Markets managed by Borsa Italiana:
buy-in and sell-out procedures

Introduction
This document describes the compulsory execution procedures for contracts that are not settled within the prescribed settlement date as a result of technical fails in the delivery of the securities (buy-in) or cash (sell-out).

This document was drafted for information only. Therefore exclusive reference should be made to the official Rules and the Instructions of the CC&G and of the Borsa Italiana.

As described below, the compulsory execution procedure is initiated by CC&G, on its own authority, for markets assisted by a central counterparty guarantee system, whereas it is activated at the initiative of the performing counterparty in the markets not guaranteed by CCP.

Regulatory references
For the MTA, MTAX and relevant after hours, see:
- CC&G Regulations
- CC&G Instructions
- Rules for markets organised and managed by Borsa Italiana (Articles 4.1.1, 4.3.1 of the Market Rules)
- Instructions accompanying the Rules for markets organised and managed by Borsa Italiana (Articles IA.4.2.1 and IA.6.3.1 of the Instructions accompanying the Market Rules)

For the MOT, SeDEx and after hours, Expandi and EuroMOT, see:
- Rules for markets organised and managed by Borsa Italiana (Articles 4.2.1 (SeDEx), 4.3.1 (TAH), 4.4.1 (MOT), 4.5.1 (EuroMOT) and 4.6.1 (Expandi);
- Instructions accompanying the Rules for markets organised and managed by Borsa Italiana (from Articles IA.4.4.1 to IA.4.4.8 (Expandi), from Articles IA.5.17 to IA.5.25 (SeDEx); Article IA.6.3.1 (TAH); from Articles IA 7.3.1 to IA 7.3.8 (MOT) and from Articles IA.8.2.2 to IA.8.2.9 (EuroMOT).

Buy-in procedure for markets assisted by a central counterparty guarantee system (MTA, MTAX and after hours)
CC&G receives, from the settlement system, a report on the unsettled transactions for which CC&G is the counterparty (failed transactions).
The buy-in procedure is initiated by CC&G on its own authority if, at the end of the third day following the original settlement date (L), the failed transactions are still not settled. To this end, CC&G sends a buy-in notice to the Seller on the morning of L+4. The buy-in notice is a special clearing report, that shows the failed positions and the time period within which these must be settled.

From the date on which the buy-in notice is sent starts of an additional period for the re-proposition of the failed transactions on the gross settlement system, designed to enable the seller(s) to fulfil the original obligation.

Compulsory execution (buy-in) is performed on L+8 if the transaction is not settled by the third day after the buy-in notice is sent (L+7).

In urgent cases, with the aim of protecting the central counterparty system, CC&G may initiate on its own authority the buy-in procedure starting from the day after that on which the delivery obligation is not fulfilled (by sending the buy-in notice). This is the start of an additional period for re-proposition of the failed transactions, designed to enable the seller(s) to fulfil the original obligation. Compulsory execution (buy-in) is performed if the transaction is not settled by the third day after the buy-in notice is sent.

On the buy-in date (L+8), before the start of trading, CC&G sends to the market participant which fulfilled its obligation and to the participant in fail, a clearing report showing the securities upon which compulsory execution shall take place. The compulsory execution is performed on the market by a buy-in-agent appointed by CC&G.

The buy-in agent executes the buy-in on the morning of L+8.

If the buy-in agent is unable to buy the securities on the market on the buy-in date, he may buy them in the next two days. Before the start of trading on each day, CC&G sends a clearing report to the Buyer and to the Seller, which lists the securities acquired by the buy-in agent and the securities that are still to be bought. The clearing report sent to the seller also specifies the price at which the securities were traded by the buy-in agent.

CC&G enters the following settlement instructions into RRG-NET with the same settlement date as of the buy-in transaction:

- a settlement instruction (securities/euro) with the buy-in agent (Buy-in Agent → CC&G) at the buy-in execution price;
- a settlement instruction (securities/euro) with the Buyer (CC&G → Buyer) at the price at which the original contract was concluded.

Settlement instructions are automatically checked.

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1 The buy-in notice is produced as part of the evening batch procedure on L+3.
2 Transactions coming from markets assisted by a central counterparty system therefore have an end of validity date of L+7. If they are not settled within this period, they are withdrawn from the settlement system.
3 The buy-in notice is produced as part of the evening batch procedure on the day prior to the procedure initiation day and sent on the morning of the initiation day.
If the value of the buy-in contract is higher than the value of the original transaction, the differential is covered by the Seller in fail in the daily settlement system, on the day after the buy-in execution.
If the price of the buy-in contract is less than the price of the original trade, the differential is retained by the CC&G as per commissions.

As stated above, if the buy-in agent is unable to buy the securities on the market on the buy-in date, he may do so in the next two days. If this is not possible on day L+10 either, CC&G will, on the following day (L+11), make a cash settlement of the failed positions under the CCP’s daily settlement system, and will notify the participants concerned by means of a special report. The amount to be used for cash settlement is covered by the Seller under the same daily settlement system.

**Sell-out procedure for markets assisted by a central counterparty guarantee system (MTA, MTAX and after hours markets)**

CC&G receives from the settlement system a report on the unsettled transactions, for which CC&G is the counterparty (fail).

If at the end of the gross settlement cycle on the original settlement day the failed transaction is still not settled due to a lack of cash, CC&G initiates the sell-out procedure by sending a sell-out notice to the Buyer in fail. CC&G, considering the rules of functioning of the gross settlement procedures, may postpone the deadlines of the sell-out procedure by giving notice to the interested participant.

The mandatory sell-out shall be executed by a sell-out-agent nominated by CC&G.

After due execution of the sell-out, CC&G will send a report to the participant in fail in which are specified the instruments negotiated by the sell-out agent and the relevant sale price.

If the price of the securities of the sell-out is inferior to the price of the original transaction the difference shall be covered by the counterparty in fail via a charge in the daily cash settlement system of the central counterparty on the next day following the day of execution of the sell-out instruction. In the case where the price of the sell-out should be superior the price of the original transaction, the differential is retained by CC&G as per commissions.

If the sell-out-agent is not able to execute a sale of the instruments on the market on the sell-out execution date, shall be able to sell until 3 p.m. of the following day. In such event the notice to the participant in fail shall indicate the instruments negotiated by the sell-out-agent and the relevant sale price, as well as the instruments that remain to be sold.

If the sell-out-agent is not able to execute the sale of the instruments CC&G orders to the counterparty in fail to provide for the value of the instruments via cash payment on the CC&G’s account n. 90000 on the same day. After receipt of such payment CC&G shall deliver the instruments to the counterparty originally in fail.

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4 The report is produced as part of the evening batch procedure on L+10 and sent on the morning of L+11.
Buy-in / sell-out procedure for markets not assisted by a central counterparty system (Expandi, SEDEX and after hours)

The proposed compulsory execution procedure for contracts not settled due to a lack of securities or cash, for the Expandi, for the SEDEX, is similar to that provided for markets assisted by a central counterparty guarantee system, in terms of timetable, but it differs in terms of the person who has the power to initiate the procedure. The buy-in procedure can in fact be activated by the performing party (requesting counterparty) and not by a CC&G on its own authority, as happens in the markets assisted by the central counterparty system.

Buy-in

The requesting counterparty can initiate the buy-in procedure by sending a buy-in notice to the Seller (counterparty in fail) from the end of the third day after the original settlement date of the contract (starting from L+3), notifying Borsa Italiana as well. This is the start of an additional period (4 days) for the re-proposal of failed transactions on the gross settlement system, designed to enable the liable counterparty/ies to fulfill the original obligation. If the counterparty in fail has still not settled the transaction (L+7 when the buy-in notice was sent on L+3), the buy-in is executed on (L+8).

Compulsory execution of the contract is performed on the market by a buy-in agent appointed by the buyer and chosen from amongst the operators admitted to trading on the markets managed by Borsa Italiana. If no such intermediary agrees to act as buy-in agent, Borsa Italiana will make this appointment on its own authority.

The buy-in agent notifies the buyer of the details of the contracts concluded.

The buyer in turn notifies the seller and Borsa Italiana that compulsory execution of the original contract has taken place.

The buyer sends to the settlement service a settlement instruction for the buy-in agent with the quantity and the value in euro of the buy-in execution, and with the same value date. The buyer notifies Borsa Italiana that the settlement instruction has been sent.

If the tel quel price of the buy-in execution contract is higher than the tel quel price of the original contract, the differential is covered by the seller. In this case, the seller sends the settlement system a settlement instruction for the buyer, covering the differential and having the same value date as the settlement of the buy-in execution. The seller notifies Borsa Italiana thereof.

The parties are required to check the above settlement instructions.

If the buy-in agent is unable to buy the securities on the buy-in date or he is able to do it only partly, he may execute the buy-in on the following days.

Pass on of the buy-in procedure

A seller who has not settled a contract concluded on own account within the prescribed settlement date, because another participant on the market failed to settle (provided that both settlement
instructions are for the same quantity), and who has received the buy-in notice, may transfer the effects of the buy-in procedure to such participant by sending a special notification to the latter and, for information, to Borsa Italiana.
The seller gives details of the buy-in execution to the third party participant and, for information, to Borsa Italiana.
Any price differential between the original contract and the buy-in contract will be paid by the third party intermediary.

Sell-out

The requesting counterparty can initiate the sell-out procedure as from the end of the original settlement date (L) by sending a sell-out notice to the counterparty in fail. If the counterparty in fail does not settle the transaction by 10 am on the day after the sell-out notice is sent, the sell-out is executed (on L+1, when the sell-out notice is sent on L).

The compulsory execution of the contract (sell-out) is performed on the market by a sell-out agent appointed by the seller and chosen from amongst the operators admitted to trade on the markets managed by Borsa Italiana. If no such intermediary agrees to act as sell-out agent, Borsa Italiana will make this appointment on its own authority.

The sell-out agent notifies the seller of the details of the contracts concluded.
The seller notifies the buyer and Borsa Italiana that compulsory execution of the original transaction has taken place.

The seller sends the settlement service a settlement instruction for the sell-out agent with the quantity and value in euro of the sell-out execution, and with the same value date. The seller notifies Borsa Italiana that the settlement instruction has been sent.

If the price of the sell-out contract is lower than the price of the original contract, the differential is covered by the buyer. In this case, the buyer sends the settlement system a settlement instruction for the seller, covering the differential, with the same value date as the settlement of the sell-out transaction. The buyer notifies Borsa Italiana thereof.

The parties are required to check the above settlement instructions.

If the sell-out agent is unable to sell the securities on the sell-out-execution date or only partly manages to do so, he may execute the sell-out on the following days.

Buy-in/sell-out procedure for markets not assisted by a central counterparty guarantee system (MOT and EuroMOT)

Buy-in for the MOT and EuroMOT

The requesting counterparty can initiate the buy-in procedure by sending a buy-in notice to the Seller (counterparty in fail) from the end of the third day after the original settlement date of the contract (starting from L+3).
If the counterparty in fail does not settle the original transaction within the second day from the delivery of the buy-in notice (L+5 if the buy-in notice was given on L+3) on the next day the buy-in will be executed (L+6).

The compulsory execution of the contract is performed on the market by a buy-in agent appointed by the buyer and chosen from amongst the operators admitted to trading on the markets managed by Borsa Italiana. If no such intermediary agrees to act as buy-in agent, Borsa Italiana will make this appointment on its own authority. The buy-in agent notifies the buyer of the details of the contracts concluded.

The buyer in turn notifies the seller and Borsa Italiana that the compulsory execution of the original contract has taken place.

The buyer sends to the settlement service a settlement instruction for the buy-in agent with the quantity and the value in euro of the buy-in execution, and with the same value date. The buyer notifies Borsa Italiana that the settlement instruction has been sent.

If the price of the buy-in contract is higher than the price of the original contract, the differential is covered by the seller. In this case, the seller sends the settlement system a settlement instruction for the buyer, covering the differential, with the same value date as the settlement of the buy-in execution. The seller notifies Borsa Italiana thereof.

If the buy-in agent is unable to buy the securities on the buy-in date or only partly manages to do so, he may execute the buy-in on the following days.

**Pass on of the buy-in procedure**

A seller, who has not settled a contract concluded on own account within the prescribed settlement date because another participant on the market has failed to settle and who has received the buy-in notice, may transfer the effects of the buy-in procedure to such participant by sending a special notification to the latter and, for information, to Borsa Italiana. The seller gives details of the buy-in execution to the third party participant and, for information, to Borsa Italiana.

Any price differential between the original contract and the buy-in contract will be payable by the third party participant.

**Sell-out for the EuroMOT**

The sell-out procedure for the EuroMOT follows the same timescales applicable to the buy-in procedure.

**Sell-out for the MOT**

The requesting counterparty can initiate the sell-out procedure as from the end of the original settlement date (L) by sending a sell-out notice to the counterparty in fail. If the counterparty in fail
does not settle the transaction by 10 am on the day after the sell-out notice is sent, the sell-out is executed (on L+1, when the sell-out notice was sent on L).

The compulsory execution of the contract (sell-out) is performed on the market by a sell-out agent appointed by the seller and chosen from amongst the operators admitted to trade on the markets managed by Borsa Italiana. If no such intermediary agrees to act as sell-out agent, Borsa Italiana will make this appointment on its own authority.

The sell-out agent notifies the seller of the details of the contracts concluded. The seller notifies the buyer and Borsa Italiana that compulsory execution of the original transaction has taken place.

The seller sends the settlement service a settlement instruction for the sell-out agent with the quantity and value in euro of the sell-out execution, and with the same value date. The seller notifies Borsa Italiana that the settlement instruction has been sent.

If the *tel quel* price of the sell-out contract is lower than the price of the original contract, the differential is covered by the buyer. In this case, the buyer sends to the settlement system a settlement instruction for the seller, covering the differential, with the same value date as the settlement of the sell-out transaction. The buyer notifies Borsa Italiana thereof.

The parties are required to check the above settlement instructions.

If the sell-out agent is unable to sell the securities on the sell-out-execution date or only partly manages to do so, he may execute the sell-out on the following days.

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The procedures for adjustments made in connection with corporate actions affecting failed transactions, are described in the document "Fails management: corporate actions" available at [www.borsaitalia.it](http://www.borsaitalia.it)