

## Banca Monte dei Paschi di Siena S.p.A.

### Explanatory Note 20 September 2017

This note concerns the Auction in respect of subordinated 2014 Transactions referencing Banca Monte dei Paschi di Siena S.p.A. (the **Reference Entity** or **MPS**, and the **Relevant 2014 Transactions**, respectively) which is scheduled to take place tomorrow, Thursday 21 September 2017.

The DC is publishing this explanatory note to provide guidance to market participants on the manner in which (a) bids and offers should be submitted in the Auction for the purposes of determining the Auction Final Price and (b) RAST trades created in the Auction will settle.

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, as defined therein)<sup>1</sup> or the 2017 Banca Monte dei Paschi di Siena S.p.A. 2014 Credit Derivatives Auction Settlement Terms (the **2014 MPS Auction Settlement Terms**),<sup>2</sup> as applicable.

#### Determination of Auction Final Price

As previously noted by the DC, Asset Package Delivery applies for the purposes of settlement of any RAST trades created in the Auction in respect of Relevant 2014 Transactions. In this case, the Asset Package consists of the newly-issued ordinary shares of the Reference Entity with ISIN code IT0005276768 (the **Burden Sharing Shares**)<sup>3</sup> in the proportion received by a holder of the relevant Deliverable Obligation set out on the [Final List](#).

As such Participating Bidders in the Auction will effectively be making bids or offers (as the case may be) on the price of the Asset Package, being the Burden Sharing Shares. However, in accordance with the terms of the 2014 MPS Auction Settlement Terms, these bids and offers must be expressed as a percentage of the outstanding principal balance of the relevant Deliverable Obligation on the Final List (see definitions of "Initial Market Submission" and "Limit Order Submission"). As such, Participating Bidders should be submitting bids and/or offers based on the outstanding principal balance of the bonds which have been exchanged for the relevant Burden Sharing Shares, rather than bids and/or offers on the price per Burden Sharing Share. A worked example is set out below to clarify this point.

#### Worked Example

MPS sent to Euroclear and Clearstream a notice (attached) setting out the conversion ratio (100%) and the number of Burden Sharing Shares received per €50,000 of nominal value of each Deliverable Obligation (being 5,780.346821 shares). Or, put another way, each €8.65 of outstanding principal of bond will be exchanged for one Burden Sharing Share.

As such, if a Participating Bidder wanted to submit a bid of €5 per share, then its Initial Market Bid/Limit Bid would be determined as follows:

*5 multiplied by 5,780.346821/50,000 multiplied by 100 = 57.803%* (subject to adjustment so that the Initial Market Bid/Limit Bid is an increment of 0.125%).

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<sup>1</sup> Available at [http://dc.isda.org/wp-content/files\\_mf/1453298092DC\\_Rules\\_Jan\\_2016\\_Update.pdf](http://dc.isda.org/wp-content/files_mf/1453298092DC_Rules_Jan_2016_Update.pdf)

<sup>2</sup> Available at <https://dc.isda.org/documents/2017/09/mps-2014-final-ast.pdf>

<sup>3</sup> Provided that if settlement of the relevant RAST trade has not been completed by the time the Burden Sharing Shares are allocated the same ISIN as the ordinary shares of the Reference Entity already in issue (IT0005218752), then the Asset Package shall be deemed to include, and settlement of such RAST trade shall take place based on, such ordinary shares with ISIN IT0005218752.

In other words, in order to submit a Initial Market Bid, Initial Market Offer, Limit Bid or Limit Offer, a Participating Bidder must multiply its view on the price per Burden Sharing Share by the asset package factor, being 11.560693642%<sup>4</sup>.

### **Delivery of Asset Package**

Each RAST trade will then be settled by delivery of the Asset Package in lieu of delivery of the Deliverable Obligation.

#### Worked Example

A and B have been paired in a RAST trade with a notional amount of €1,000,000. The Auction Final Price is 53%.

A must deliver the Asset Package determined from €1,000,000 of bonds, namely  $1,000,000/8.65 = 115,607$  Burden Sharing Shares.

B must pay €1,000,000 *multiplied by* 53% = €530,000

### **IMPORTANT NOTES**

1. The numbers used in the examples are for illustrative purposes only and no inference should be drawn about actual prices.
2. In the interests of simplicity, the effects of rounding in relation to the share exchange and under the auction rules have been ignored.

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<sup>4</sup> The asset package factor is derived from  $1/8.65$ , expressed as a percentage.