the end of the guaranteed participation date. Therefore in order to introduce Buyer Protection and more in general to detect properly transaction management trade date need to become mandatory matching field also before T2S.

5. Buyer Protection Instruction Creation

For a given transaction and prior to the Buyer Protection deadline the buyer will issue the Buyer Protection instruction to the seller. If a Buyer Protection is not invoked by the buyer than default rules for election should be applied.

A Buyer Protection instruction should include details following the attached excel spreadsheet:

- BPI Reference
- Date of issuance (dd-mm-yy)
- Security Name
- ISIN
- Market Deadline Date and Time
- CA Event Type (CAEV)
- Official Corporate Action Reference (CORP)
- CSD
- The chosen option(s)
- The quantity of securities
- Election details including transaction reference
- Expected outturn
- Contact details of the sender

Italian market practice strongly recommend the usage of the attached form including one failing transaction per each form.

The Buyer Protection instruction should be communicated from the buyer to the seller electronically. If a buyer wants to make a partial election then the originating transaction need to be shaped accordingly.

6. Buyer Protection Instruction Processing

It is recommended that the seller acknowledges to the buyer the receipt of the Buyer Protection instruction. No matching is required for Buyer Protection instruction. It is understood that the receiver will perform a coherence check reconciling the terms of the event.

The buyer in addition of sending the Buyer Protection instruction to the seller should ensure that underling pending instruction is cancelled and replaced reflecting the option chosen by the buyer.

Transactions attached with a valid Buyer Protection that are still pending on the Buyer Protection Deadline should be cancelled by both the buyer and the seller and reinstructed according to the choice of the buyer to prevent settlement after the Buyer Protection Deadline or their Transformation into the default option.

The Buyer Protection instruction can eventually be amended by the buyer before Buyer Protection deadline.

Any Buyer Protection instruction sent by the buyer prior to the Buyer Protection Deadline and related to a Transaction for which the trade date is on or before the Guaranteed Participation Date, with intended settlement date no later than the Buyer Protection Deadline, should be accepted.

Buyer Protection Instruction Template is included in the following page.

To be noted that in case of Buyer Protection cancellation the "title" for the instruction should be BUYER PROTECTION CANCELLATION.

Important note following the introduction of the "rolling" method for the processing of "highly dilutive" rights issues.

Where the corporate event is classified as "highly dilutive", the exercise options available in the market are as follows:

- "Rolling" option: to exercise in order to receive the resulting shares during the first available window (i.e. on a daily basis)
- "Accounting" option: to exercise in order to receive the resulting shares on the market deadline date (i.e. the last day of the event)

In such a scenario, the Buyer Protection mechanism can be activated only for the delivering of the resulting shares on or after the last day of the event.

In other words the Buyer Protection is not applicable to the "rolling" option.

Buyer Protection Instruction (BPI)							
BPI Reference:	<i>This is the buyers reference which easily identifies their election.</i>						
Date of issuance (dd-mm-yy):	<i>This is the date in which the BPI is created and sent to the counterparty.</i>						
Security Name:	<i>Name of the security in which the Corporate Action is taken place and the trade/loan has been executed on.</i>						
ISIN:	<i>The International Securities Identification Number of the above security</i>						
Market Deadline Date and Time:	<i>DD-MM-YY: HH-MI (time zone GMT/CET etc)</i>						
CA Event Type (CAEV):	<i>ISO code</i>						
Official Corporate Action Reference (COAF):	<i>This should be the COAF which is announced by the Issuer. Should a COAF not exist then this filed must be left blank.</i>						
CSD	<i>This is the name of the CSD which the trade will be settling in</i>						
Corporate Action Details:			Default Indicator				
Option 1:	<i>Ratio's should be on a per share ration to allow for counterparties to potentially use Excel to format their calculations.</i>						
Option 2:	<i>ISO definition</i>						
Option 3:	<i>ISO definition</i>						
Pending Transaction Details:							
RvP / FoP	Transaction Ref	Quantity	Cash Amount	Trade Date	Intended Settlement Date		
		<i>UNIT / FAMT Delete where appropriate</i>		dd-mm-yy	dd-mm-yy		
Election Details:					Expected Outturn:		
Entitled Nominal/Quantity	Transaction Ref (as per the details above)	Election Quantity	Option No (as per the details above)	Total Unelected Amount	ISIN	Cash	Currency
				0			
				0			
				0			
				0			
				0			
<p>As per standards 20 to 22 of the Market Standards for Buyer Protection being part of the Market Standards for Corporate Actions Processing, version 2012,:</p> <p>1) We shall allow settlement until end of settlement on the date of the Buyer Protection Deadline.</p> <p>2) Should the trade(s) settle in full on or before the Buyer Protection Deadline, this instruction is void.</p> <p>3) Should the trade(s) remain unsettled on the Buyer Protection Deadline, we shall cancel and reinstruct the trade(s) according to the option chosen above. The trade(s) shall not be allowed to settle</p> <p>Should partial settlement occur after the Buyer Protection has been issued the following will apply:</p> <p>4) If the above election is a split election on the same trade ref this Buyer Protection is void and the buyer should re-instruct with a new election(s).</p> <p>5) If the above election is not a split election then the election will remain on the pending quantity.</p>							
<p>Please confirm receipt and agreement of the above protection by return mail.</p> <p>Name: Mr Smith Telephone Number: ++ 44 207 ***** Email Address: Jsmith@CAJWG.eu</p>							

7.

Buyer Protection processing and rules as per “on exchange trades”.

CC&G and Borsa Italiana included in their regulatory framework Buyer Protection process applicable to “on exchange trades”.

Please find here after the linkages to the relevant rules published by Borsa Italiana and CC&G: <http://www.lseg.com/node/5437?preferred-lang=set>