

# MTS REGULATIONS

## FOR THE TELEMATIC WHOLESALE MARKET OF ITALIAN AND FOREIGN GOVERNMENT BONDS

### PART I GENERAL PROVISIONS

#### **Art. 1 - Definitions**

For the purposes of this document, the following terms shall have the meaning ascribed to them below:

- “Categories of Financial Instruments” shall mean financial instruments with similar characteristics;
- “Central Counterparty Service” shall mean the guarantee service offered by one or more companies (i.e. “Central Counterparty/ies”);
- “Circulars” shall mean the rules issued by the Management Company in accordance with article 3 hereof;
- “Clearing and Settlement Service” shall mean the central depository and the clearing and settlement service of Financial Instruments;
- “Dealers” shall mean the dealers authorized to perform trading operations in MTS;
- “Financial Instruments” shall mean government bonds, including parts thereof, referred to in article 4, paragraph 2, and the trades referred to in articles 26 and 37;
- “Investment Companies” shall mean investment companies referred to in article 1, paragraph 1, subsection h), of the T.U.F.;
- “Management Company” or “Company” shall mean Società per il Mercato dei Titoli di Stato - MTS S.p.A.;
- “Market Segment” shall mean a specific type of market trading. The Regulations cover the cash segment and the repo segment;
- “Ministry of Economy” shall mean the Ministry of Economy and Finance;
- “MTS” or “Market” shall mean the wholesale screen-based government bond market;
- “Order” means the acceptance, including in part, of a Proposal, transmitted through and immediately processed by the Screen-Based Trading System, comprising different types as described in the Rules;
- “Price” shall mean the amount which is payable in respect of a purchase or a sale of a Financial Instrument on the System, which may also be expressed through a rate in accordance with the provisions set forth in the Rules;
- “Primary Dealers” shall mean the Dealers included in the List of Primary Dealers of the Management Company;
- “Proposal” shall mean an offer to purchase or sell a security as the expression of the intent to enter into a trade such as referred to in articles 26 and 37 displayed by a Dealer through the Screen-Based Trading System, including the quantity and Price offered and the Category of Financial Instrument subject to the Proposal;

- “Regulated Markets” shall mean the markets included in the list set forth in article 63, paragraph 2, of the T.U.F.;
- “Rules” shall mean the rules for the implementation of these regulations approved by the Management Body of the Company pursuant to article 3 hereof;
- “Screen-Based Trading System” (or “System”) shall mean the screen-based trading system set forth in article 17, paragraph 1, through which the Financial Instruments are being traded on MTS;
- “T.U.F.” shall mean the Legislative Decree no. 58 of 24th February 1998, (*Testo Unico in Materia di Intermediazione Finanziaria*) (Consolidated Law on Financial Intermediation).

#### **Art. 2 – Object of Regulations**

These Regulations govern the operation, organisation and management of the wholesale electronic government cash and repo bond trading market (MTS) managed by the Company pursuant to the provisions of article 1 of the rules governing wholesale government bond markets adopted by decree no. 219 of the Ministry of Treasury on 13 May 1999, in accordance with article 66, paragraph 1 of the T.U.F.

#### **Art. 3 – Additional disciplinary sources**

1. The Company’s Management Body shall issue implementing rules with respect to these Regulations in accordance with article 1, paragraph 1 of decree no. 219 of the Ministry of Treasury of 13 May 1999.
2. The Dealers shall be notified of the Rules referred to in paragraph 1 above in a timely manner through specific Circulars and the Rules shall usually be published on the Company’s internet site.
3. The Circulars are issued by the Chairman of the Management Body of the Company in accordance with these Regulations and the provisions set forth in paragraph 2 above. The Circulars are sent to the Dealers by letter and electronic mail, and are usually published on the Company’s internet site, and relate to the resolutions of the Company.

## PART II FINANCIAL INSTRUMENTS

#### **Art. 4 – Tradable securities**

1. Italian and foreign government bonds, including securities the issue of which has been announced by the issuer, may be traded on MTS through the trades set forth in articles 26 and 37.

2. The securities referred to in paragraph 1 above include parts thereof which entitle the holder to future interest payments or repayment at maturity of the loan capital (so-called stripped bonds).

#### **Art. 5 – Conditions for admission to trading**

1. Bonds issued by the Republic of Italy and foreign governments which are placed by an auction or a different procedure and the bonds that are announced to be issued may be admitted to trading provided that they are freely transferable and that holders thereof who are not resident or headquartered in the country of issuance are not restricted or hindered in the exercise of their rights.

#### **Art. 6 – Procedure for admission to trading**

1. The Management Company selects the Financial Instruments to be traded on MTS among the securities set forth in article 4 above and determines the procedure and timing for their inclusion in the Screen-Based Trading System.

2. In connection with the selection referred to in paragraph 1 above, which also takes into account any indications by the Dealers, the Management Company ensures the widest diversification in terms of liquidity, maturity and other financial characteristics among Financial Instruments to be traded and ensures that such Financial Instruments accurately represent the Market. In addition, generally all securities issued by the Republic of Italy are admitted to trading.

#### **Art. 7 - Trading suspension and exclusion from trading**

1. The Management Company may suspend or exclude any traded Financial Instrument from trading, including temporarily, if the proper price determination for such financial instrument or a fair trading is not guaranteed.

2. In any other case, the Primary Dealers are consulted in accordance with the procedure adopted by the Management Company with respect to the exclusion from trading of a traded Financial Instrument for reasons other than its maturity.

3. Within six months from the date of the suspension of a Financial Instrument, the Management Company may readmit such Financial Instrument if the reasons or causes for such suspension have ceased to exist. Following the expiry of such period, the Management Company shall exclude such Financial Instrument from trading.

4. If securities traded on the basis of their announced issue are not issued in accordance with the announced terms, the Management Company shall immediately cancel all corresponding Proposals.

#### **Art. 8 – Determination of minimum trading lot**

The Management Company determines the minimum quantities for the trading of Financial Instruments; such minimum quantities may differ by Categories of Financial Instruments in accordance with the provisions of the Ministry of Economy for wholesale markets as set forth in article 61, paragraph 10 of the T.U.F.

### PART III DEALERS

#### **Art. 9 – Admitted Dealers**

1. The following parties may be admitted to trade on MTS:
  - a) National, EU and non-EU banks authorized to provide the services set forth in article 1, paragraph 5, sub-section a) of the T.U.F.;
  - b) Italian, EU and non-EU Investment Companies, authorized to provide the services set forth in article 1, paragraph 5, sub-section a) of the T.U.F.;
  - c) Categories of parties other than authorized financial intermediaries the admission of which was authorized by the Ministry of Economy pursuant to article 66, paragraph 2, last section of the T.U.F.
2. The Ministry of Economy and the Bank of Italy are automatically admitted to trading on MTS.
3. In addition, monetary authorities, central banks, government entities responsible for managing public debt and other entities with similar functions in the EU or non-EU countries are also admitted to trading subject to the conditions set forth in the Decree of the Ministry of Economy and Finance dated 25 September 2002.

#### **Art. 10 – Conditions for Admission**

1. In order to be admitted to trading, the parties set forth in article 9 above shall:
  - a) directly or indirectly through another member party participate in institutions which provide clearing and settlement services with respect to Financial Instruments, as set forth by the Management Company in the Rules;
  - b) have a organizational structure which enables them to operate correctly on the Market and fulfil their obligations to execute the trades;

- c) have net equity, calculated pursuant to the criteria set forth in the relative regulatory instructions issued for supervisory purposes, or, if none have been issued, pursuant to similar criteria set forth in the Rules, which shall be at least equal or equivalent to:
  - ten million Euro for entities set forth in article 9, paragraph 1, sub-section a);
  - five million Euro for entities set forth in article 9, paragraph 1, sub-section b), provided that they participate in, albeit indirectly, to the Central Counterparty Service;
  - one million Euro for entities set forth in article 9, paragraph 1, sub-section c).

#### **Art. 11 – Admission procedure**

1. The entities set forth in article 9 paragraph 1, which intend to be admitted to trading on MTS shall present a written application to the Management Company. Such application shall be prepared in accordance with the scheme set forth in the Rules and be signed by an authorized representative of the respective entity.
2. The documents to be provided in connection with the request for admission described in paragraph 1 above are set forth in the Rules prepared by the Management Company.
3. The Management Company shall examine each application for admission on the basis of the non-discriminatory criteria established by the Rules. Generally, the Management Company issues its decision within 90 days of receipt of applications prepared in accordance with the above provisions.
4. Together with the notice of acceptance pursuant to paragraph 3 above, the Management Company shall also determine the date on which the entity in question shall commence trading on MTS. The Management Company may also reject the application for admission if it may prejudice the orderly operation of the Market.

#### **Art. 12 – Dealers' obligations**

1. Each Dealer:
  - a) shall comply with these Regulations, Rules and Circulars;
  - b) shall act with fairness and honesty and operate with due skill and diligence;
  - c) shall refrain from performing any acts which may prejudice the correct operation of the Market;
  - d) shall refrain from performing fictitious operations not aimed at the transfer of ownership of the traded Financial Instruments or to assume exposure on the Market;
  - e) shall ensure that the conditions set forth in article 10 are maintained;
  - f) in accordance with the provisions of article 17, paragraph 3, shall bear the market risk, ensuring the correct management thereof through the continuous or at least frequent holding of overnight open positions in Financial Instruments set forth in article 4 to the extent consistent with daily trading activities;

- g) shall comply with all disclosure and transparency requirements under national and EU law;
- h) shall refrain from distributing news and information provided or derived from the Screen-Based Trading System in light of the knowledge that such news and information are the Management Company's property;
- i) shall ensure that the trading staff have appropriate professional qualifications and an adequate knowledge of the rules and operating procedures of the Market, as well as of the procedures for the technical instruments used for the trading activities on the Market;
- j) shall indicate at least two persons who shall act as contact persons for the Management Company in connection with market operation issues;
- k) shall provide, upon specific request by the Management Company as well as periodically, provided that times and procedures of such regular reports shall be determined by the Management Company with Circulars and may differ depending on the type of Dealer, with data and information on the activity, including thata executed over the counter, relating to Financial Instruments traded on the Market, and on the appropriateness of the organizational structure and professional standards of the employed trading staff. Such Circulars shall be provided;
- l) shall pay the required fees for the use of the trading System and other accessory services provided in accordance with the terms and conditions determined by the Management Company;
- m) shall undertake to settle the trades executed effected on the Market in accordance with existing timing requirements and procedures.

#### **Art. 13 – Maintenance of conditions for admission**

1. The Dealers shall provide proof at least annually in accordance with the terms and procedures set forth by the Management Company, that they continue to comply with the conditions for the admission to trading pursuant to article 9, paragraph 1, and article 10. The Management Company may request the Dealers, including individual Dealers, to provide any information, data or document which it deems necessary for such purpose, including auditors' certificates.

2. The Dealers shall inform the Management Company as soon as possible of any material change in the conditions relating to the information and documentation produced by them in connection with the application for admission.

#### **Art. 14 – Suspension from trading**

1. Without prejudice to the provisions of paragraph 2 below, if the Management Company determines that one or more of the conditions set forth in article 10 is no longer fulfilled, or no evidence of the continued existence of such conditions is provided, it may suspend the Dealer's admission to

trading. Such suspension shall also be ordered in the event of justified reasons to believe that one of the above mentioned conditions has ceased to be fulfilled or that the Dealer is insolvent.

2. If the Dealer ceases to be a member of one of the clearing and settlement institutions set forth in the Rules, the Management Company shall immediately suspend such Dealer from trading with respect to Financial Instruments settled by such entity.

3. In the event that the condition set forth in article 10, paragraph 1, sub-section c) is no longer met, the Dealer shall be recapitalized within three months and proof thereof shall be provided to the Management Company in accordance with article 13, paragraph 1; otherwise, the Management Company shall suspend the Dealer from trading. The Management Company shall however also be entitled to suspend such Dealer prior to the expiry of such three-months period if there are reasons to believe that the loss of net equity is particularly material.

4. Any Dealer which has been suspended from business or trading by the competent authorities shall automatically be suspended from trading on the Market.

5. The Management Company may suspend a Dealer which has been subject to a suspension or exclusion order by a management company of another Regulated Market.

6. In addition, a Dealer may be sanctioned with suspension from trading in the cases set forth in article 24 subject to the procedures set forth in article 25.

7. The Management Company shall be responsible for issuing suspension orders. In urgent cases, however, the Chairman of the Management Body (or any other person with the required authority in accordance with the by-laws of the Management Company) shall be entitled to issue suspension orders according to this document, the Management Company by-laws or the applicable laws and regulations.

8. Suspensions or exclusions of a Dealer from trading shall in any event be without prejudice to the authorities' provisions aimed at ensuring the execution of existing trades.

9. The suspension shall be revoked as soon as the grounds which determined such suspension shall have ceased to exist.

#### **Art. 15 - Exclusion from trading**

1. The Management Company shall exclude a Dealer from trading if:
  - a. it ceases to be a member of any of the categories set forth in article 9, paragraph 1;
  - b. it is in a state of insolvency following the commencement of one of the insolvency proceedings set forth in Annex A of the European Regulation no. 1346/2000 of 29 May 2000;

- c. it has been suspended from trading pursuant to article 14, paragraph 1 and a period of 12 months has elapsed without the Dealer having provided evidence that the conditions set forth in article 10 have been reinstated.
2. Any Dealer which has been excluded from trading by the competent authorities shall automatically be excluded from trading.
3. In addition, a Dealer may be sanctioned with exclusion from trading in the cases set forth in article 24 subject to the procedures set forth in article 25.
4. The Management Company shall be responsible for issuing exclusion orders.

#### **Art. 16 – Withdrawal from participation in the Market**

A Dealer wishing to withdraw from participation in MTS shall send a written notice to the Management Company in accordance with the contractual terms and conditions.

### PART IV TRADING

#### **Art. 17 – Conduct of trading**

1. Trading shall take place exclusively through connection to the Screen-Based Trading System, the submission of Proposals and Orders, the conclusion of trades and the transmission of trade details to the clearing and settlement institutions and to the Central Counterparties..
2. The Management Company shall make any required or useful changes to the System to improve its operation and shall inform the Dealers of such changes in a timely manner.
3. Dealers shall trade in their own name and on their own account or in their own name and on behalf of third parties admitted to trading. Such trading activities are deemed to be performed on conditions consistent with Market standards in accordance with article 44, paragraph 11, sub-section b).
4. The operation of the Market depends on the presence of a sufficient number of Dealers and Primary Dealers to ensure an adequate level of competition.
5. Trading shall take place continuously during the trading hours determined by the Rules. The Rules may provide for differing trading hours for various Categories of Financial Instruments.

6. The Management Company may introduce trading sessions to be held at times other than those referred to in paragraph 5 above during which the Primary Dealers shall not be required to submit Proposals. The Management Company shall determine the procedures for such trading sessions.

7. All trades entered into on MTS shall be registered in a specific electronic archive subject to the procedures determined by the Management Company's Rules in accordance with the provisions set forth in article 65 of the T.U.F. and the relevant implementing rules.

8. In addition, all available information relating to Proposals and Orders entered into the System as well as concluded trades shall be archived at the end of each trading day.

9. Trades concluded on the Market shall be governed by Italian law and any dispute relating thereto and deriving thereof shall be exclusively subject to the jurisdiction of the Italian courts, unless the parties have previously agreed otherwise to the extent permissible by law. The choice of a governing law and/or forum other than Italian law and the jurisdiction of Italian courts shall however be void if it would result, directly or indirectly, in the provisions of these Regulations, of the Rules and of the agreement with the Management Company being inapplicable.

10. In addition, the Management Company offers the possibility to register over-the counter transactions in the cash and repo segments (OTC Registration). Such transactions will therefore not be included in the public notices pursuant to article 21, paragraph 5.

#### **Art. 18 – Major Market Incident**

For the purposes of this document a MMI means one of the following event:

(i) inaccessibility of the System (i.e. the System is “down”) during normal market hours;

(ii) restriction of the “market-making” activity;

(iii) the improper functioning of the System so that a significant number of Dealers is unable to trade in a secure manner without being exposed to material market risks (i.e., if they cannot determine their positions with certainty, may not submit quotes, are unable to see the list of best Prices or see wrong Prices in the best page);

(iv) the lack of security or integrity of the System is compromised or subject to an imminent risk, or the Company is unable to see or control the System using standard measures.

2. The duration of a MMI shall run from the time the Chairman of the Management Body, or a proxy, determines as the moment in time when the MMI first impacted the System, until the Chairman of the Management Body, or a proxy, determines that the System has been reinstated in its normal state.

Without prejudice to the discretionary powers of the Chairman of the Management Body, pursuant to standard practice, the beginning of a MMI shall be the time of the receipt of the first notice of the malfunctioning of the System.

PART V  
SETTLEMENT AND GUARANTEE

**Art. 19 – Transmission of settlement instructions**

1. The Screen-Based Trading System provides the required data for the settlement of trades concluded with respect to the cash and repo segments to the entities which perform clearing and settlement services.
2. The settlement of trades relating to securities the issue of which has been announced by the issuer shall take place starting on the day set for the settlement of the auction for such securities.
3. The Management Company may cancel positions, and, where necessary, correct data already provided to the entities which perform clearing and settlement services and to the guarantee systems, with respect to trades executed on securities the issue of which has been announced by the issuer in the event that such securities are not issued or are issued for a size significantly smaller than the one announced.

**Art. 20 – Guarantee Systems**

1. In order to increase the security of transactions and their execution, the Management Company may set up specific risk management procedures and guarantee systems, including collective systems, in accordance with the provisions set forth in article 68 of the T.U.F. The Management Company is thus entitled to set the compliance with the rules of the guarantee system as one of the requirements to maintain the admission to the Market.
2. In addition, the Management Company may allow the Dealers to use the Central Counterparty Service managed by one or more EU or non-EU companies, provided that such companies are direct members of the clearing and settlement institutions, and the Dealers are entitled to use such service. Such companies have to provide evidence that they hold an appropriate organisational and technological structure and operating systems ensuring efficient and safe settlement of the transactions.
3. Dealers which chose to use the service described in paragraph 2 above may use such service only for the cash segment, only for the repo segment, or for both.

4. Only trading between two Dealers which use the service described in paragraph 2, on financial instruments which are accepted by the Central Counterparty, will be covered by the services offered by such Central Counterparty.

PART VI  
DISCLOSURE

**Art. 21- Information to be provided to investors**

1. The Management Company shall provide the Dealers with the information required for the proper performance of trading activities and the execution of trades.

2. In any event, for each Financial Instrument traded on MTS, the Management Company shall provide every Dealer in real time through the Screen-Based Trading System with information on the day's trading relating to:

- a. Prices and volumes of the best bid and offer Proposals;
- b. Prices and volumes of the five best bid and offer Proposals;
- c. Price, volume and time of trade of the last trade concluded;
- d. Minimum, maximum and weighted average price and traded volume, calculated based on trades entered during the day until the cut-off time for the calculation;
- e. Minimum, maximum and weighted average price and traded volume, calculated based on trades entered during a period of trading hours of the Market, which shall not exceed two hours, as provided by the Rules;
- f. Current status of all Proposals submitted by the Dealer and details of trades concluded by it.

3. The Management Company will provide the Dealers through the Screen-Based Trading System with the following tables which shall be updated daily:

- a) A table of the identification codes of each Financial Instrument;
- b) A table, with identification codes and descriptions, of each Dealer.

4. The content and procedures for the distribution of the information referred to above are described in detail by the Management Company in the Rules.

5. At the close of each trading day, the Management Company shall publish a list prepared in accordance with the Rules which includes for every Financial Instrument traded on MTS at least the information relating to minimum, maximum and weighted average price as well as total trading volumes, calculated based on all trades entered into over the course of the day. The Rules may provide for cases in which such calculation shall not take into account transactions deemed to be extraordinary.

6. In order to ensure the proper operation of the Central Counterparty Service referred to in article 20, paragraph 2, the Management Company shall determine the criteria for the determination and publication of a daily closing Price for each Financial Instrument object of such service.

7. If the determination of correct data and information to be published is rendered impossible or unreasonably onerous due to exceptional market conditions, the Management Company shall immediately notify the Bank of Italy which may suspend the obligation to comply with such requirements.

8. The Management Company may delay the publication of the data and information in the event of severe technical dysfunctions which render the determination of correct data and information to be published impossible, and shall provide advance notification thereof to the Bank of Italy.

#### **Art. 22 – Information to be provided to the authorities**

1. The Management Company shall provide the Bank of Italy data and information relating to concluded trades and the trading activities of the Dealers on the Market as well as any other data, information, deed or document requested by the Bank of Italy pursuant to article 76 of the T.U.F.

2. Upon its request as well as periodically, the Management Company shall provide CONSOB with data, information, deeds and documents in accordance with article 6 of the Decree of the Ministry of the Treasury number 219 of 13 May 1999.

3. Pursuant to article 4, paragraph 1 of the Decree of the Ministry of the Treasury number 219 of 13 May 1999, the Management Company shall notify the Ministry of Economy, the Bank of Italy and CONSOB of any breaches of these Regulations encountered during its supervisory activities set forth in article 23 and shall report on the measures taken in connection therewith. In accordance with article 3, paragraph 6 of the above mentioned Decree, the Management Company shall provide the Ministry of Economy upon request as well as periodically with data and information relating to the trades entered into and the activities of the Market Dealers.

4. The Management Company shall provide advance notification to the Ministry of Economy and the Bank of Italy of the rules it intends to issue in accordance with article 3 paragraph 1.

### PART VII

#### SUPERVISION AND DISCIPLINARY MEASURES

#### **Art. 23 Supervision of proper conduct of trading**

1. The Management Company shall supervise the conduct of trading through a specific surveillance department and shall verify the compliance with these Regulations and the Rules. In addition, the Management Company shall adopt any measures required to ensure the smooth operation of the Market.

2. The Management Company shall perform the following activities, among others:

- a) verify compliance of the undertakings set forth in article 29, paragraph 5; in the event of any doubts in this respect, it shall promptly request clarifications from the relevant Dealer, which shall provide such clarification as soon as possible;
- b) verify proper updating of the archives, the procedures and all else necessary to the orderly conduct of trading;
- c) monitor the functioning of the technical structures and transmission networks of the Screen-Based Trading System;
- d) promptly inform Dealers of any of the Management Company's actions that may affect the operation of the Market;
- e) handle errors relating to the submission of Orders to the Screen-Based System in accordance with the Rules.

3. In addition, the Management Company may perform the following in connection with the exercise of its Market management activity:

- a) Postpone the start of trading with respect to the entire Market or specific Categories of Financial Instruments or extend the duration of trading hours, in order to improve the efficient operation of the Market;
- b) Temporarily suspend trading on the entire Market or specific Categories of Financial Instruments in the event of severe technical dysfunctions or other extraordinary events;
- c) Request Dealers to provide data and information, including in the form of periodic reports;
- d) Perform audits at the Dealers' registered offices for the sole purpose of monitoring their respective compliance with the organizational requirements.

4. Without prejudice to any measures required in connection with the electronic management of trading and the provisions set forth in articles 19 and 22, the Management Company shall not disclose any information acquired in connection with its management and Market supervisory activities. The available information is accessible through passwords on the Screen-Based Trading System.

#### **Art. 24 – Disciplinary measures**

1. Dealers which fail to comply with the undertakings deriving directly or indirectly from the application of these Regulations and the Rules or otherwise fail to comply with the System's operational procedures shall be subject to the disciplinary measures set out below, taking into account the nature and the severity of the violation and any previous breaches by such Dealer:

- a) Written warning;
- b) Monetary fines ranging between Euro 10,000 and Euro 100,000;
- c) Suspension from trading for a period not exceeding two months;
- d) Exclusion from trading;
- e) Suspension from functions of Primary Dealer for a period not exceeding two months;
- f) Cancellation from the list of Primary Dealers.

The Management Company shall apply the disciplinary measures in a non-discriminatory manner.

2. The disciplinary measures referred to in paragraph 1 above shall be applied by the Management Company pursuant to a resolution taken by the Wise Men Committee following the procedure set forth in article 25.

3. In urgent cases, disciplinary measures for breaches of the Primary Dealers' market-making obligations shall be taken by the legal representative of the Management Company, who shall notify the management body thereof at its first meeting thereafter.

4. The Wise Men Committee operates pursuant to regulations drafted by the Wise Men Committee and approved by the management body.

5. A party which has been excluded from trading may be readmitted at the Management Company's discretion subject to the submission of a new application following the expiry of 6 months from the notice of exclusion.

6. A party which has been cancelled from the list of Primary Dealers may be re-registered subject to the submission of a new application and in accordance with the procedures established by the Management Company in the Rules, however, in any event no earlier than following the expiry of a period of 6 months from the notice of cancellation.

7. In the event a disciplinary measure is adopted, the Dealer that has been sanctioned shall be required to pay the Management Company the proceeding expenses, any related remuneration, included, by way of example the remuneration due by the Management Company to the Wise Men Committee for its activity in connection with such sanction as well as the remuneration for any consulting services required by the Wise Men Committee. The failure to pay such reimbursement shall constitute grounds for exclusion from trading pursuant to article 15 of these Regulations.

#### **Art. 25 - Procedure for the application of disciplinary measures**

1. Upon determining that a Dealer has breached the Rules or Regulations as described in article 24, paragraph 1 above, the Managing Company shall communicate to the Dealer a written notice describing the breach with which it is charged and inviting it to submit an explanation.

2. Within ten days of the communication of the notice referred to in paragraph 1, the Dealer may file with the Managing Company a written response and explanation and may request a hearing. The period of 10 days shall be reduced to 5 days in the event of an appeal against a violation pursuant to article 29 paragraph 5.

3. Once the filing deadline referred to in paragraph 2 has expired, the Wise Men Committee, having heard the Dealer involved if so requested, and examined any documents filed, shall adopt one of the disciplinary measures referred to in Article 24, paragraph 1, if it considers that the breach of which the System Participant is charged has in fact taken place; otherwise, it shall declare the sanction proceedings concluded. With respect to the breach of market-making obligations by a Primary Dealer and in case of necessity and urgency, the notification by the competent department of the Company as set forth in paragraph 1 shall be sent to the legal representative of the Management Company who shall decide on the adoption of a disciplinary measure within 15 days of the receipt of the notification and shall provide the Chairman of the Management body with the authority to notify the relevant Primary Dealer thereof.

4. The decisions set forth in paragraph 3 above shall include grounds and shall be notified to the relevant Dealer in writing. In the event that a disciplinary measure is adopted, the Ministry of Economy and the Bank of Italy shall also be notified thereof in accordance with article 22 paragraph 3.

5. The decision set forth in paragraph 3 above which states the adoption of a disciplinary measure shall also determine whether such decision shall be published and in which form (newspapers, news agencies and/or information pages within the Screen-Based Trading System).

6. In cases where it is necessary for the protection of the Market and its correct and accurate operation as well as in cases of particular urgency, in which it is deemed appropriate to assume that a Dealer has severely breached the Rules or Regulations or is in state of suspected insolvency, the Management Company may provide as a cautionary measure to immediately suspend the relevant Dealer from trading. The period of such precautionary suspension shall generally not exceed 20 days. The precautionary suspension decision shall cease to be effective on the date of the notification of the Dealer of the decision pursuant to paragraph 3.

7. Except as set forth in paragraph 6 above and except as stated otherwise in the decisions notified to the Dealer, disciplinary measures shall be effective from the date of adoption

## PART VIII CASH SEGMENT

### **Art. 26 - Types of accepted trades**

The Financial Instruments set forth in article 4 above may be traded through the following types of trades:

- a) Purchase and sale trades;

- b) Basis trading and spread trading (with denominations commonly used in the financial markets, and related to the quotation of a difference between two Financial Instruments expressed in price or yield basis points).

#### **Art. 27 - Primary Dealers**

The Company shall keep a "Register of Primary Dealers" which shall include the Dealers which apply for such registration within the periods and in accordance with the procedures determined by the Management Company, and which are in compliance with the requirements included in these Regulations.

#### **Art. - 28 - Registration in the Primary Dealers' Register**

Only Dealers which are in compliance with the requirements set forth in article 9, paragraph 1, sub-sections a) and b), may be included in the Primary Dealers' Register pursuant to article 27 subject to the following conditions:

- a) they possess a net equity of at least Euro 39 million, determined in accordance with article 10, paragraph 1, sub-section c);
- b) in the 12 months prior to the submission of the application, have entered into purchase and/or sales trades for government bonds listed on the Market for an aggregate amount of at least Euro 38 billion for an adequate number of Financial Instruments;
- c) they directly or indirectly through appropriate contractual relationships possess an organizational structure which allows for the full and correct compliance with the requirements to which Primary Dealers are subject, and in particular those set forth in article 29. The determination of the appropriateness of such structure shall take into account, among other things, the number and the professional qualification of the employees, the connection and data transmission systems as well as the hardware and software used.

#### **Art. 29 - Obligations**

1. Registration in the Register referred to in article 27 above includes the undertaking to continuously issue through the Screen-Based Trading System during the trading hours, in accordance with the procedures determined by the Management Company, Proposals for the purchase or sale of Financial Instruments allocated to the Primary Dealers of the Management Company . Such undertaking may be limited by the Rules to specific Categories of Financial Instruments and/or specific types of trades.

2. The application for cancellation from the Register by a Primary Dealer shall be notified to the Management Company at least 15 days prior to the requested date of cancellation. From the date of the sending of the notification until the effective date of the cancellation, the Primary Dealer shall continue to be subject to the obligation set forth in paragraph 1 above.

3. Pursuant to paragraph 1, the Management Company shall allocate Financial Instruments by minimum numbers as determined by the Rules and appropriately differentiated by liquidity, maturity and other financial characteristics, in order to ensure effective competition between Primary Dealers.

4. In connection with the allocation described in paragraph 3 above, the Management Company shall take into account the following criteria:

- a) full coverage of Financial Instruments, subject however to the Management Company's right set forth under paragraph 1, second part;
- b) quotation of each of the above-mentioned Financial Instruments by an appropriate number of Primary Dealers in order to ensure real competition.

5. The Dealers included in the Register described in article 27 shall maintain competitive Prices and ensure that trading volumes are significant in terms of quantity and quality, in accordance with the obligations set forth in paragraph 1. For such purpose, the Dealers shall guarantee a continuous presence during the business day through purchase and sale offers on all Financial Instruments allocated by the Management Company pursuant to paragraph 3, the Prices and values of which shall be coherent with the general Market conditions and the specific characteristics of the different Financial Instruments, in order to ensure the maintenance of a average daily bid-offer spread on each of the Financial Instruments allocated by the Management Company not greater than the maximum level communicated by the Management Company with respect to the different Financial Instruments in the Market, and in compliance with the other operating conditions set forth in the Rules.

6. The Dealers registered in the Register described in article 27 above shall also provide evidence of their continuous presence on the repo market with a global monthly activity ranking within the first 35 Dealers.

7. Each Primary Dealer may, including occasionally, submit Proposals in the Market within the limits set forth by the Rules, with respect to Financial Instruments set forth in article 6 but different from those allocated to it by the Management Company. In such case, the Dealer shall be required to quote purchase and sale prices for such Financial Instruments for a minimum period as set forth in the Rules during the business day.

8. In the event of severe and justified grounds, each Dealer may request a temporary suspension from the obligations under paragraph 1 above from the Management Company. In any event, however, the Management Company shall be informed in a timely manner of any trading interruption due to the malfunctioning of the technical connection.

9. The Dealer shall be suspended from its obligation to comply with the requirements under paragraph 1 above on national holidays in the country where its operational headquarters are located.

10. The Management Company, after having heard the Primary Dealers in accordance with the procedure adopted by it, may amend the criteria for the allocation of Financial Instruments or adopt other objective criteria.

#### **Art. 30 – Periodic review of requirements**

1. The Primary Dealers shall periodically provide evidence of their continued compliance with the conditions pursuant to article 28 in accordance with the terms and procedures set forth in the Rules. The Management Company may request the Primary Dealers, including individual Dealers, to provide any data and information required for such purpose, including auditors' certificates.

2. The Primary Dealers shall notify the Management Company immediately of any material change in the conditions to which the information and documentation provided in connection with the application for registration in the Register relate.

#### **Art. 31 – Suspension from functions and cancellation from Register**

1. Without prejudice to the provisions of paragraph 2 below, if the Management Company establishes that one or more of the conditions set forth in article 28 has ceased to exist or is not provided with evidence of the continued existence of all above mentioned conditions, is entitled to suspend the Dealer from its function as Primary Dealer. Such Dealer shall also be suspended if there are reasonable grounds to believe that one or more of such conditions have ceased to exist.

2. In the event of the failure to comply with the requirements pursuant to article 28, sub-section a), the Dealer's net equity shall be recapitalised and evidence thereof shall be provided to the Management Company within three months; otherwise, the Management Company shall suspend the Dealer from its functions as Primary Dealer. The Management Company is further entitled to suspend a Dealer prior to the expiry of such period if there are reasonable grounds to believe that the loss of capital is particularly severe.

3. The Management Company shall cancel the Dealer suspended from its functions as Primary Dealer from the Register in accordance with article 27 and the above paragraphs if the Dealer has not provided evidence of the reinstatement of the conditions set forth in article 28 sub-section a) within a period of six months.

#### **Art. 32 – Other applicable provisions**

Primary Dealers shall be subject to the provisions set forth in the provisions of Part III with respect to any matter not excluded by or incompatible with the provisions of this Part.

### **Art. 33 - Proposal management**

1. Proposals are offers to purchase or sell a security, comprised of different types as described in the Rules.
2. Proposals may only be submitted by Primary Dealers. The Management Company may however establish that Proposals may also be submitted by Dealers other than Primary Dealers or only by certain categories of Primary Dealers with respect to specific Categories of Financial Instruments.
3. Proposals may be expressed for amounts equal to or greater than the minimum trading lot.
4. Proposals may be increased by amounts below such minimum lot. A Proposal may receive an Order which only partially covers the offered amount. If as a result of such partial Order, the remaining value of the Proposal is less than the minimum trading lot, such Proposal shall be suspended.
5. Proposals expressed in accordance with paragraph 1 are binding only on Dealers.
6. Prior to the beginning of trading hours, each Primary Dealer may submit Proposals to the Screen-Based Trading System for the purchase or sale of any Financial Instrument allocated to it pursuant to article 29 paragraph 3. Such Proposals shall not be visible to other Dealers until the commencement of trading.
7. A Dealer may modify its Proposals at any time. However, the Dealer shall remain liable with respect to the offered Price and volume for any Orders processed by the System prior to the receipt of the amendment.
8. Proposals for every Financial Instrument are organized by the Screen-Based Trading System by price, and within such ranking, based on the time of submission, as set forth in the provisions of the Rules relating to the priority of processing.
9. A Dealer may restrict the visibility of its Proposals to a partial amount which shall be comprised between the minimum trading lot and the total volume of the Proposal.
10. At the close of each trading day, Proposals still registered in the Screen-Based Trading System shall be automatically cancelled.

### **Art. 34 - Orders management**

1. An Order is the acceptance, in full or in part, of a Proposal submitted through the Screen-Based Trading System and immediately processed by such System, expressed in different types as described in the Rules.
2. Orders may be expressed in amounts equal to or greater than the minimum trading lot.

#### **Art. 35 - Conclusion of trades**

1. Trades are concluded upon the matching of a Proposal and an Order or two Proposals, in accordance with the procedures set forth by the Management Company in the Rules.
2. A trade is deemed to have been concluded into at the time the matching of Proposals and Orders pursuant to paragraph 1 is displayed on the screen of the Screen-Based Trading System. In the event of any dispute arising regarding such display, the time shown in the recordings by the Management Company shall prevail.
3. A Proposal which was matched by a partial Order shall continue to be considered a Proposal for the remaining part thereof and shall maintain the priority originally allocated to it.

#### **Art. 36 – Settlement of trades**

1. Without prejudice to the rules issued by the Bank of Italy in agreement with CONSOB, and in accordance with article 69 of the T.U.F., the settlement of cash trades shall take place as follows:
  - a) On the third business day following the trade date of such trade in the case of government bonds other than Italian Treasury Bills (*Buoni ordinari del Tesoro*);
  - b) On the second business day following the date of such trade in the case of Italian Treasury Bills (*Buoni ordinari del Tesoro*).
2. The terms and conditions for the execution of trades relating to foreign securities shall be determined in accordance with the relevant market standards.

### PART IX REPO SEGMENT

#### **Art. 37 – Types of accepted trades**

1. The securities set forth in article 4 may be traded through repo trades in the form “classic repo” or “buy sell back”, as defined in accordance with market standards.

2. Repo trades may be traded with the deadlines permitted by the Screen-Based Trading System and notified to the Dealers as “general collateral” (a loan to be repaid at a pre-determined date and guaranteed by securities), or as “specific repo” (the purchase of a specific security against payment in cash, to be resold at a pre-determined date).

#### **Art. 38 - Dealers**

1. The Dealers which participate in the MMF segment may access all operating functions without any distinction with respect to their function. This implies that every Dealer may submit Proposals, including only bid and/or only ask proposals and place Orders.

2. The Dealers participating in the MMF segment do not have obligations to submit Proposals.

#### **Art. 39 – Proposal management**

1. Proposals are offers to purchase or sell securities through a repo trade.

2. All Dealers may submit Proposals.

3. Proposals must be expressed in amounts equal to or greater than the minimum trading lot.

4. Proposals may be increased by amounts below the minimum trading lot. A Proposal may be matched by an Order which only partially covers the offered amount. If as a result of such partial Order, the remaining value of the Proposal is less than the minimum trading lot, the Proposal shall remain tradable.

5. A Dealer using the Central Counterparty Service set forth in article 20, paragraph 2 is entitled to set up its Proposals so that they may only be matched by Orders from Dealers which also use this service.

6. Proposals are binding only on Dealers.

7. Prior to the start of trading, each Dealer may submit purchase and sale Proposals to the Screen-Based Trading System. Such Proposals shall not be visible to the other Dealers until the commencement of trading.

8. The Dealer may amend its Proposals at any time. However, the Dealer shall remain bound by the offered Price and volume with respect to Orders processed by the System prior to the receipt of the amendment.

9. The Dealer may restrict the display of its Proposals to a partial amount comprised between the minimum trading lot and the total amount of the Proposal.

10. At the close of each trading day, Proposals still registered in the Screen-Based Trading System shall automatically be cancelled.

#### **Art. 40 – Order management**

1. An Order is the acceptance, in full or in part, of a Proposal transmitted through the Screen-Based Trading System and immediately processed by it, and expressed in different categories described in the Rules.
2. Orders may be submitted for amounts equal to or greater than the minimum trading lot.
3. Orders submitted with respect to active Proposals shall be valid for the maximum time period set forth in the Rules.

#### **Art. 41 – Conclusion of trades**

1. Trades are concluded upon the matching of a Proposal and an Order, in accordance with the procedures set forth by the Management Company in the Rules.
2. A trade is deemed to have been entered into at the time the matching of Proposals and Orders is displayed on the screen of the Screen-Based Trading System according to paragraph 1. In the event of any dispute arising regarding such display, the time shown in the recordings by the Management Company shall prevail.
3. A Proposal which was matched by a partial Order shall continue to be considered a Proposal for the remaining part thereof and shall maintain the priority originally allocated to it.
4. The Dealer shall accept or refuse the Order prior to the expiry of the maximum time limit. Orders equal to or greater than the minimum amount may be refused by the proposing party only if motivated by lack of credit line. Each Dealer is entitled to restrict its maximum exposure towards a specific counterparty or to prevent in advance trading with such counterparty with which it does not have a credit line. Any refusal not supported by objective grounds relating to limited credit lines shall be subject to disciplinary measures in accordance with article 24 paragraph 1. An order which is neither accepted nor refused prior to the expiry of the maximum time limit will be automatically accepted after the time limit.
5. If Proposals and Orders are submitted by Dealers using the Central Counterparty Services forth in article 20 paragraph 2, the execution of the Order shall be automatic.

#### **Art. 42 – Definition of “general collateral”**

1. With respect to “general collateral” transactions, securities to be delivered include securities with coupon payment falling with the duration of the trade; as a result, the acceptance of such securities is mandatory.
2. The Rules provide for a maximum number of securities to be delivered in connection with “general collateral” transactions.
3. With respect to “general collateral” transactions, the securities to be delivered shall be determined within a maximum period of time from the time of the trade, in accordance with the provisions in the Rules.
4. “General collateral” trades not entered into at the expiry of the maximum period shall be deemed to have been concluded, the counterparties are therefore required to execute such trades.

#### **Art. 43 – Settlement of trades**

Repo trades shall be settled in accordance with the terms and conditions set forth in such trades.

### TITOLO X FINAL PROVISIONS

#### **Art. 44 - Disputes**

1. In the proposed MTS Market Service Agreement which is attached to the application to participate in MTS, each Dealer shall:
  - a) Sign an arbitration clause pursuant to which all disputes which may arise with the Management Company relating to such participation and any related deeds, including the application and interpretation of these Regulations and Rules, including any amendments thereto, shall be decided by an arbitration tribunal in accordance with the procedures specified therein;
  - b) Sign agreements entitling the Management Company to issue rulings upon request with respect to trades entered into by the Dealer with other Dealers which are affected by input and transcription errors, and containing an undertaking with respect to the other contractual parties to accept the binding nature of such ruling.

#### **Art. 45 – Publication of Regulations**

These Regulations and the provisions set forth in article 3, paragraph 1 are published in accordance with the provisions adopted by CONSOB in accordance with article 62, paragraph 3 of the T.U.F.