

EMEA DC Statement 12 September 2017

The DC met on Monday 11 September 2017 to discuss Auction-related matters with respect to Banca Monte dei Paschi di Siena (the **Reference Entity** or **MPS**) in relation to (i) 2014 Transactions (subordinated transactions only) in respect of which a Governmental Intervention Credit Event Resolution has occurred¹ (the **Relevant 2014 Transactions**) and (ii) Updated 2003 Transactions (senior and subordinated transactions) in respect of which a Restructuring Credit Event Resolution has occurred² (the **Relevant 2003 Transactions**).

The DC has Resolved as follows:

Relevant 2014 Transactions

- (a) the Auction Date in respect of Relevant 2014 Transactions will be Thursday 21 September 2017;
- (b) to publish the Initial List of Deliverable Obligations in respect of Relevant 2014 Transactions (which such list was published on the MPS Credit Event [webpage](#) on Monday 11 September 2017);
- (c) to shorten the timetable for publication of the Final List of Deliverable Obligations in respect of Relevant 2014 Transactions, such that the Final List is published by no later than 5:00 p.m. on Monday 18 September 2017; and
- (d) to publish the draft form of Auction Settlement Terms with respect to Relevant 2014 Transactions, which draft represents the form of Auction Settlement terms the DC is considering applying; and

Relevant 2003 Transactions

- (e) to publish the Initial List of Deliverable Obligations in respect of Relevant 2003 Transactions (which such list was published on the MPS Credit Event [webpage](#) on Monday 11 September 2017);
- (f) to publish the draft form of Auction Settlement Terms with respect to Relevant 2003 Transactions, which draft represents the form of Auction Settlement terms the DC is considering applying if the DC resolves to hold one or more Auctions in respect of Relevant 2003 Transactions; and
- (g) a draft form of the maturity buckets applicable to Relevant 2003 Transactions.

In addition, the DC wishes to provide additional information to market participants on Auction-related matters in respect of both the Relevant 2014 Transactions and Relevant 2003 Transactions.

The information set out below is subject to change, particularly if any obligations are added to, or removed from, the Initial Lists (see [Submission of Potential Deliverable Obligations and Challenges note](#) for further information on this process). Market participants should note that the bonds on each Initial List reflect what the DC believes is a representative sample of the obligations of the Reference Entity that would constitute Deliverable Obligations for the purposes of the Relevant 2014 Transactions and Relevant 2003 Transactions, respectively. If any market participants have reason to believe that other obligations should be included on the relevant Supplemental List of Deliverable Obligations, they should submit any such obligations (with the required documentation) to the DC Secretary by no later than the applicable deadline specified below.

In the meantime, however, the DC felt it would be helpful to clarify its current expectations as to the timing and process.

¹ See [DC Resolutions of 4 August 2017](#)

² See [DC Resolutions of 4 August 2017](#)

Please note that the DC has **not** yet determined whether or not to hold Auction(s) in relation to Relevant 2003 Transactions (which will depend on the number of Relevant 2003 Transactions which are triggered following the publication of the Final List of Deliverable Obligations in respect of Relevant 2003 Transactions). **In any event, however, for the reasons summarised below the Auction in respect of Relevant 2014 Transactions and any potential Auction(s) in respect of Relevant 2003 Transactions will occur at different times.**

Capitalised Terms otherwise used but not defined in this statement have the meaning given to them in the 2016 Credit Derivatives Determinations Committees Rules (January 20, 2016 version) (including in the 2014 Definitions and Updated 2003 Definitions, as defined therein).³

Auction in respect of Relevant 2014 Transactions

(i) *Asset Package Delivery*

As previously noted by the DC, by virtue of Section 8.9(a) of the 2014 Definitions, the Governmental Intervention Credit Event in respect of the Relevant 2014 Transactions constitutes an Asset Package Credit Event and, accordingly, pursuant to Section 8.8 of the 2014 Definitions, Asset Package Delivery will apply for the purposes of settlement of any RAST trades created in the Auction in respect of Relevant 2014 Transactions.

Each of the obligations on the Initial List constitutes a "Prior Deliverable Obligation" of the Reference Entity and therefore, subject to any successful challenges to the inclusion of any such obligation on the Final List, will be a Deliverable Obligation for the purposes of the Auction in respect of Relevant 2014 Transactions. Accordingly, any RAST trade in respect of which the related Notice of Physical Settlement specifies any such Prior Deliverable Obligation may be settled by delivery of the related Asset Package, being in this case, subject to section (ii) below, the newly-issued ordinary shares of the Reference Entity with ISIN code IT0005276768 (the **Burden Sharing Shares**) in the proportion received by a holder of the relevant Prior Deliverable Obligation in connection with the Governmental Intervention.

Such Asset Package will be treated as having the same Outstanding Principal Balance as the Prior Deliverable Obligation to which it corresponds had immediately prior to the Governmental Intervention Credit Event. Further, transferors under RAST trades may satisfy an obligation to make a partial transfer of any such Prior Deliverable Obligation by transferring the Burden Sharing Shares (IT0005276768) in the correct proportion.

The DC refers market participants to Section 8.12(b) of the 2014 Definitions for further information regarding delivery of the Asset Package.

(ii) *Expedited Auction Process*

The DC noted that the Burden Sharing Shares into which the obligations set out on the Initial List were converted pursuant to the Burden Sharing Decree⁴ have been allocated a provisional ISIN code of IT0005276768 until the prospectus for the listing of the Burden Sharing Shares has been published. The DC understands that following the publication of the listing prospectus (which should be this Autumn), the Burden Sharing Shares will be allocated the same ISIN code as the MPS ordinary shares already in issue (being IT0005218752)⁵ at which point the Asset Package will include such ordinary shares.

In order to increase the likelihood that settlement occurs whilst the Burden Sharing Shares have a different ISIN code (i.e. the provisional ISIN code of IT0005276768) to the MPS ordinary shares already in issue, the DC is of the view that the Auction in respect of Relevant 2014 Transactions and the settlement of any RAST trades created in that Auction should occur as soon as possible. The DC has therefore (A) resolved to hold the Auction in respect of the Relevant 2014 Transactions on Thursday 21 September 2017 (ahead of any potential Auction(s)

³ Available at http://dc.isda.org/wp-content/files_mf/1453298092DC_Rules_Jan_2016_Update.pdf

⁴ See [DC Statement of 8 August 2017](#)

⁵ See [MPS Press Release of 29 July 2017](#)

in respect of Relevant 2003 Transactions – see below) and (B) proposed to shorten the Physical Settlement Period for related RAST trades as follows (see draft Auction Settlement Terms for further details):

- (a) two Business Days following the Notice of Physical Settlement Date (which is expected to be Friday 22 September 2017) in relation to a Customer Buy RAST. **That is, settlement of all Customer Buy RASTs would be required to be completed on or before Tuesday 26 September 2017;**
- (b) four Business Days following the Notice of Physical Settlement Date in relation to an Auction RAST. **That is, settlement of all Auction RASTs would be required to be completed on or before Thursday 28 September 2017;**
- (c) six Business Days following the Notice of Physical Settlement Date in relation to a Customer Sell RAST; **That is, settlement of all Customer Sell RASTs would be required to be completed on or before Monday 2 October 2017.**

The deadline for Buyers to deliver Notices of Physical Settlement has not been amended and remains as the Business Day following the Auction Date, i.e. Friday 22 September 2017. If Buyer does not deliver a Notice of Physical Settlement by this deadline then Seller can deliver this notice on the next Business Day. If neither party delivers a Notice of Physical Settlement within these timeframes then the RAST will be terminated and not settled

(iii) ***Buy-in provisions***

The DC noted that the buy-in provisions under Section 9.7 of the 2014 Definitions would typically apply in circumstances where Buyer has not delivered Deliverable Obligations that are Bonds by the Physical Settlement Date. However, in this case, the DC felt that it would be equally effective for these buy-in provisions to apply in respect of any RAST trade that has not settled by Delivery of the Asset Package on or prior to the relevant Physical Settlement Date given that the Asset Package comprises shares whose liquidity and transferability is similar to that of Bonds.

Accordingly, the draft form of Auction Settlement Terms with respect to Relevant 2014 Transactions has been amended to allow the buy-in provisions under Section 9.7 of the 2014 Definitions to apply if the Asset Package has not been delivered by Buyer to Seller by the relevant Physical Settlement Date.

For the sake of clarity, if settlement of the relevant RAST trade has not been completed by the time the Burden Sharing Shares are allocated the same ISIN code as the ordinary shares of MPS already in issue (i.e. IT0005218752), then settlement of such RAST trade shall take place based on the ordinary shares of MPS with ISIN code IT0005218752.

Market participants should note that they have until 12:00pm London time on Friday 15 September 2017 to submit any comments to the DC Secretary in respect of any of the changes to the form of the Auction Settlement Terms with respect to Relevant 2014 Transactions.

(iv) ***Publication of Final List***

In light of the expedited Auction process in respect of Relevant 2014 Transactions as set out above, the timetable for determining the Final List has been shortened pursuant to Section 3.3(f) (Timetables) of the DC Rules such that:

- (A) 5:00 p.m. Wednesday 13 September 2017: deadline for submitting additional potential Deliverable Obligations to the DC Secretary for inclusion on the Supplemental List;
- (B) 7:00 p.m. Wednesday 13 September 2017: publication of Supplemental List;

- (C) 5:00 p.m. Friday 15 September 2017: deadline for challenging obligations on the Supplemental List;
- (D) 5:00 p.m. Monday 18 September 2017: if applicable, deadline for resolving challenges; and
- (E) By no later than 5:00 p.m. Monday 18 September 2017: publication of Final List.

Auction in respect of Relevant 2003 Transactions

The timetable for determining the Final List of Deliverable Obligations in respect of Relevant 2003 Transactions is as follows:

- (a) 5:00 p.m. Wednesday 13 September 2017: deadline for submitting additional potential Deliverable Obligations to the DC Secretary for inclusion on the Supplemental List;⁶
- (b) 7:00 p.m. Wednesday 13 September 2017: publication of Supplemental List;⁷
- (c) 5:00 p.m. Monday 18 September 2017: deadline for challenging obligations on the Supplemental List (the **2003 Challenge Deadline**);⁸ and
- (d) 5:00 p.m. Wednesday 20 September 2017: if applicable, deadline for resolving challenges.⁹

As bucketing applies in respect of the Auction(s) for the Relevant 2003 Transactions, the prescribed timetable thereafter depends on when the Final List is published because the Exercise Cut-off Dates applicable to Seller¹⁰ and Buyer¹¹ are defined by reference to such date of publication and, in turn, the Movement Option Cut-off Date¹² and the Auction Date¹³ are determined by reference to the Exercise Cut-off Date applicable to Buyer.

The DC would usually publish the Final List promptly following resolution of all challenges to obligations on the Supplemental List. Accordingly, if there are no challenges, the Final List would be expected to be published after 5:00 p.m. on Monday 18 September 2017. If there are any challenges, the Final List would be expected to be published after 5:00 p.m. on Wednesday 20 September 2017.

However, market participants (including DC members and CCP members of the DC) have raised operational concerns similar to the ones raised for the Banco Popular Español SA Auction in relation to having the typical triggering periods for Relevant 2003 Transactions open on or during the period leading up to the CDS coupon payment date of 20 September 2017, which would be the case if the Final List is published on Monday 18 September 2017 (i.e. no challenges). Moreover, market participants have raised operational concerns in relation to having the typical triggering periods for Relevant 2003 Transactions overlapping with the typical triggering periods that apply for the Banco Popular Español SA Updated 2003 Transactions.

The DC was of the view that it would not be desirable for market participants to be triggering their Relevant 2003 Transactions if this would cause operational issues and subsequent confusion in the market. Accordingly, and given that it was not possible to accelerate the Auction timetable at the present time, the DC expects to delay publication of the Final List to 29 September 2017 pursuant to Section 3.3(f) (Timetables) of the DC Rules. In such a way, the expiration of the relevant triggering periods will be of the usual duration but will be determined

⁶ See Section 3.3(c) (*Adding Obligations*) of the DC Rules, being the Relevant City Business Day occurring on or immediately following the day that is two calendar days following publication of the Initial List.

⁷ See Section 3.3(c) (*Adding Obligations*) of the DC Rules, being the Relevant City Business Day occurring on or immediately following the day that is two calendar days following publication of the Initial List.

⁸ See Section 3.3(d) (*Challenging Potential Deliverable Obligations*) of the DC Rules, being the Relevant City Business Day occurring on or immediately following the day that is three calendar days following publication of the Supplemental List.

⁹ See Section 3.3(e) (*The Final List of Deliverable Obligations*) of the DC Rules, being the Relevant City Business Day occurring on or immediately following the day that is two calendar days following the 2003 Challenge Deadline.

¹⁰ See Section 1.26(b)(i) of the Updated 2003 Definitions, being two Relevant City Business Days following publication of the Final List.

¹¹ See Section 1.26(b)(i) of the Updated 2003 Definitions, being five Relevant City Business Days following publication of the Final List.

¹² See Section 12.19 of the Updated 2003 Definitions, being four Relevant City Business Day following the Exercise Cut-off Date applicable to Buyer.

¹³ See Section 3.4(c) (Auction Date) of the DC Rules, being six Relevant City Business Days following the Exercise Cut-off Date applicable to Buyer.

only once the 20 September 2017 CDS coupon payment date has passed and the triggering periods for the Banco Popular Español SA Updated 2003 Transactions have expired. In other words, Sellers can trigger on the two business days after 29 September 2017 and Buyers can trigger on the five business days after such date.

Accordingly, on or shortly after the 2003 Challenge Deadline, the DC expects to resolve to hold any Auction in respect of Relevant 2003 Transactions according to the following timetable:

- (a) Friday 29 September 2017: publication of Final List;
- (b) Tuesday 3 October 2017: Exercise Cut-off Date applicable to Seller;
- (c) Friday 6 October 2017: Exercise Cut-off Date applicable to Buyer;
- (d) Thursday 12 October 2017: Movement Option Cut-off Date; and
- (e) Wednesday 18 October 2017: Auction Date.

Note that the DC has not yet determined whether or not to hold Auctions in relation to the Reference Entity, as this will depend on the number of outstanding Relevant 2003 Transactions which are triggered on or before the relevant Exercise Cut-off Date.

Market participants should note that they have until 5:00pm London time on Tuesday 19 September 2017 to submit any comments to the DC Secretary in respect of any of the changes to the form of the Auction Settlement Terms with respect to Relevant 2003 Transactions.