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MIT Exchange - IPO service

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1. Introduction

1.1 Document history

Version	Date	Description
1.0	January 2022	First issue of this document.

1.2 Purpose

This document provides Borsa Italiana’s customers with functional and technical details regarding the Direct Distribution trading model (the “IPO Service” hereinafter) available to clients on the MIT Exchange trading system, that permits to:

- leverage on the client network connected to Borsa Italiana’s trading system, in order to maximise the number of target clients for an Initial Public Offer from an issuer;
- lean on the Borsa Italiana post trading infrastructure, used by member firms to carry out regular trading activities, to handle the end-to-end IPO subscription process;
- automatically manage the process of allocating shares in case of oversubscription.

Participants must be aware that this service does not support the price discovery process which is the scope of bookbuilding process (that, for this reason, will have to be managed outside the MIT system), but just to collect subscription orders at the Public Offer price. On this regard, the IPO Service must to be considered complementary to the standard IPO process that is operated by the issuer, its advisors and IPO consortium.

1.3 Readership

This document is relevant for business teams and technical staff within Borsa Italiana’s member firms, information vendors and other market participants interested in using the MIT Exchange trading system to support a Public Offer. This document should be read in conjunction with the other MIT Exchange guides reported in the next paragraph.

1.4 Document series

This document is part of a series of documents which provide technical specifications for the MIT Exchange trading system. This series of documents includes:

- MIT201 - Guide to the Trading System - Issue 15.3
- MIT202 - Trading Gateway (FIX 5.0) Specification - Issue 14
- MIT203 - Native Trading Gateway Specification - Issue 14
- MIT204 - Post Trade Gateway (FIX 5.0) Specification - Issue 15
- MIT205 - Drop Copy Gateway (FIX 5.0) Specification - Issue 15

The latest version of these documents can be found at the following links:

- Italian Version:

www.borsaitaliana.it/borsaitaliana/gestione-mercati/migrazionemillenniumit-mit/millenniumitmigration.htm

- English Version:

www.borsaitaliana.it/borsaitaliana/gestione-mercati/migrazionemillenniumit-mit/millenniumitmigration.en.htm

2. Public Offer on MIT Exchange

2.1 Description

The Issuer or the Sponsor of the Public Offer must contact Borsa Italiana in order to provide all relevant information (e.g. the size of the Public Offer, the proposed offer period etc.)¹, in order to verify and confirm the possibility to manage the Public Offer using the MIT Exchange trading system. A member firm (the "Appointed Selling Intermediary" hereinafter) shall be designated by the Issuer to collect requests to subscribe the shares offered to the public.

The IPO service is based on the following assumptions:

- each investor, through his intermediary, will have the possibility to enter buy IPO orders in the MIT Exchange trading system, at a pre-defined Static Reference Price (the maximum offer price); please note that it is possible to restrict access to the IPO book, by authorizing only some market participants to enter buy orders;
- buy IPO orders are matched on a continuous basis with sell IPO orders entered by the Appointed Selling Intermediary. The resulting trades are not disseminated via market data feed (GTP);
- at the end of the offer period, IPO trades will be sent to the whole market via market data feed (GTP), with execution price set equal to the final IPO price. It is possible that the allocated quantity is different from the required quantity in case of oversubscription (in this case, final allocated quantities will be determined by an iterative allocation algo).

Please note that different offer tranches of the same IPO can be run in parallel on the platform, using separated IPO books.

2.2 IPO Trading model and order types

The IPO trading model includes, for each day till the end of the offer period, the following trading sessions:

¹ An estimate of the expected maximum number of subscription requests will also be required.

Trading Sessions	Start time	End time
Quoting Period	08:45:00	09:00:00
Continuous (Regular) Period	09:00:00	17:30:00

During the Quoting Period, only the Appointed Selling Intermediary will be able to submit Sell orders into the trading system. No order will be accepted from any other trading member and no trade will occur. This trading phase is designed to allow the Appointed Selling Intermediary to be present on the book as soon as the Continuous Period starts, in order to match any incoming buy order.

It will be possible to amend/cancel the submitted sell orders, which will be validated against the pre-defined Static Reference Price.

All buy orders will be matched upon submission, since Sell orders from the Appointed Selling Intermediary will be always on book during continuous trading, as a rule of conduct.

During the Continuous Period, participants sending IPO buy orders will immediately receive confirmation that their orders have been accepted. IPO buy orders with price different from the Static Reference Price will be rejected by the matching engine with reject code and reason: "001226 - Price not equal to Static Reference Price".

Confirmation will be provided with an Execution Report message. This message received by buyers must not be considered as confirmation of trade execution, but only as acknowledgment of order reception. Trade execution will be confirmed only at the end of the offer period. For technical details, please refer to par. 3.1.

During the Continuous period, the Appointed Selling Intermediary will receive Execution Reports and Trade Capture Report messages.

The following orders types are allowed during the Continuous Period:

Allowed Sell Order Types	Allowed Buy Order Types
DAY Limit Orders	DAY Limit Orders ²
DAY Market Orders	DAY Market Orders
DAY Single Sell side Quotes	

² Must have limit price equal to the Static Reference Price.

2.3 End of the offer period and IPO Trades

At the end of the offer period, and before the settlement day (S-1), the IPO sponsor will communicate the final public offer price (the "IPO price", one for each tranche of the offer, if necessary) to the Markets Supervision department of Borsa Italiana, jointly with the final lot size and the final number of shares to be allocated³ (again, for each tranche of the offer, where necessary). This information will be determined outside of the trading system by the Issuer, its advisors and the IPO consortium, by means of the traditional book building / IPO process.

The IPO price will be the final execution price for the provisional trades matched in the MIT Exchange trading system during the offer period.

Once the final IPO price has been confirmed, Borsa Italiana will define the final quantity allocated to each buy order matched during the offer period, and will trigger the dissemination of the correspondent final trade messages.

All final trades will be communicated via standard messages (see paragraph 3.1 for technical details) and, only at this point in time, will be delivered to the settlement system.

For the Buy party, the final trades will be disseminated as "New Trade"; for the Appointed Selling Intermediary, the final trades will be disseminated as "Amended Trade", since provisional trades were already communicated to the Appointed Selling Intermediary during the offer period.

These messages will be sent to market participants for each buy order that, after allocation, has received a quantity greater than zero, containing all relevant information such as:

- the Allocated Quantity, which can differ from the original required quantity due to the allocation process;
- the IPO price, which will be equal or below the limit price of the original order, according to the IPO price determined by the Issuer, its advisors and the IPO consortium;
- the related order ID, in order to make possible reconciliation with the order entered in the system during the offer period.

³ The issuer might decide to reduce the previously communicated lot size, that must be in any case a divisor of the original one. The final number of shares to be allocated must be a multiple of the final lot size.

2.4 Iterative allocation algo

In order to define the effective quantity allocated to each buy order matched during the offer period, the following process will be used once the issuer has confirmed the IPO Price, the final lot size and the exact number of shares to be allocated:

- all buy matched orders are sorted by sequential number called "ROUTINGSEQ", which is a unique progressive value assigned at each order⁴ on the basis of the moment when the order is received by the trading system;
- the algorithm will randomly pick a "ROUTINGSEQ" to be used as starting point of the allocation;
- starting from the selected ROUTINGSEQ and following the increasing ROUTINGSEQ order, a quantity equal to the minimum lot size is attributed to each order until the final offer quantity is fully allocated (once the first run is completed, a second run is started from the first ROUTINGSEQ, and the process continues until the total offered quantity is allocated);
- at the end of the allocation, the provisional trades matched during the offer period are updated with the final allocated quantity and the IPO price, and are disseminated to market participants and to the settlement system.

Example of Iterative Allocation Algo

Scenario:

- 5 investors participating to the offer with different quantities
- Initial lot size: 4,000 shs
- IPO price range: 4.8 – 5 EUR

ROUTINGSEQ	Orders	Submitted Order quantity	Executed Order quantity (provisional trade)	Static Reference Price (max. IPO price)	Value
777001	Order A	4,000	4,000	5	20,000
777002	Order B	8,000	8,000	5	40,000
777003	Order C	60,000	60,000	5	300,000
777004	Order D	8,000	8,000	5	40,000
777005	Order E	200,000	200,000	5	1,000,000
	Total	280,000	280,000		1,400,000

⁴ The allocation algo will be run against each single order executed, which means that in case a single person enter two or more orders, the orders will be not grouped by TaxID code.

Once the IPO sponsor confirms the IPO details (the final number of shares to be allocated, the final IPO price and the final lot size - for each tranche, where necessary), for example:

- final lot size: 2,000 shares;
- final number of shares to be allocated: 30,000 shares;
- final IPO Price: 4.8 EUR;

the algorithm proceeds with the iterative allocation, randomly picking a ROUTINGSEQ number as the starting point of the allocation. If as for example ROUTINGSEQ = 777003 is selected:

- the investor who submitted Order C (with RoutingSeq=777003) will receive 2,000 shares at the beginning of the allocation;
- other investors with following RoutingSeq will receive additional 2,000 shares during the first run;
- a second run will be started from the lowest ROUTINGSEQ, allocating a quantity equal to the lot size to each order, following the increasing sequence of ROUTINGSEQ numbers;
- the process continues until the full amount of the offered shares is allocated.

Due to the random allocation the investor who submitted Order E (which was the order with highest quantity, 200k shares) can receive the same or lower quantity than other orders.

ROUTINGSEQ	Order QTY	1st Run	2nd Run	3rd Run	4th Run	Final Allocated Qty	Final IPO Price	Value
777001	4,000	-	2,000	2,000	No residual quantity	4,000	4.80	19,200
777002	8,000	-	2,000	2,000	2,000	6,000	4.80	28,800
777003 ◀	60,000	2,000	2,000	2,000	2,000	8,000	4.80	38,400
777004	8,000	2,000	2,000	2,000	All shares allocated	6,000	4.80	28,800
777005	200,000	2,000	2,000	2,000		6,000	4.80	28,800
	Total	6,000	10,000	10,000	4,000	30,000	4.80	144,000

3. Comp IDs and technical messages

3.1 Comp IDs

The activity of the Appointed Selling Intermediary must be carried out via a dedicated comp ID. The trading activity of Buy intermediary can occur with standard or dedicated comp IDs, depending on whether the IPO is restricted to a subset of Buy intermediaries only.

For additional information, please contact **Clients-Services@borsaitaliana.it**.

3.2 Trading, Drop Copy and Post Trade messages

Stage	Seller will receive:	Buyer will receive:
During the IPO period (provisional trades)	Through FIX/Native/Drop Copy -> Execution Report with: <ul style="list-style-type: none"> ExecType = Trade (F) OrdStatus = Filled (2) or Partially Filled (1) Through Post Trade Gateway-> Trade Capture Report message with: <ul style="list-style-type: none"> Transition Flag = PNDG 	Through FIX/Native/Drop Copy -> Execution Report with: <ul style="list-style-type: none"> ExecType = New (0) OrdStatus = New (0)
End of the IPO period (final trades)	Through FIX/Native/Drop Copy -> Execution Report with: <ul style="list-style-type: none"> ExecType = Trade Correct (G) OrdStatus = Filled (2) Through Post Trade Gateway -> Trade Capture Report message with: <ul style="list-style-type: none"> ExecType = Trade Correct (G) TradeReportTrans Type = 2 (Replace) 	Through FIX/Native/Drop Copy -> Execution Report with: <ul style="list-style-type: none"> ExecType = Trade (F) OrdStatus = Filled (2) Through Post Trade Gateway -> Trade Capture Report message with: <ul style="list-style-type: none"> ExecType = Trade (F) TradeReportTrans Type = 0 (New)
In case of amendment of the final trades	For trade <u>amendments</u> : Through FIX/Native/Drop Copy -> Execution Report with: <ul style="list-style-type: none"> ExecType = Trade Correct (G) OrdStatus = Filled (2) 	

by Market Surveillance	<p>Through Post Trade Gateway -> Trade Capture Report message with:</p> <ul style="list-style-type: none"> • ExecType = Trade Correct (G) • TradeReportTrans Type = 2 (Replace) • TradeReportType = 5 (Trade amendment) <p>For <u>cancellation</u>, two ERs:</p> <ul style="list-style-type: none"> • 1st Execution Report with: <ul style="list-style-type: none"> ○ Exec Type = H (Trade Cancel) ○ Order Status = 0 (New) • 2nd Execution Report with: <ul style="list-style-type: none"> ○ Exec Type = 4 (Cancelled) ○ Order Status = 4 (Cancelled) <p>Post Trade -> Trade Capture Report message with:</p> <ul style="list-style-type: none"> • ExecType = H (Trade Cancel) • TradeReportTrans Type = 1 (Cancel) <p>TradeReportType = 7 (Trade Break)</p>
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3.3 Market data: Group Ticker Plant

Stage	Messages disseminated to the public (whole market):
During IPO period	<i>None</i>
End of IPO period	<ul style="list-style-type: none"> - Trade - Statistics - MIFID Trade (on Post Trade channel only)
In case of trade amendments by Market Surveillance	<ul style="list-style-type: none"> - Trade - Cancellation - Trade - Correction - MIFID II Trade - Cancellation (on Post Trade channel only) - MIFID II Trade - Correction (on Post Trade channel only)

The below messages will never be disseminated for IPO instruments:

- Add Order Incremental;

- Add Order;
- Add Order short;
- Delete Order;
- Modify Order;
- Indicative Quote Information;
- Order Book Clear.