

AMENDMENTS TO MTS CASH DOMESTIC AND EBM MTF MARKET RULES

TRADE CANCELLATION

The amendments described below shall enter into force on **March 16th, 2020**.

The Market Rules of MTS Cash Domestic and EBM MTF are amended so as to introduce a further mechanism for the determination of the fair market value of the security within the unilateral trade cancellation procedure.

In detail, in order to determine the fair market value of the security, use will be required of the BondVision mid price at the time of conclusion of the trade (BV Mid), applying a deviation that will take into account the average of the best bid-offer spread recorded on the Cash segment over a predefined number of days and an appropriate 'cancellation factor'.

It should be noted that the BV Mid is the mid price resulting from the prices quoted in the BondVision Market, Cash Segment for the Security, recorded at the time of conclusion of the Trade being cancelled.

This new method would enable automated determination of the fair market value of the security and, consequently, automated detection of any inconsistency of the price of the executed trade which the participant wishes to cancel.

On the other hand, the current unilateral cancellation procedure, under which selected participants are asked for the bid-ask price of the security at the time of execution of the trade, would continue to be used whenever the BondVision mid price is not available.

For this fallback method, we remove from the procedure the bid/offer pair containing the highest bid and the bid/offer pair with the lowest offer. Therefore, in carrying out the calculation, MTS S.p.A. will eliminate the orders containing the highest and lowest bid and the orders with the highest and lowest offer. The purpose of this approach is to avoid considering prices that may be too far from/close to the average market price.

Moreover it is removed the possibility for MTS to cancel, on its initiative, trades relating to financial instruments where the volume of the issuance is significantly lower than announced. This in order to remove a degree of discretionary of the market, increasing the certainty for market participants, and considering that such rule has never been applied.

The changes to the Rules are shown below.

MTS Cash Domestic Rules

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4.10 Cancellation of Trades

1. Cancellation of erroneous Trades shall be carried out by MTS on the basis of a written request to be sent by email to MTS at cancellations@mtsmarkets.com prior to the closing of the Market or immediately afterwards. Participants shall make sure that only properly authorised employees send the relevant request to MTS and therefore MTS shall not be liable for relying on an non-authorised **cancellation** request.
2. Upon receipt of the communication MTS will promptly contact the counterparty to the relevant trade regarding the requested cancellation.
 - a) If the counterparty promptly confirms its agreement to such cancellation request, the request shall be treated as a bilateral cancellation request and shall be executed by MTS. A bilateral cancellation can be carried out up until the closing of the market or immediately thereafter.
 - b) In the event that the other counterparty does not respond promptly or does not agree with the Trade cancellation request, in order to proceed with the cancellation MTS will ascertain whether a unilateral cancellation can be performed. A unilateral cancellation procedure can only be started if the relevant cancellation request has been notified to MTS within 5 minutes from the execution of the relevant Trade.
 - c) In order to qualify for unilateral cancellation a Trade must be proved beyond doubt to deviate considerably from the Fair Market Value of the security in question at the time of execution.
 - d) **To ascertain** ~~Ascertaining the~~ Fair Market Value, **MTS shall apply the following formula:**
$$BV \text{ Mid } +/- [(Average \text{ of best bid-offer spread over } n \text{ days detected on the Market}) * (cancellation \text{ factor})]/2$$
where:
BV Mid is the mid price resulting from the prices quoted in the BondVision Market, Cash Segment for the Security, recorded at the time of conclusion of the Trade being cancelled;
MTS shall indicate in the Regulatory Specifications the number of days over which it calculates the Average of the best bid-offer Spread detected on the Market and the cancellation factor.
 - e) **Where the BV Mid referred to in point d) above is not available, MTS shall apply the following procedure:**
 - i. MTS shall ascertain the **bid-offer** Fair Market Value of the security in question by immediately requesting up to five (5), but in any case not less than three (3), firm two-way inter-dealer electronic quotes **for that instrument** at the time of execution of the Trade.

- ii. The five banks consulted are chosen from a pre-defined list and exclude both parties of the disputed transaction (the “selected Participants”).
- iii. The Selected Participants shall respond as soon as possible by return email with their current Bid-Ask Spread, i.e. the two ways electronic “inter-dealer” quotes they enter or would have entered into any inter-dealer electronic market.
- iv. MTS will discard **the Quotes** ~~the bid/offer couple~~ containing the highest **and the lowest** bid and the **Quotes** ~~bid/offer couple~~ containing the **highest and the lowest** offer and will calculate, truncating the result to the third decimal and then rounding up to the second one, the average of the remaining bid prices and the average of the remaining ask prices which will determine the Fair Market Values. ~~In case there are multiple couples with the same bid or the same offer, the couple with the tighter Bid-Ask Spread will be deleted: if this spread is expressed by more than one couple, only one will be eliminated. In case the highest bid and the lowest offer are contained in the same couple, only this couple will be deleted.~~
- v. Once Fair Market Values are ascertained, MTS will calculate the relevant spread (average Bid-Ask Spread).
- vi. The Trade price in question will be considered to deviate from the **bid-offer** Fair Market Value if it is more than 50% wider than the average Bid-Ask Spread which was calculated.

More in details:

~~☐ **Error sale** (i.e. cancellation request is made by the seller):~~

~~The transaction will be cancelled when the trade price is lower than the bid Fair Market Value by more than 50% of the above defined spread at the time of the execution of the trade.~~

~~☐ **Error purchase** (i.e. cancellation request is made by the buyer)~~

~~The transaction will be cancelled when the trade price is higher than the ask Fair Market Value by more than 50% of the above defined spread at the time of the execution of the trade.~~

Example:

Italian BTP 4.750 1 February 2013

The following Best bid-offer prices were on the best page — 107.15/110.25

Seller aggresses bid at 107.15 and then reports it as an error Trade (being an error sale).

Following a poll of five market participants, the five quotes are as follows:

- 108.60/109.60
- 108.50/109.65
- 107.90/109.50
- 108.25/109.30
- 108.30/109.20

The couple with the highest bid and the couple with the lowest offer are thrown out which leaves the following:

108.50/109.65

107.90/109.50

108.25/109.30

The average bid price and the average offer price are calculated taking into account the three remaining bid and offer prices. The result is truncated to the third decimal and rounded to the second decimal:

Avg Bid = $(108.50 + 107.90 + 108.25) / 3 \Rightarrow 108.22$ truncated to the 3rd and rounded up to the 2nd decimal which determines the bid Fair Market Value

Avg Offer = $(109.65 + 109.50 + 109.30) / 3 \Rightarrow 109.48$ truncated to the 3rd and rounded up to the 2nd decimal which determines the offer Fair Market Value

Therefore the remaining values are:

108.22/109.48 that brings to an average Bid-Ask Spread of 126 cts

The following bid and offer limits are obtained by applying the 50% deviation margin to the average bid/offer spread (126 cts): 107.59/110.11

The sale executed at 107.15 will be cancelled as the low parameter is 107.59 i.e. all sales < 107.59 may be cancelled should that be requested by the seller in the present example.

- f) If after following the above procedure, the reported Trade in question is proven to be off the **was executed at a price that is inconsistent with the financial instrument's** Fair Market Value based on the criteria listed **in points d) or e)** above, MTS shall perform the unilateral cancellation of the Trade in question in order to maintain a fair and orderly Market and avoid the unfair penalisation of participants for genuine errors.
- g) MTS will inform the counterparties to the Trade in question via telephone (with confirmation via e-mail) of its decision regarding the cancellation request within 35 minutes from the time of conclusion of the erroneous Trade.
- h) MTS is entitled to reveal the identity if it deemed useful to resolve the Trade dispute.
- i) In exceptional circumstances, to be determined by MTS, and upon a written request, sent via email to MTS by both counterparties to the relevant Trade, in case a Trade has been executed at Price not in line with the current market value, MTS may amend the Price of the relevant Trade.
3. In the event of a Major Market Incident (MMI), MTS shall cancel the Trades affected by such MMI. In connection with such cancellation, MTS shall also be entitled to take into account Trades entered into outside of the MMI period but affected by the Market malfunctioning; and shall also be entitled to determine that Trades entered into during the

MMI period have remained unaffected by such MMI. MTS may at its discretion consult the Participants whose Trades have been or may be affected by an MMI.

The parties of the Trades subject to cancellation shall be notified within the close of the trading day, unless force majeure prevents such notification.

4. MTS shall on its initiative cancel Trades or correct data transmitted in accordance with the Rules relating to Financial Instruments whose issuance has been announced by the issuer and which have not been issued ~~or where the volume of the issuance is significantly lower than announced.~~

EBM MTF Market Rules

[omissis]

4.10 Cancellation of Trades

1. Cancellation of erroneous Trades shall be carried out by MTS on the basis of a written request to be sent via email to MTS at cancellations@mtsmarkets.com prior to the closing of the Market or immediately afterwards. Participant shall make sure that only properly authorized employees send the relevant request to MTS and therefore MTS shall not be liable for relying on an non authorized ~~cancellation~~ requests.
2. Upon receipt of the communication, MTS will promptly contact the counterparty to the relevant trade regarding the requested cancellation:
 - a) If the counterparty promptly confirms its agreement to such cancellation request, the request shall be treated as a bilateral cancellation request and shall be executed by MTS. A bilateral cancellation can be carried out up until the closing of the Market or immediately thereafter.
 - b) In the event that the other counterparty does not respond promptly or does not agree with the Trade cancellation request, in order to proceed with the cancellation MTS will ascertain whether a unilateral cancellation can be performed. A unilateral cancellation procedure can only be started if the relevant cancellation request has been notified to MTS within 5 minutes from the execution of the relevant Trade.
 - c) In order to qualify for unilateral cancellation a Trade must be proved beyond doubt to deviate considerably from the Fair Market Value of the security in question at the time of execution.
 - d) **To ascertain** the ~~Ascertaining~~ Fair Market Value **MTS shall apply the following**

formula:

$$BV \text{ Mid } +/- \frac{[(\text{Average of best bid-offer spread over } n \text{ days detected on the Market}) * (\text{cancellation factor})]}{2}$$

where:

BV Mid is the mid price resulting from the prices quoted in the BondVision Market, Cash Segment for the Security, recorded at the time of conclusion of the Trade being cancelled;

MTS shall indicate in the Regulatory Specifications the number of days over which it calculates the Average of the best bid-offer Spread detected on the Market and the cancellation factor.

e) Where the BV Mid referred to in point d) above is not available, MTS shall apply the following procedure:

- i. MTS shall ascertain the **bid-offer** Fair Market Value of the security in question by immediately requesting up to five (5), but in any case not less than three (3), firm two-way inter-dealer electronic quotes ~~for that instrument~~ at the time of execution of the Trade.
- ii. The five banks consulted are chosen from a pre-defined list and exclude both parties of the disputed transaction (the "Selected Participants").
- iii. The Selected Participants shall respond as soon as possible by return email with their current Bid-Ask Spread, i.e. the two way electronic "inter-dealer" quotes they enter or would have entered into any inter-dealer electronic market.
- iv. MTS will discard ~~the Quotes offer the bid/offer couple~~ containing the highest and **the lowest** bid and the ~~Quotes bid/offer couple~~ containing the **highest and the lowest** offer and will calculate, truncating the result to the third decimal and then rounding up to the second one, the average of the remaining bid prices and the average of the remaining ask prices which will determine the Fair Market Values. ~~In case there are multiple couples with the same bid or the same offer, the couple with the tighter Bid-Ask Spread will be deleted: if this Bid-Ask Spread is expressed by more than one couple, only one will be eliminated. In case the highest bid and the lowest offer are contained in the same couple, only this couple will be deleted.~~
- v. Once Fair Market Values are ascertained, MTS will calculate the relevant spread (average Bid-Ask Spread).
- vi. The Trade price in question will be considered to deviate from the **bid-offer** Fair Market Value if it is more than 50% wider than the average Bid-Ask Spread which was calculated.

More in details:

~~A cancellation occur in the following circumstances:~~

~~**Error sale** (i.e. cancellation request is made by the seller):~~

~~The transaction will be cancelled when the trade price is lower than the bid Fair Market Value by more than 50% of the above defined spread at the time of the execution of the trade.~~

~~**Error purchase** (i.e. cancellation request is made by the buyer):~~

The transaction will be cancelled when the trade price is higher than the ask Fair Market Value by more than 50% of the above defined spread at the time of the execution of the trade.

Example:

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- f) If after following the above procedure, the reported Trade in question is proven to be off the **was executed at a price that is inconsistent with the financial instrument's** Fair Market Value based on the criteria listed **in points d) or e)** above, MTS performs the unilateral cancellation of the Trade in question in order to maintain a fair and orderly Market and avoid the unfair penalisation of members for genuine errors.
- g) MTS will inform the counterparties to the Trade in question via telephone (with confirmation via e-mail) of its decision regarding the cancellation request within 35 minutes from the time of conclusion of the erroneous Trade.
- h) MTS is entitled to reveal the identity of the parties if it deemed useful to resolve the Trade dispute.

- i) In exceptional circumstances, to be determined by MTS, and upon a written request, sent via email to MTS by both counterparties to the relevant Trade, in case a Trade has been executed at Price not in line with the current market value, MTS can proceed to amend the Price of the relevant Trade.
3. In the event of a Major Market Incident (“MMI”), MTS shall cancel the Trades affected by such MMI. In connection with such cancellation, MTS shall also be entitled to take into account Trades entered into outside of the MMI period but affected by the market malfunctioning; and shall also be entitled to determine that Trades entered into during the MMI period have remained unaffected by such MMI. MTS may at its discretion consult the Participant whose Trades have been or may be affected by an MMI. The parties of the Trades subject to cancellation shall be notified within the close of the trading day, unless force majeure prevents such notification.
4. MTS shall on its initiative cancel Trades or correct data transmitted in accordance with the Rules relating to Financial Instruments whose issuance has been announced by the issuer and which have not been issued ~~or where the volume of the issuance is significantly lower than announced.~~

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